Watonwan County
Saint James, 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

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Watonwan County
Saint James, Minnesota

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Introductory Section

Watonwan County
Saint James, Minnesota

Organization
December 31, 2025

Office	Name	Term Expires
Commissioners		
1st District	Jim Pettersen	January 2029
2nd District	Bill Miller	January 2027
3rd District	Jim Branstad*	January 2029
4th District	Scott Westman	January 2027
5th District	Dillon Melheim	January 2029
Officers		
Elected		
Attorney	Julie Kelley	January 2027
Auditor/Treasurer/Coordinator	Kelly Pauling	January 2027
Recorder	Karla Doll	January 2027
Sheriff	Jared Bergeman	January 2027
Appointed		
Assessor	Meggie Munsterman	January 2029
Court Administrator (State)	Jodie Geerdes	Indefinite
Coroner	Dr. Kelly Mills	January 2027
Highway Engineer	Michael McCarty	May 2028
Probation Officer	Sarah Eischens	Indefinite
Veterans Service Officer	Deb Grote	Indefinite
Human Services Director	Amy Pluym	Indefinite

*Chair

Financial Section

STATE OF MINNESOTA

Julie Blaha
State Auditor

Office of the State Auditor

Suite 500
525 Park Street
Saint Paul, MN 55103

Independent Auditor's Report

Board of County Commissioners
Watonwan County
Saint James, 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 Watonwan County, Minnesota, as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the County's 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 Watonwan County as of December 31, 2025, and the respective changes in financial position 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 County, 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 County's 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

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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 County's 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 County's 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, the Road and Bridge Special Revenue Fund, and the Human 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 Watonwan County's basic financial statements. The combining nonmajor governmental fund financial statements, budgetary comparison schedules for the nonmajor governmental funds, 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 September 14, 2026, on our consideration of Watonwan County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Watonwan County's 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 Watonwan County's internal control over financial reporting and compliance.

/s/Julie Blaha

Julie Blaha
State Auditor

/s/Lisa Young

Lisa Young, CPA
Deputy State Auditor

September 14, 2026

Management’s Discussion and Analysis

Watonwan County
Saint James, Minnesota

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

Introduction

As management of Watonwan County, we offer readers of the Watonwan County financial statements this narrative overview and analysis of the financial activities of Watonwan County for the fiscal year ended December 31, 2025. We encourage readers to consider the information presented here in conjunction with the County's basic financial statements following this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

Financial Highlights

- The assets and deferred outflows of resources of Watonwan County exceeded its liabilities and deferred inflows of resources at the close of 2025 by $93,301,655. Of this amount, $13,980,307 (unrestricted net position) may be used to meet Watonwan County's ongoing obligations to citizens and creditors.

- Watonwan County's total net position increased by $11,645,554 in 2025.

- At the close of 2025, Watonwan County's governmental funds reported combined ending fund balances of $25,122,547, of which $8,171,694 is unassigned and is available for spending at the County's discretion.

- At the close of 2025, unassigned fund balance for the General Fund was $11,236,537, or 102.42 percent, of total General Fund expenditures.

- Watonwan County's total bonds payable decreased by $385,000. There were payments of $55,000 on the G.O. Capital Improvement Plan Crossover Refunding Bonds, Series 2012A; $80,000 on the G.O. Capital Improvement Plan Refunding Bonds, Series 2021A; and $250,000 on the G.O. Ditch Bonds, Series 2022A.

Overview of the Financial Statements

This Management's Discussion and Analysis is intended to serve as an introduction to Watonwan County's basic financial statements. Watonwan County's basic financial statements comprise three components: (1) county-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

County-Wide Financial Statements

The county-wide financial statements are designed to provide readers with a broad overview of Watonwan County's finances in a manner similar to a private-sector business.

The statement of net position presents information on all of Watonwan County's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Watonwan County is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave).

The county-wide financial statements list the functions of Watonwan County principally supported by taxes and intergovernmental revenues. The governmental activities of Watonwan County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, economic development, and conservation of natural resources. Watonwan County has no business-type activities intended to recover all or a significant portion of their costs through user fees and charges.

The county-wide financial statements can be found on Exhibits 1 and 2.

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Watonwan County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Watonwan County can be divided into two categories: governmental funds and fiduciary funds.

Because the focus of governmental funds is narrower than that of the county-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the county-wide financial statements. By doing so, readers may better understand the long-term impact of the County's short-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

<u>Governmental funds</u> are used to account for essentially the same functions reported as governmental activities in the county-wide financial statements. However, unlike the county-wide financial statements, County fund level financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the County's short-term financing requirements.

Watonwan County reports four major funds and three nonmajor funds. The major funds are the General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, and County Ditch Special Revenue Fund. The nonmajor funds are the County Library Special Revenue Fund, Solid Waste Special Revenue Fund, and Debt Service Fund. Information is presented separately for the major funds and in total for the nonmajor funds on Exhibits 3 and 5.

<u>Fiduciary funds</u> are used to account for assets held by the County as an agent for individuals, private organizations, other governments, or other funds. Watonwan County's fiduciary funds consist of a private-purpose trust fund and six custodial funds. Fiduciary funds are not reflected in the county-wide financial statements because those resources are not available to support the County's programs.

Watonwan County's governmental fund financial statements are on Exhibits 3 to 6, and Watonwan County's fiduciary fund financial statements are on Exhibits 7 and 8.

Notes to the Financial Statements

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided.

Other Information

In addition to the basic financial statements and notes, this report also presents certain required supplementary information concerning Watonwan County's changes in its other postemployment benefits liability (Exhibit A-4) and schedules of the proportionate share of net pension liability and schedules of contributions (Exhibits A-5 to A-10). In addition, the County also provides supplementary information on intergovernmental revenue and expenditures of federal awards (Exhibits D-1 and D-2).

Watonwan County adopts an annual appropriated budget for its General Fund, special revenue funds (with the exception of the County Ditch Special Revenue Fund), and the Debt Service Fund. Budgetary comparison statements have been provided for the County's major funds to demonstrate compliance with these budgets (Exhibits A-1, A-2, A-3, B-3, B-4, and B-5).

County-Wide Financial Analysis

Over time, net position serves as a useful indicator of the County's financial position. Watonwan County's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $93,301,655 at the close of 2025. The largest portion of Watonwan County's net position (76.90 percent) reflects its investment in capital assets (for example, land, buildings, and equipment), less any related debt used to acquire those assets that is still outstanding. However, it should be noted that these assets are not available for future spending.

Governmental Net Position

Condensed Statement of Net Position	2024	2025
Assets		
Current and other assets	$ 32,905,919	$ 39,092,933
Capital assets, net	73,475,701	72,419,449
Total Assets	$ 106,381,620	$ 111,512,382
Deferred Outflows of Resources	$ 2,040,589	$ 1,826,156
Liabilities		
Long-term liabilities outstanding	$ 15,535,777	$ 14,806,199
Other liabilities	5,389,772	1,857,747
Total Liabilities	$ 20,925,549	$ 16,663,946
Deferred Inflows of Resources	$ 5,840,559	$ 3,372,937
Net Position		
Net investment in capital assets	$ 70,649,782	$ 71,745,943
Restricted	5,838,023	7,575,405
Unrestricted	5,168,296	13,980,307
Total Net Position	$ 81,656,101	$ 93,301,655

The unrestricted net position amount of $13,980,307 as of December 31, 2025, may be used to meet the County's ongoing obligations to citizens and creditors.

Governmental Activities

The following table summarizes the changes in net position for 2025.

Changes in Governmental Net Position

Condensed Statement of Activities	2024	2025
Revenues		
Program revenues		
Charges for services	$ 3,222,195	$ 11,014,682
Operating grants and contributions	11,502,738	18,811,053
Capital grants and contributions	1,286,011	714,843
General revenues		
Property taxes	12,076,112	12,715,308
Other	2,713,286	3,173,307
Total Revenues	$ 30,800,342	$ 46,429,193
Expenses		
General government	$ 5,453,344	$ 6,306,073
Public safety	3,857,807	3,655,273
Highways and streets	7,849,818	14,235,702
Sanitation	374,717	333,482
Human services	6,309,098	5,869,460
Health	925,779	883,638
Culture and recreation	1,047,340	926,492
Conservation of natural resources	2,785,279	2,180,886
Economic development	138,991	141,473
Interest	263,829	251,160
Total Expenses	$ 29,006,002	$ 34,783,639
Change in Net Position	$ 1,794,340	$ 11,645,554
Net Position – January 1	79,861,761	81,656,101
Net Position – December 31	$ 81,656,101	$ 93,301,655

Financial Analysis of the County's Funds

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

Governmental funds. The focus of the County's governmental funds is to provide information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of $25,122,547. Of this amount, $8,171,694 constitutes unassigned fund balance. The remainder of fund balance is nonspendable, restricted, committed, or assigned to indicate that it is not available for new spending.

The General Fund is the chief operating fund of Watonwan County. At the end of the current fiscal year, the unassigned fund balance of the General Fund was $11,236,537, while the total fund balance was $16,026,855. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to annual expenditures. Unassigned fund balance represents 102.42 percent of total General Fund expenditures for 2025, while total fund balance represents 146.08 percent of total General Fund expenditures. In

2025, the total fund balance in the General Fund increased by $864,337, with unassigned fund balance increasing by $394,607, restricted fund balance decreasing by $104,270, and nonspendable fund balance increasing by $574,000.

In 2025, the Road and Bridge Special Revenue Fund showed excess revenues over expenditures of $1,813,665 and a decrease in inventories of $37,730 for a net increase in fund balance of $1,775,935. Revenues were under budget by $9,179,603. The significant variance was in intergovernmental revenues of $9,498,767. The City of Madelia was awarded State General Funds that flow through the Minnesota Department of Transportation's Local Road Improvement Program (LRIP) identified as State Project 083-594-001 and 083-594-002. The County is the pass-through agency for this project. Because the project is funded through reimbursements, revenue was recognized only for the portion of work completed in 2025. As a result, total revenue fell short of the budgeted amount. Expenditures were also under budget by $11,053,268. The significant variance was maintenance and construction expenditures also due to this project. Two primary factors contributed to the increase in fund balance: the accumulation of Local Option Sales Tax revenue designated for a new facility or future road projects, and the deferral of capital equipment replacements to a later year.

In 2025, the Human Services Special Revenue Fund's fund balance increased by $808,114. Revenues were less than budget by $10,376. Expenditures were also under budget by $891,490. The most significant expenditure variance was social services expenditures at $801,606 under budget. The variance was driven by continued low out-of-home placement costs.

In 2025, the County Ditch Special Revenue Fund's fund balance increased by $1,281,630 to ($1,707,505). Current improvement projects are Judicial Ditch 11, Judicial Ditch 8, and Judicial Ditch 26. The fund will collect special assessments in future years to cover the deficit fund balance.

General Fund Budgetary Highlights

There were variances in operational revenues and expenditures in the General Fund. Total revenues exceeded budget by $806,866, or 7.44 percent. Investment earnings revenue exceeded budget by $650,061 driven by stronger-than-anticipated interest rates that significantly increased return on the County's investments. Intergovernmental revenues exceeded the budget by $137,382, primarily due to higher Police State Aid and additional revenues received through the AgBMP Loan Program. Total expenditures were under budget by $147,255.

Capital Assets and Debt Administration

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2025, amounts to $72,419,449 (net of accumulated depreciation and amortization). This investment in capital assets includes land, construction in progress, buildings, land improvements, equipment, infrastructure, and software subscriptions. The total decrease in the County's investment in capital assets, net of depreciation and amortization, for the current fiscal year was $1,056,252.

Governmental Capital Assets (Net of Depreciation and Amortization)

Capital Assets	2024	2025
Land	$ 717,067	$ 717,067
Construction in progress	355,516	375,482
Buildings	4,056,888	2,919,041
Land improvements	1,998,137	2,166,474
Machinery, furniture, and equipment	4,671,203	4,819,663
Infrastructure	61,627,934	61,397,244
Software subscriptions	48,956	24,478
Total	$ 73,475,701	$ 72,419,449

Additional information on the County's capital assets can be found in Note 3 to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the County had total general obligation bonds outstanding of $7,585,000, which is backed by the full faith and credit of the government. The County also had $1,080,204 of Agriculture Best Management Loans outstanding.

Outstanding Debt

Debt	2024	2025
General obligation bonds	$ 7,970,000	$ 7,585,000
Agricultural Best Management Loan Program	1,039,487	1,080,204

Standard and Poor's Ratings Service assigned an "AA" rating on Watonwan County's outstanding general obligation bonds in August 2022. Moody's rating remains at an "Aa3".

Additional information on the County's debt can be found in Note 3 to the financial statements.

Minnesota statutes limit the amount of debt that a county may levy to three percent of its total market value. As of the end of 2025, Watonwan County is well below the three percent debt limit imposed by state statutes.

Economic Factors and Next Year's Budgets

- Watonwan County's unemployment rate was 4.1 percent as of the end of 2025, slightly lower than the statewide rate of 4.3 percent.

- The total tax capacity for the County in 2025 was $28,148,361. This was a $2,129,254 decrease from 2024. This decrease is due to an increase in the agricultural homestead first tier class rate.

At the end of 2025, Watonwan County set its 2026 revenue and expenditure budgets, budgeting revenues and expenditures of $33,484,319 and $34,192,298, respectively.

Requests for Information

This annual financial report is designed to provide a general overview of the County's finances for all those with an interest in the County's finances. Questions concerning any information provided in this report, or requests for additional financial information, should be addressed to the Watonwan County Auditor/Treasurer, Watonwan County Courthouse, 710 Second Avenue South, PO Box 518, Saint James, Minnesota 56081.

Basic Financial Statements

Government-Wide Financial Statements

Exhibit 1

Watonwan County
Saint James, Minnesota

Statement of Net Position
Governmental Activities
December 31, 2025

Assets		
Cash and pooled investments	$	25,318,579
Taxes receivable – delinquent		169,210
Special assessments receivable – delinquent		21,229
Special assessments receivable – noncurrent		8,119,214
Accounts receivable – net		174,238
Accrued interest receivable		98,684
Due from other governments		4,739,383
Inventories		341,914
Capital assets		
Non-depreciable or amortizable		1,092,549
Depreciable or amortizable – net of accumulated depreciation and amortization		71,326,900
Net pension asset		110,482
Total Assets	**$**	**111,512,382**
Deferred Outflows of Resources		
Deferred other postemployment benefits outflows	$	11,116
Deferred pension outflows		1,815,040
Total Deferred Outflows of Resources	**$**	**1,826,156**
Liabilities		
Accounts payable	$	319,876
Salaries payable		737,281
Contracts payable		7,027
Due to other governments		344,156
Accrued interest payable		106,768
Unearned revenue		342,639
Long-term liabilities		
Due within one year		1,283,494
Due in more than one year		9,401,196
Other postemployment benefits liability due within one year		13,886
Other postemployment benefits liability due in more than one year		400,837
Net pension liability		3,706,786
Total Liabilities	**$**	**16,663,946**
Deferred Inflows of Resources		
Deferred other postemployment benefits inflows	$	92,886
Deferred pension inflows		3,280,051
Total Deferred Inflows of Resources	**$**	**3,372,937**

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

Watonwan County
Saint James, Minnesota

Statement of Net Position
Governmental Activities
December 31, 2025

Net Position

Net investment in capital assets	$	71,745,943
Restricted for		
General government		723,620
Public safety		691,841
Highways and streets		4,053,503
Human services		130,514
Culture and recreation		434,810
Conservation of natural resources		1,157,430
Economic development		9,962
Debt service		218,471
Opioid remediation activities		155,254
Unrestricted		13,980,307
Total Net Position	**$**	**93,301,655**

Exhibit 2

Watonwan County
Saint James, Minnesota

Statement of Activities
For the Year Ended December 31, 2025

		Program Revenues			
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Functions/Programs					
Governmental activities					
General government	$ 6,306,073	$ 1,000,015	$ 855,597	$ -	$ (4,450,461)
Public safety	3,655,273	162,461	405,895	-	(3,086,917)
Highways and streets	14,235,702	408,278	13,081,414	714,843	(31,167)
Sanitation	333,482	199,038	140,630	-	6,186
Human services	5,869,460	907,381	3,247,855	-	(1,714,224)
Health	883,638	64,135	827,240	-	7,737
Culture and recreation	926,492	12,581	23,625	-	(890,286)
Conservation of natural resources	2,180,886	8,169,137	228,797	-	6,217,048
Economic development	141,473	91,656	-	-	(49,817)
Interest	251,160	-	-	-	(251,160)
Total Governmental Activities	**$ 34,783,639**	**$ 11,014,682**	**$ 18,811,053**	**$ 714,843**	**$ (4,243,061)**

General Revenues	
Property taxes	$ 12,715,308
Mortgage registry and deed tax	10,323
Wheelage tax	183,475
Transportation sales tax	537,116
Grants and contributions not restricted to specific programs	1,342,332
Unrestricted investment earnings	1,100,061
Total general revenues	**$ 15,888,615**
Change in net position	**$ 11,645,554**
Net Position – January 1	**81,656,101**
Net Position – December 31	**$ 93,301,655**

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

Fund Financial Statements

Governmental Funds

Exhibit 3

Watonwan County
Saint James, Minnesota

Balance Sheet
Governmental Funds
December 31, 2025

	General	Road and Bridge Special Revenue	Human Services Special Revenue	County Ditch Special Revenue	Nonmajor Governmental Funds	Total
Assets						
Cash and pooled investments	$ 14,001,137	$ 2,401,894	$ 5,827,676	$ 1,092,438	$ 1,995,434	$ 25,318,579
Taxes receivable – delinquent	92,439	28,943	35,069	-	12,759	169,210
Special assessments receivable						
Delinquent	4,653	-	-	1,663	14,913	21,229
Noncurrent	917,708	-	-	7,201,506	-	8,119,214
Accounts receivable – net	2,684	-	166,826	4,728	-	174,238
Accrued interest receivable	98,684	-	-	-	-	98,684
Due from other funds	22,909	12,144	12,964	-	-	48,017
Due from other governments	163,424	3,823,641	736,801	15,517	-	4,739,383
Advance to other funds	2,666,414	-	-	-	-	2,666,414
Inventories	-	341,914	-	-	-	341,914
Total Assets	**$ 17,970,052**	**$ 6,608,536**	**$ 6,779,336**	**$ 8,315,852**	**$ 2,023,106**	**$ 41,696,882**
Liabilities, Deferred Inflows of Resources, and Fund Balances						
Liabilities						
Accounts payable	$ 101,715	$ 53,607	$ 132,066	$ 27,712	$ 4,776	$ 319,876
Salaries payable	354,754	100,065	248,572	-	33,890	737,281
Contracts payable	-	7,027	-	-	-	7,027
Due to other funds	24,576	1,298	21,611	-	532	48,017
Due to other governments	110,791	437	106,562	126,366	-	344,156
Unearned revenue	342,639	-	-	-	-	342,639
Advances from other funds	-	-	-	2,666,414	-	2,666,414
Total Liabilities	**$ 934,475**	**$ 162,434**	**$ 508,811**	**$ 2,820,492**	**$ 39,198**	**$ 4,465,410**
Deferred Inflows of Resources						
Unavailable revenue	**$ 1,008,722**	**$ 3,654,724**	**$ 221,593**	**$ 7,202,865**	**$ 21,021**	**$ 12,108,925**

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

Watonwan County
Saint James, Minnesota

Balance Sheet
Governmental Funds
December 31, 2025

	General	Road and Bridge Special Revenue	Human Services Special Revenue	County Ditch Special Revenue	Nonmajor Governmental Funds	Total
Liabilities, Deferred Inflows of Resources, and Fund Balances (Continued)						
Fund Balances						
Nonspendable						
Inventories	$ -	$ 341,914	$ -	$ -	$ -	$ 341,914
Advance to other funds	2,666,414	-	-	-	-	2,666,414
Restricted						
Law library	45,415	-	-	-	-	45,415
Recorder's equipment	209,986	-	-	-	-	209,986
Recorder's technology fund	167,089	-	-	-	-	167,089
Enhanced 911 systems	451,124	-	-	-	-	451,124
Carry permit administration	118,886	-	-	-	-	118,886
Sheriff's contingency	11,349	-	-	-	-	11,349
Housing and redevelopment authority	9,962	-	-	-	-	9,962
Invasive species	144,300	-	-	-	-	144,300
Individual Sewage Treatment System (ISTS) loan repayments	523,084	-	-	-	-	523,084
Donations – veterans' van	7,434	-	-	-	-	7,434
Capital projects	141,579	-	-	-	-	141,579
Transit system	256,597	-	-	-	-	256,597
Housing aid program	37,099	-	-	-	-	37,099
Transportation – sales tax	-	537,116	-	-	-	537,116
Highway projects	-	162,190	-	-	-	162,190
Opioid remediation	-	-	155,254	-	-	155,254
Medical assistance eligibility renewal	-	-	52,509	-	-	52,509
Local homeless prevention	-	-	78,005	-	-	78,005
Ditch maintenance and construction	-	-	-	1,357,338	-	1,357,338
Library operations from donations	-	-	-	-	434,810	434,810
Debt service	-	-	-	-	218,471	218,471
Committed for library operations	-	-	-	-	1,084,878	1,084,878
Assigned for						
Highways and streets	-	1,750,158	-	-	-	1,750,158
Human services	-	-	5,763,164	-	-	5,763,164
Solid waste	-	-	-	-	224,728	224,728
Unassigned	11,236,537	-	-	(3,064,843)	-	8,171,694
Total Fund Balances	**$ 16,026,855**	**$ 2,791,378**	**$ 6,048,932**	**$ (1,707,505)**	**$ 1,962,887**	**$ 25,122,547**
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	**$ 17,970,052**	**$ 6,608,536**	**$ 6,779,336**	**$ 8,315,852**	**$ 2,023,106**	**$ 41,696,882**

Exhibit 4

Watonwan County
Saint James, 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)	**$**	**25,122,547**
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets, net of accumulated depreciation and amortization, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	**$**	**72,419,449**
Net pension assets are not financial resources and, therefore, are not reported in the governmental funds.	**$**	**110,482**
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.	**$**	**12,108,925**
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to other postemployment benefits that are not recognized in the governmental funds.		
Deferred other postemployment benefits outflows	$	11,116
Deferred other postemployment benefits inflows		(92,886)
Deferred other postemployment benefits outflows and inflows not reported in the governmental funds	**$**	**(81,770)**
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.		
Deferred pension outflows	$	1,815,040
Deferred pension inflows		(3,280,051)
Deferred pension outflows and inflows not reported in the governmental funds	**$**	**(1,465,011)**
Governmental funds do not report a liability for accrued interest on long-term liabilities until due and payable.	**$**	**(106,768)**
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds payable	$	(7,585,000)
Unamortized premium on bonds payable		(196,292)
Loans payable		(1,080,204)
Software subscription liability		(25,060)
Compensated absences payable		(1,798,134)
Other postemployment benefits liability		(414,723)
Net pension liability		(3,706,786)
Long-term liabilities not reported in the governmental funds	**$**	**(14,806,199)**
Net Position of Governmental Activities (Exhibit 1)	**$**	**93,301,655**

Exhibit 5

Watonwan County
Saint James, Minnesota

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

	General	Road and Bridge Special Revenue	Human Services Special Revenue	County Ditch Special Revenue	Nonmajor Governmental Funds	Total
Revenues						
Taxes	$ 6,939,718	$ 2,985,028	$ 2,570,327	$ -	$ 944,807	$ 13,439,880
Special assessments	180,164	-	-	2,770,389	183,959	3,134,512
Licenses and permits	13,697	-	-	-	-	13,697
Intergovernmental	2,116,366	12,595,449	4,311,077	109,095	190,887	19,322,874
Settlements	-	-	32,699	-	-	32,699
Charges for services	1,062,229	311,513	632,738	-	20,073	2,026,553
Fines and forfeits	238	-	-	-	2,304	2,542
Gifts and contributions	1,276	-	-	-	1,625	2,901
Investment earnings	1,100,061	-	-	32,823	-	1,132,884
Miscellaneous	234,716	96,765	329,948	605	-	662,034
Total Revenues	**$ 11,648,465**	**$ 15,988,755**	**$ 7,876,789**	**$ 2,912,912**	**$ 1,343,655**	**$ 39,770,576**
Expenditures						
Current						
General government	$ 5,374,541	$ -	$ -	$ -	$ -	$ 5,374,541
Public safety	3,866,312	-	-	-	-	3,866,312
Highways and streets	-	6,961,326	-	-	-	6,961,326
Sanitation	-	-	-	-	320,730	320,730
Human services	-	-	6,154,668	-	-	6,154,668
Health	-	-	914,007	-	-	914,007
Culture and recreation	79,165	-	-	-	906,087	985,252
Conservation of natural resources	1,069,950	-	-	1,126,699	-	2,196,649
Economic development	148,294	-	-	-	-	148,294
Intergovernmental						
Highways and streets	-	7,213,764	-	-	-	7,213,764
Capital outlay						
General government	231,720	-	-	-	-	231,720
Debt service						
Principal	200,565	-	-	250,000	135,000	585,565
Interest	997	-	-	254,088	9,320	264,405
Administrative charges	-	-	-	495	4,490	4,985
Total Expenditures	**$ 10,971,544**	**$ 14,175,090**	**$ 7,068,675**	**$ 1,631,282**	**$ 1,375,627**	**$ 35,222,218**
Excess of Revenues Over (Under) Expenditures	**$ 676,921**	**$ 1,813,665**	**$ 808,114**	**$ 1,281,630**	**$ (31,972)**	**$ 4,548,358**
Other Financing Sources (Uses)						
Transfers in	$ -	$ -	$ -	$ -	$ 29,392	$ 29,392
Transfers out	(29,392)	-	-	-	-	(29,392)
Proceeds from loan	216,808	-	-	-	-	216,808
Total Other Financing Sources (Uses)	**$ 187,416**	**$ -**	**$ -**	**$ -**	**$ 29,392**	**$ 216,808**
Net Change in Fund Balance	**$ 864,337**	**$ 1,813,665**	**$ 808,114**	**$ 1,281,630**	**$ (2,580)**	**$ 4,765,166**
Fund Balance – January 1	**15,162,518**	**1,015,443**	**5,240,818**	**(2,989,135)**	**1,965,467**	**20,395,111**
Increase (decrease) in inventories	**-**	**(37,730)**	**-**	**-**	**-**	**(37,730)**
Fund Balance – December 31	**$ 16,026,855**	**$ 2,791,378**	**$ 6,048,932**	**$ (1,707,505)**	**$ 1,962,887**	**$ 25,122,547**

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

Watonwan County
Saint James, 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)	**$**	**4,765,166**
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	$	12,108,925
Deferred inflows of resources – unavailable revenue – January 1		(5,415,288)
Total adjustment to revenue in the government-wide statements for current and prior year unavailable revenue	**$**	**6,693,637**
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. Also, in the statement of activities, only the gain or loss on the disposal of assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in net position differs from the change in fund balance by the net book value of the assets disposed.		
Capital outlay expenditures	$	2,951,950
Current year depreciation and amortization		(3,067,108)
Net book value of assets disposed		(941,094)
Total adjustment to the government-wide statements for current year capital asset activity	**$**	**(1,056,252)**
Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction, however, has any effect on net position. Also, the governmental funds report the net effect of premiums, discounts, and similar items when debt is first issued; whereas, these amounts are deferred and amortized over the life of the debt in the statement of activities.		
Proceeds of new debt – loans payable	$	(216,808)
Repayment of debt principal		561,091
Amortization of premium on debt		11,764
Total adjustment to the government-wide statements for current year long-term debt activity	**$**	**356,047**
Some capital asset additions are acquired through financing. In governmental funds, these arrangements are considered an other financing source, but in the statement of net position, the obligation is reported as a liability. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.		
Principal payments on software subscriptions	**$**	**24,474**

Watonwan County
Saint James, 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

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in inventories	$	(37,730)
Change in deferred other postemployment benefits outflows		(8,659)
Change in deferred pension outflows		(205,774)
Change in accrued interest payable		5,971
Change in compensated absences payable		(67,426)
Change in other postemployment benefits liability		(15,176)
Change in net pension asset		110,482
Change in net pension liability		431,659
Change in deferred other postemployment benefits inflows		(18,173)
Change in deferred pension inflows		667,308
Total adjustment to the government-wide statements for other activities not reported in governmental funds	**$**	**862,482**
Change in Net Position of Governmental Activities (Exhibit 2)	**$**	**11,645,554**

Fiduciary Funds

Exhibit 7

Watonwan County
Saint James, Minnesota

Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2025

	Social Welfare Private-Purpose Trust Fund	Custodial Funds
Assets		
Cash and pooled investments	$ 23,206	$ 2,062,404
Due from other governments	-	139,894
Taxes receivable for other governments	-	346,564
Special assessments receivable for other governments	-	114,569
Accounts receivable	-	7,377
Accrued Interest receivable	-	1,021
Total Assets	**$ 23,206**	**$ 2,671,829**
Liabilities		
Due to others	$ -	$ 4,853
Due to other governments	-	426,006
Total Liabilities	**$ -**	**$ 430,859**
Net Position		
Restricted for individuals, organizations, and other governments	**$ 23,206**	**$ 2,240,970**

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

Exhibit 8

Watonwan County
Saint James, Minnesota

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

	Social Welfare Private-Purpose Trust Fund	Custodial Funds
Additions		
Contributions from individuals	$ 333,224	$ 568,254
Interest earnings	-	2,421
Property tax collections for other governments	-	10,356,073
Fees collected for the state	-	3,141,685
Payments from the state	-	666,498
Payments from other entities	-	325,593
Total Additions	**$ 333,224**	**$ 15,060,524**
Deductions		
Beneficiary payments to individuals	$ 354,409	$ -
Payments of property taxes to other governments	-	10,258,694
Payments to the state	-	3,389,731
Payments to other entities	-	544,970
Total Deductions	**$ 354,409**	**$ 14,193,395**
Change in Net Position	**$ (21,185)**	**$ 867,129**
Net Position – January 1	**44,391**	**1,373,841**
Net Position – December 31	**$ 23,206**	**$ 2,240,970**

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

Note 1 – Summary of Significant Accounting Policies

The County's 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 the County are discussed below.

Financial Reporting Entity

Watonwan County was established February 25, 1860, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Joint Ventures and Jointly-Governed Organizations

The County participates in joint ventures and jointly-governed organizations as described in Note 5 – Summary of Significant Contingencies and Other Items.

Basic Financial Statements

County-Wide Statements

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

The county-wide statement of net position presents all assets, liabilities, deferred inflows and outflows of resources, and net position on a full accrual accounting basis with an economic resource focus. The County's net position is reported in three parts: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. The County 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 County's governmental activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, 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, including all taxes, are presented as general revenues. The County does not allocate indirect expenses to functions within the financial statements.

Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category—governmental and fiduciary—are presented. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as a separate column in the fund financial statements.

The County reports the following major governmental funds:

The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

The Road and Bridge Special Revenue Fund is used to account for restricted revenues from the federal and state government, as well as assigned property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The Human Services Special Revenue Fund is used to account for restricted revenue sources from the federal, state, and other oversight agencies, as well as assigned property tax revenues to be used for economic assistance and community social services programs.

The County Ditch Special Revenue Fund is used to account for the operations of the County ditch system. Financing is provided by assessing benefited property owners.

Additionally, the County reports the following fund types:

Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) legally restricted to expenditures for specified purposes.

The Debt Service Fund is used to account for the restricted property tax revenues for the payment of principal, interest, and related costs of County debt.

The Social Welfare Private-Purpose Trust Fund accounts for funds held in trust that the County is holding on behalf of individuals receiving social welfare assistance.

Custodial funds are safekeeping in nature. These funds account for monies the County holds for others in a fiduciary capacity.

Measurement Focus and Basis of Accounting

The county-wide and fiduciary 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. Property taxes are recognized as revenues in the year for which they are levied. Shared revenues are generally recognized in the period the appropriation goes into effect. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Watonwan County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, shared revenues, licenses, and interest are all 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. Issuances of long-term debt and acquisitions under software subscriptions are reported as other financing sources.

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

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

Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Investments, which consist of external investment pools, are measured at the net asset value per share. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds may receive investment earnings based on other state statutes, grant agreements, contracts, or bond covenants. Pooled investment earnings for 2025 were $1,100,061.

Watonwan County 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 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 a fund balance nonspendable account in the General Fund to indicate that they are not available for appropriation and are not expendable available financial resources.

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due May 15 and the second half payment due October 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

Special assessments receivable consist of delinquent special assessments payable in the years 2020 through 2025 and noncurrent special assessments payable in 2026 and after. Unpaid special assessments at December 31 are classified in the financial statements as delinquent special assessments.

Accounts receivable are shown net of an allowance for uncollectibles.

Inventories

The Road and Bridge Special Revenue Fund inventory is valued using the weighted average method. Inventories in governmental funds are recorded as expenditures at the time the item is purchased. Inventories at the county-wide level are reported as expenses when consumed. Inventories, as reported in the fund financial statements, are equally offset by nonspendable fund balance, which indicates that they do not constitute available spendable resources.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (such as roads and bridges), and right-to-use assets acquired under software subscription arrangements are reported in the county-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value.

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. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the County 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 asset's estimated useful life or the lease term:

Estimated Useful Lives of Capital Assets

Assets	Years
Buildings	25-40
Improvements other than buildings	30
Machinery, furniture, and equipment	5-15
Right-to-use software subscriptions	3-4
Infrastructure	50-75

Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated vacation, compensatory time, and sick leave balances. The liability for compensated absences is reported in the government-wide financial statements. The leave consists of vacation leave, compensatory time, and sick leave 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 of this liability is estimated based on the vacation and compensatory time at year-end and an amount based on a trend analysis of current usage of sick leave. The noncurrent portion consists of the remaining amount of vacation and sick leave.

Long-Term Obligations

In the county-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as an other financing source. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Acquisitions under software subscriptions are reported as another financing source at the present value of the future minimum payments as of the inception date.

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 County reports deferred outflows of resources only under the full accrual basis of accounting associated with 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 funds balance sheet. The County also reports deferred inflows of resources associated with pension plans and OPEB. These inflows arise only under the full accrual basis of accounting and, accordingly, are reported only in the statement of net position.

Pension Plan

For purposes of measuring the net pension asset, liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (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 other governmental funds that have personnel services.

Unearned Revenue

Governmental funds and county-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 county-wide financial statements is classified in the following components:

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

The County fund balance policy established a minimum unassigned fund balance equal to 35 to 50 percent of total General Fund operating revenues. Should the actual amount of fund balance fall below the desired range, the Board shall create a plan to restore the appropriate levels.

Fund balance is divided into five classifications based primarily on the extent to which the County 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 by law through constitutional provisions or enabling legislation.

Committed – amounts that can be used only for the specific purposes imposed by formal action (resolution) of the County 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 County 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 not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or County Auditor/Treasurer, who has been delegated that authority by Board resolution.

Unassigned – the residual classification for the General Fund; it 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.

The County 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.

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.

Note 2 – Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The funds shown below had expenditures in excess of budget for the year ended December 31, 2025.

Excess of Expenditures Over Budget

Fund	Expenditures	Budget	Excess
County Library Special Revenue Fund	$ 906,087	$ 886,596	$ 19,491
Debt Service Fund	148,810	147,061	1,749

The excess of expenditures over budget were funded by unanticipated revenues and available fund balance.

Deficit Fund Balance – County Ditch Special Revenue Fund

The County Ditch Special Revenue Fund has a deficit fund balance of $1,707,505. The deficit will be eliminated with future special assessment levies against the benefited properties. The following is a summary of the individual ditch systems:

Individual Ditch System Fund Balance

Count of Individual Ditches	Amount
24 ditches with positive fund balances	$ 1,357,338
16 ditches with deficit fund balances	(3,064,843)
Total Fund Balance	$ (1,707,505)

Note 3 – Detailed Notes

Assets

Deposits and Investments

The County's total cash and investments are as 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 Funds	Fiduciary Funds	Total
Cash and pooled investments	$ 25,318,579	$ 2,085,610	$ 27,404,189

Deposits

The County is authorized by Minn. Stat. § 118A.02 to designate depositories for public funds. The County 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 that is 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 County's deposits may not be returned to it. It is the County's policy to minimize custodial credit risk of deposits by making deposits with financial institutions as defined by Minn. Stat. § 118A.01, and by obtaining necessary documentation of perfected security interest in pledged collateral from the financial institutions. As of December 31, 2025, the County's deposits were not exposed to custodial credit risk.

Investments

The County 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 that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

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

As of December 31, 2025, all County investments, valued at $3,154,482, were in the MAGIC Fund.

MAGIC is a local government investment pool which is quoted at a net asset value. The County invests in this pool for the purpose of the joint investment with other counties to enhance the investment earnings accruing to each member. The MAGIC Fund currently consists of the MAGIC Portfolio.

The MAGIC Portfolio is valued using amortized cost. Shares of the 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 County has a sufficient number of shares to meet the redemption request. The 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 net asset value not reasonably practical.

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. It is the County's policy to minimize exposure to interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; thereby, avoiding the need to sell securities in the open market, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools; and limiting the average maturity in accordance with the County's cash requirements.

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 County's policy to invest only in securities that meet the ratings requirements set by state statute.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County does not have a policy to mitigate custodial credit risk. At December 31, 2025, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy to minimize concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimal.

Receivables

Receivables as of December 31, 2025, for the County are as follows:

Governmental Activities' Receivables as of December 31, 2025

Receivables – Governmental Activities	Receivables	Less: Allowance for Uncollectible Accounts	Net Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Taxes – delinquent	$ 169,210	$ -	$ 169,210	$ -
Special assessments – delinquent	21,229	-	21,229	-
Special assessments – noncurrent	8,119,214	-	8,119,214	7,541,844
Accounts receivable	200,991	(26,753)	174,238	-
Accrued interest receivable	98,684	-	98,684	-
Due from other governments	4,739,383	-	4,739,383	-
Total Governmental Activities	$ 13,348,711	$ (26,753)	$ 13,321,958	$ 7,541,844

Capital Assets

Capital asset activity for the year ended December 31, 2025, was as follows:

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

Capital Assets	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 717,067	$ -	$ -	$ 717,067
Construction in progress	355,516	160,808	(140,842)	375,482
Total capital assets not depreciated	$ 1,072,583	$ 160,808	$ (140,842)	$ 1,092,549
Capital assets depreciated and amortized				
Buildings	$ 9,543,437	$ -	$ (1,736,234)	$ 7,807,203
Land improvements	2,439,860	231,720	-	2,671,580
Machinery, furniture, and equipment	10,591,981	1,050,889	(209,248)	11,433,622
Infrastructure	94,590,928	1,649,375	-	96,240,303
Software subscriptions	73,434	-	-	73,434
Total capital assets depreciated and amortized	$ 117,239,640	$ 2,931,984	$ (1,945,482)	$ 118,226,142
Less: accumulated depreciation and amortization for				
Buildings	$ 5,486,549	$ 196,753	$ (795,140)	$ 4,888,162
Land improvements	441,723	63,383	-	505,106
Machinery, furniture, and equipment	5,920,778	902,429	(209,248)	6,613,959
Infrastructure	32,962,994	1,880,065	-	34,843,059
Software subscriptions	24,478	24,478	-	48,956
Total accumulated depreciation and amortization	$ 44,836,522	$ 3,067,108	$ (1,004,388)	$ 46,899,242
Total capital assets depreciated and amortized, net	$ 72,403,118	$ (135,124)	$ (941,094)	$ 71,326,900
Total Capital Assets, Net	$ 73,475,701	$ 25,684	$ (1,081,936)	$ 72,419,449

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

Depreciation and Amortization Expense Charged to Functions/Programs

Governmental Activities	Amount
General government	$ 351,908
Public safety	249,835
Highways and streets, including depreciation of infrastructure assets	2,300,196
Sanitation	12,752
Human services	88,048
Culture and recreation	59,299
Conservation of natural resources	5,070
Total Depreciation and Amortization Expense	$ 3,067,108

Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2025, is as follows:

Due To/From Other Funds

Due To/From Other Funds as of December 31, 2025

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	Road and Bridge Special Revenue Fund	$ 1,298	Reimbursement for services
General Fund	Human Services Special Revenue Fund	21,611	Reimbursement for services
Total due to General Fund		$ 22,909	
Road and Bridge Special Revenue Fund	General Fund	$ 11,612	Reimbursement for services and fuel
Road and Bridge Special Revenue Fund	Solid Waste Special Revenue Fund	532	Reimbursement for services
Total due to Road and Bridge Special Revenue Fund		$ 12,144	
Human Services Special Revenue Fund	General Fund	$ 12,964	Reimbursement for services
Total Due To/From Other Funds		$ 48,017	

The interfund receivables and payables are expected to be paid within one year of December 31, 2025.

Advances From/To Other Funds

Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	County Ditch Special Revenue Fund	$ 2,666,414

The advance to the County Ditch Special Revenue Fund is to provide financing for improvement project costs of the ditch systems. This balance will be paid from future ditch special assessments.

Interfund Transfers

Interfund transfers for the year ended December 31, 2025, consisted of the following:

Transfers To/From Other Funds

Transfer In	Transfer Out	Amount	Purpose
County Library Special Revenue Fund	General Fund	$ 29,392	Interest distribution

Liabilities and Deferred Inflows of Resources

Long-Term Debt

Bonds

Bonds Payable as of December 31, 2025

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2025
G.O. Capital Improvement Crossover Refunding Bonds, Series 2012A	2026	$50,000-$55,000	1.55-2.60	$ 625,000	$ 55,000
G.O. Capital Improvement Plan Refunding Bonds, Series 2021A	2034	$75,000-$85,000	0.20-1.20	1,045,000	735,000
G.O. Ditch Bonds, Series 2022A	2043	$145,000-$495,000	3.00-5.00	7,190,000	6,795,000
Total				$ 8,860,000	$ 7,585,000
Plus: unamortized premium					196,292
Total General Obligation Bonds, Net					$ 7,781,292

Capital improvement bonds are being retired by the Debt Service Fund. Ditch bonds are repaid from future special assessment collections in the County Ditch Special Revenue Fund.

Loans Payable

The County entered into loan agreements with the Minnesota Department of Agriculture. The loans are secured by special assessments against benefited properties. Loan payments are reported in the General Fund.

Loans Payable as of December 31, 2025

Type of Indebtedness	Final Maturity	Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2025
Watonwan Agricultural Best Management Loan Program	2035	$2,045-$82,217	-	$ 1,766,698	$ 1,080,204

Debt Service Requirements

Debt service requirements at December 31, 2025, were as follows:

Debt Service Requirements as of December 31, 2025

Year Ending December 31	General Obligation Bonds Principal	General Obligation Bonds Interest	Loans Payable Principal	Loans Payable Interest
2026	$ 400,000	$ 248,703	$ 84,864	$ -
2027	360,000	233,882	157,403	-
2028	375,000	218,947	153,125	-
2029	390,000	203,143	144,617	-
2030	405,000	188,093	136,773	-
2031-2035	2,130,000	748,250	403,422	-
2036-2040	2,095,000	439,703	-	-
2041-2043	1,430,000	80,284	-	-
Total	$ 7,585,000	$ 2,361,005	$ 1,080,204	$ -

Software Subscriptions

The County has entered into various agreements to finance software subscriptions. The agreement terms are three years and have been recorded at the present value of their future minimum payments as of the inception date. Software subscription payments are paid from the General Fund.

Future Minimum Software Subscription Obligations and Present Value of Minimum Software Subscription Payments as of December 31, 2025

Year Ending December 31	Principal	Interest
2026	$ 25,060	$ 409

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2025, was as follows:

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
G.O. Capital Improvement Refunding Bonds, Series 2012A	$ 110,000	$ -	$ (55,000)	$ 55,000	$ 55,000
G.O. Capital Improvement Plan Refunding Bonds, Series 2021A	815,000	-	(80,000)	735,000	80,000
G.O. Ditch Bonds, Series 2022A	7,045,000	-	(250,000)	6,795,000	265,000
Plus: unamortized premium on bonds	208,056	-	(11,764)	196,292	-
Total bonds payable	$ 8,178,056	$ -	$ (396,764)	$ 7,781,292	$ 400,000
Loans payable	1,039,487	216,808	(176,091)	1,080,204	84,864
Compensated absences	1,730,708	67,426*	-	1,798,134	773,570
Software subscription liability	49,534	-	(24,474)	25,060	25,060
Total Long-Term Liabilities	$ 10,997,785	$ 284,234	$ (597,329)	$ 10,684,690	$ 1,283,494

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

Unavailable Revenue

Unavailable revenue as of December 31, 2025, for the County's governmental funds are as follows:

Unavailable Revenue as of December 31, 2025

Deferred Inflow of Resources – Unavailable Revenue	Amount
Taxes and special assessments, delinquent and noncurrent	$ 8,253,847
Highway allotments that do not provide current financial resources	3,464,259
Charges for services, grants, and reimbursements	390,819
Total Governmental Funds	$ 12,108,925

Other Postemployment Benefits (OPEB)

Plan Description

Watonwan County administers an OPEB Plan, a single-employer defined benefit health care plan to eligible retirees and their dependents.

Watonwan County provides postemployment health care benefits for retirees and elected officials. Within 60 days of the effective date of an elected County official's retirement or termination, the County shall contribute an amount equal to the annual premium for single health insurance coverage in effect at the time of termination or retirement for every four complete years of service, up to a maximum of five terms.

The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. Retirees are required to pay 100 percent of the total premium cost. Since the premium is determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. This postemployment benefit is funded on a pay-as-you-go basis.

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.

As of the January 1, 2025, actuarial valuation, the following employees were covered by the benefit terms:

Employees Covered by the OPEB Benefit Terms
As of the January 1, 2025, Actuarial Valuation

Type of Participant Covered by the OPEB Benefit Terms	Number of Participants
Inactive employees or beneficiaries currently receiving benefit payments	-
Active plan participants	154
Total	154

Total OPEB Liability

The County's total OPEB liability of $414,723 was measured as of January 1, 2025, and was determined by an actuarial valuation as of January 1, 2025. The OPEB liability is liquidated through the General Fund and other governmental funds that have personnel services.

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

- The current inflation rate is 2.50 percent.
- The salary increases are graded by service years ranging from 10.25 percent for one year of service to 3.00 percent for 27 or more years of service.
- The health care cost trend is 6.25 percent, decreasing to 5.00 over five years and then 4.00 percent over the next 48 years.
- The current year discount rate is 4.20 percent, which is a change from the prior year rate of 3.70 percent. For the current valuation, the discount rate is based on the estimated yield of 20-year AA-rated municipal bonds.
- Mortality rates are based on the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality tables (General, Safety) 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.

Changes in the Total OPEB Liability

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

Total OPEB Changes for the Year	Total OPEB Liability
Balance at December 31, 2024	$ 399,547
Service cost	$ 53,286
Interest	16,562
Changes in assumptions	(42,173)
Difference between expected and actual experience	(1,976)
Benefit payments	(10,523)
Net change	$ 15,176
Balance at December 31, 2025	$ 414,723

OPEB Liability Sensitivity

The following presents the total OPEB liability of the County, calculated using the discount rate previously disclosed, as well as what the County's 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%	$ 446,683
Current	4.20%	414,723
1% Increase	5.20%	385,169

The following presents the total OPEB liability of the County, calculated using the health care cost trend previously disclosed, as well as what the County's 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	5.25% Decreasing to 4.00%	$ 370,692
Current	6.25% Decreasing to 5.00%	414,723
1% Increase	7.25% Decreasing to 6.00%	466,783

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

For the year ended December 31, 2025, the County recognized OPEB expense of $48,017. The County reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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
Differences between expected and actual experience	$ -	$ 26,913
Changes in actuarial assumptions	5,107	65,973
Contributions made subsequent to the measurement date	6,009	-
Total	$ 11,116	$ 92,886

The $6,009 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ended December 31, 2026. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB 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	$ (24,954)
2027	(24,948)
2028	(15,774)
2029	(15,768)
2030	(6,335)

Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2025:

- The health care trend rates were updated.
- The retirement, withdrawal, and salary increase rates for non-police were updated to reflect the latest experience study.
- The discount rate was changed from 3.70 percent to 4.20 percent.

Pension Plans

Defined Benefit Pension Plans

Plan Description

All full-time and certain part-time employees of Watonwan County 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), the Public Employees Police and Fire Plan (the Police and Fire Plan), and the Public Employees Local Government Correctional Service Retirement Plan (the Correctional Plan), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plans are tax qualified plans 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 Watonwan County employees belong to either the Basic Plan or the Minneapolis Employees Retirement Fund.

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Police and Fire Plan (accounted for in the Police and Fire Fund). For members first hired after June 30, 2010, benefits vest on a prorated basis starting with 50 percent after five years and increasing ten percent for each year of service until fully vested after ten years.

Local government employees of a county-administered facility who are responsible for the direct security, custody, and control of the correctional facility and its inmates are covered by the Correctional Plan (accounted for in the Correctional Fund). For members hired after June 30, 2010, benefits vest on a prorated basis starting with 50 percent after five years and increasing ten percent for each year of service until fully vested after ten years.

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.

Police and Fire Plan benefit recipients will receive a 1.00 percent post-retirement increase. Recipients that have been receiving the annuity or benefit for at least 36 months 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 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

Correctional Plan benefit recipients will receive a post-retirement increase equal to 100 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 2.50 percent. The 2025 annual increase was 2.50 percent. If the Correctional Plan's funding status declines to 85 percent or below for two consecutive years, or 80 percent for one year, the maximum will be lowered from 2.50 percent to 1.50 percent. If on January 1, after the year of the 1.50 percent increase, the funding level increases above the applicable 85 percent or 80 percent funding status, the increase returns to 2.50 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 Police and Fire Plan members, the annuity accrual rate is 3.00 percent of average salary for each year of service. For Correctional Plan members, the annuity accrual rate is 1.90 percent of average salary for each year of service earned before July 1, 2025, and 2.20 percent of average salary for years of service earned on or after July 1, 2025.

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 66. For Police and Fire Plan and Correctional Plan members, normal retirement age is 55, and for members who were hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90. Disability benefits and disability qualification requirements vary by plan.

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. Correctional Plan member and employer contribution rates increased 1.00 percent and 1.50 percent, respectively, on July 1, 2025.

Member and Employer Required Contribution Rates

Pension Plan	Member Required Contribution	Employer Required Contribution
General Employees Plan – Coordinated Plan members	6.50%	7.50%
Police and Fire Plan	11.80%	17.70%
Correctional Plan	6.83%	10.25%

Employer Contributions for the Year Ended December 31, 2025

Pension Plan	Contribution
General Employees Plan	$ 639,833
Police and Fire Plan	153,000
Correctional Plan	45,822

The contributions are equal to the statutorily required contributions as set by state statute.

Pension Costs

General Employees Plan

At December 31, 2025, the County reported a liability of $3,047,547 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 County's proportion of the net pension liability was based on the County's 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 County's proportion was 0.0920 percent. It was 0.0906 percent measured as of June 30, 2024. The County recognized pension expense of ($162,075) 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 County recognized an additional ($11,276) as grant revenue and pension expense for its proportionate share of the State of Minnesota's pension expense related to the special funding situation.

General Employees Plan
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 County's proportionate share of the net pension liability	$ 3,047,547
State of Minnesota's proportionate share of the net pension liability associated with the County	73,516
Total	$ 3,121,063

The County 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:

General Employees Plan
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	$ 290,364	$ -
Changes in actuarial assumptions	73,428	701,230
Difference between projected and actual investment earnings	-	1,212,648
Changes in proportion	153,727	67,895
Contributions paid to PERA subsequent to the measurement date	322,856	-
Total	$ 840,375	$ 1,981,773

The $322,856 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:

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

Year Ended December 31	Pension Expense Amount
2026	$ (342,778)
2027	(506,507)
2028	(398,346)
2029	(216,623)

Police and Fire Plan

At December 31, 2025, the County reported a liability of $659,239 for its proportionate share of the Police and Fire 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 County's proportion of the net pension liability was based on the County's 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 County's proportion was 0.0563 percent. It was 0.0560 percent measured as of June 30, 2024. The County recognized pension expense of $175,398 for its proportionate share of the Police and Fire Plan's pension expense.

The State of Minnesota contributed $18 million to the Police and Fire Plan in the plan fiscal year ended June 30, 2025. The contribution consisted of $9 million in direct state aid that meets the definition of a special funding situation and $9 million in supplemental state aid that does not meet the definition of a special funding situation.

Legislation requires the State of Minnesota to pay direct state aid of $9 million on October 1. The direct state aid payment will increase by $17.7 million, which began on October 1, 2025. Thereafter, by October 1 of each year, the state will pay $26.7 million to the Police and Fire Fund until the fund is 110 percent funded for a minimum of three consecutive years. The County recognized an additional $5,993 as grant revenue and pension expense for its proportionate share of the State of Minnesota's pension expense related to the special funding situation.

Legislation also requires the State of Minnesota to contribute $9 million to the Police and Fire Plan each year, until the Police and Fire Plan and the State Patrol Plan are 100 percent funded for three consecutive years. The County recognized $5,064 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Plan.

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

Total Police and Fire Plan Net Pension Liability Associated with the County	Amount
The County's proportionate share of the net pension liability	$ 659,239
State of Minnesota's proportionate share of the net pension liability associated with the County	22,852
Total	$ 682,091

The County reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Police and Fire Plan
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	$ 304,589	$ -
Changes in actuarial assumptions	499,914	825,999
Difference between projected and actual investment earnings	-	294,227
Changes in proportion	42,184	10,746
Contributions paid to PERA subsequent to the measurement date	77,761	-
Total	$ 924,448	$ 1,130,972

The $77,761 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:

Police and Fire Plan
Schedule of Amortization of Deferred Outflows and Inflows of Resources as of December 31, 2025

Year Ended December 31	Pension Expense Amount
2026	$ 162,859
2027	(129,842)
2028	(317,327)
2029	(17,964)
2030	17,989

Correctional Plan

At December 31, 2025, the County reported an asset of $110,482 for its proportionate share of the Correctional 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 County's proportion of the net pension liability was based on the County's 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 County's proportion was 0.1670 percent. It was 0.1694 percent measured as of June 30, 2024. The County recognized pension expense of ($170,486) for its proportionate share of the Correctional Plan's pension expense.

The County reported its proportionate share of the Correctional Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Correctional Plan
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	$ 19,114	$ -
Changes in actuarial assumptions	-	72,448
Difference between projected and actual investment earnings	-	92,452
Changes in proportion	5,629	2,406
Contributions paid to PERA subsequent to the measurement date	25,474	-
Total	$ 50,217	$ 167,306

The $25,474 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:

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

Year Ended December 31	Pension Expense Amount
2026	$ (15,258)
2027	(76,260)
2028	(35,036)
2029	(16,009)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2025, was ($157,163).

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	Police and Fire Plan	Correctional Plan
Inflation	2.25% per year	2.25% per year	2.25% per year
Active Member Payroll Growth	3.00% per year	3.00% per year	3.00% per year
Investment Rate of Return	7.00%	7.00%	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 and the Pub-2010 Public Safety Employee Mortality tables for the Police and Fire and the Correctional Plans, with slight adjustments. Cost-of-living benefit increases for retirees are assumed to be 1.50 percent for the General Employees Plan and 2.00 percent for the Correctional Plan. For the Police and Fire Plan, cost-of-living benefit increases for retirees are 1.00 percent as set by state statute.

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. The experience study for the Police and Fire Plan and Correctional Plan was dated July 31, 2024. For all plans, 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 equities	33.50%	5.10%
International equities	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, the Police and Fire Plan, and the Correctional Plan were 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:

General Employees Plan

- 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.

Police and Fire Plan

- Assumed rates of salary increases were reduced slightly.

- Assumed rates of retirement were adjusted, resulting in an overall increase in unreduced (full) retirements and an overall increase in reduced (early) retirements.

- Assumed rates of withdrawal were modified; the new rates will increase predicted terminations, especially in the first few years of employment.

- Assumed rates of disabled retirement were significantly increased, especially for ages over age 30.

- Continued to use the Pub-2010 Public Safety Mortality table with rates adjusted to better fit observed experience.

- Percent married assumption for female retirees lowered from 70 percent to 65 percent.

- Minor changes were made to form of payment assumptions for retirees.

- Minor changes were made to assumptions made with respect to missing participant data.

- The combined service annuity load changed from 33 percent to 13 percent for vested, terminated members and from 2.00 percent to 38 percent for non-vested, terminated members.

- The period of time needed for benefit recipients to receive their first benefit increase was reduced by one year (from 36 months to 24 months for a full increase).

- The January 1, 2026, benefit increase changed from 1.00 percent to 3.00 percent; subsequent January 1 increases will be 1.00 percent.

- The threshold to end the $9 million annual state aid contribution changed from the earlier of July 1, 2048, or 90 percent funded for both PERA Police and Fire and State Patrol Retirement Fund for three consecutive years to 100 percent funded for both PERA Police and Fire and State Patrol Retirement Fund for three consecutive years (on an actuarial value of assets basis).

- The threshold to end the additional $9 million annual state aid contribution changed from the earlier of July 1, 2048, or 100 percent funded for a minimum of three consecutive years to 110 percent funded for a minimum of three consecutive years (on an actuarial value of assets basis).

- An additional $17.7 million in direct state aid will be paid annually each October 1 beginning October 1, 2025, through June 30, 2048.

- Joint and survivor actuarial equivalent factors were updated to reflect changes in assumptions.

Correctional Plan

- Assumed rates of salary increases were reduced slightly and changed to service-based (vs. age-based).

- Assumed rates of retirement were adjusted, resulting in an overall increase in unreduced (full) retirements and reduced (early) retirements.

- Assumed rates of withdrawal were changed from age-based rates after three years of service to service-based for all years; the new rates result in an increase in predicted terminations for males and females.
- Minor changes were made to assumed rates of disability retirements.
- Continued to use the Pub-2010 Public Safety Mortality table, with no adjustments.
- Minor changes were made to the assumed percent married, beneficiary age difference, and form of payment assumptions for future retirees.
- Minor changes were made to assumptions made with respect to missing participant data.
- The combined service annuity load was changed from 35 percent to 9.00 percent for vested, terminated members, and from 1.00 percent to 119 percent for non-vested, terminated members.
- The benefit payable to a member who qualifies for a duty disability benefit was changed to 47.50 percent of average salary plus, for each year of service in excess of 25 years, 1.90 percent for each year of allowable service before July 1, 2025, and 2.20 percent for each year of allowable service beginning after June 30, 2025.

Actuarial equivalent factors were updated to reflect changes in assumptions.

Pension Liability Sensitivity

The following presents the County's proportionate share of the net pension liability calculated using the discount rate previously disclosed, as well as what the County's 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

Change in Discount Rate	General Employees Plan Discount Rate	General Employees Plan Net Pension Liability (Asset)	Police and Fire Plan Discount Rate	Police and Fire Plan Net Pension Liability (Asset)	Correctional Plan Discount Rate	Correctional Plan Net Pension Liability (Asset)
1% Decrease	6.00%	$ 7,402,013	6.00%	$ 1,727,345	6.00%	$ 261,599
Current	7.00%	3,047,547	7.00%	659,239	7.00%	(110,482)
1% Increase	8.00%	(484,905)	8.00%	(217,845)	8.00%	(406,732)

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.

Defined Contribution Plan

Five elected officials of Watonwan County are covered by the Public Employees Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the state legislature. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes five percent of salary, which is matched by the employer. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives two percent of employer contributions and 0.25 percent of the assets in each member account annually. For the year ended December 31, 2025, the total employee and employer contributions were each $7,154, which represents five percent of covered payroll.

Note 4 – Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risk, the County 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 County in a method and amount to be determined by MCIT.

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

Note 5 – Summary of Significant Contingencies and Other Items

Contingent Liabilities

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

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the County.

Nonexchange Financial Guarantees

The Red Rock Rural Water System (RRRWS) was established by the Fifth Judicial District under Minn. Stat. §§ 116A.01 through 116A.26 to serve as a multi-county water system in the Counties of Brown, Cottonwood, Jackson, Lyon, Martin, Murray, Nobles, Redwood, and Watonwan.

On June 1, 2016, pursuant to Minn. Stat. ch. 475 and § 116A.20, the County issued the $1,155,000 G.O. Water Revenue Crossover Refunding Bonds, Series 2016A, on behalf of the RRRWS to crossover refund the $1,600,000 G.O. Water Revenue Refunding Bonds, Series 2009, on January 1, 2019. Scheduled bond payments for this issuance began on January 1, 2020, and continue until the final maturity date of January 1, 2032. Bonds maturing on January 1, 2026, and thereafter are subject to a continuous early redemption option.

The RRRWS is responsible for the payment of all costs, principal, and interest relating to these bonds through special assessments on the properties being serviced or the net revenues of the water system. In the event of a deficiency in the debt service accounts established by the RRRWS, the County has validly obligated itself to levy additional ad valorem taxes upon all the taxable property within the County to complete debt payments as scheduled. No arrangements have been established for recovery payments should such an event occur. On December 31, 2025, the outstanding principal balance for the issuance was $575,000.

Joint Ventures

Minnesota River Valley Drug Task Force

The Minnesota River Valley Drug Task Force was established through a joint powers agreement, pursuant to Minn. Stat. § 471.59, to provide a comprehensive and multi-jurisdictional effort to reduce felony-level criminal activity through the coordination of the law enforcement agencies.

The joint powers are Blue Earth, Martin, Nicollet, and Watonwan Counties and the Cities of Fairmont, Madelia, Mankato, North Mankato, Saint James, and Saint Peter. Control of the Task Force is vested in the Board of Directors composed of the Sheriff or Chief of Police of each of the members, or his or her designee, and one prosecuting attorney. Blue Earth County is the fiscal agent for the Task Force. Funding is provided by grants and matching contributions from participating members. Watonwan County contributed $13,650 to the Task Force in 2025. Current financial statements are not available.

Property Assessed Clean Energy (MinnPACE) Loan Program

The County has entered into an agreement with the Saint Paul Port Authority to facilitate the implementation and administration of the MinnPACE loan program. Through this program, qualifying commercial building owners within the County can receive loans from the Port Authority for the purpose of financing energy efficiency and conservation building improvement projects. While the County is not liable for the repayment of the loans in any manner, it does have certain responsibilities under the agreement. By participating, the County has agreed to: (1) levy assessments against the related properties in accordance with the loan agreements between the Port Authority and property owners, (2) collect scheduled assessment payments, and (3) transfer all collections to the

Port Authority. The County has met those responsibilities for 2025. At December 31, 2025, the outstanding MinnPACE loans to be collected by the County are $68,220.

Red Rock Rural Water System

The RRRWS was established pursuant to Minn. Stat. ch. 116A through a joint powers agreement, pursuant to Minn. Stat. § 471.59, and under the jurisdiction of the Fifth Judicial District. Brown, Cottonwood, Jackson, Lyon, Martin, Murray, Nobles, Redwood, and Watonwan Counties have agreed to guarantee their shares of debt arising within each respective county. The RRRWS provides water for participating rural water users and cities within the RRRWS. The cost of providing these services is recovered through user charges.

The governing body is composed of nine members appointed to three-year terms by the District Court. Each county is responsible for levying and collecting the special assessments from the benefited properties within the county. The bond issue and notes payable are shown as long-term debt in the financial statements of the RRRWS.

Complete financial information can be obtained from the Red Rock Rural Water System, 305 West Whited Street, Jeffers, Minnesota 56145.

Rural Minnesota Energy Board

The Rural Minnesota Energy Board was established in 2005 under the authority of Minn. Stat. § 471.59. The Board includes Blue Earth, Brown, Cottonwood, Faribault, Freeborn, Jackson, Lincoln, Lyon, Martin, Mower, Murray, Nicollet, Nobles, Pipestone, Redwood, Renville, Rock, and Watonwan Counties. The purpose of the Board is to provide guidance on issues surrounding energy development in rural Minnesota and to foster the diversification of the economic climate in rural Minnesota. The focus of the Board includes, but is not limited to, renewable energy, wind energy, energy transmission lines, hydrogen energy technology, and bio-diesel and ethanol use.

The governing body is composed of one voting member and one alternate member from each participating county's Board of Commissioners. The Board shall remain in existence as long as two or more counties remain parties to the agreement. Should the Board cease to exist, assets shall be liquidated after payment of liabilities, based upon the ratios set out under the equal and proportionate share articles of the agreement. During the year, Watonwan County paid $3,000 to the Board.

Complete financial information can be obtained from the Rural Minnesota Energy Board, Slayton, Minnesota 56172.

South Central Minnesota Regional Emergency Communications Board

The South Central Minnesota Regional Emergency Communications Board (formerly known as the South Central Minnesota Regional Radio Board) was established pursuant to Minn. Stat. §§ 471.59 and 403.39 and a joint powers agreement effective May 27, 2008. It is comprised of Blue Earth, Brown, Faribault, Le Sueur, Martin, McLeod, Nicollet, Sibley, Waseca, and Watonwan Counties and the Cities of Hutchinson and Mankato. The primary function of the joint venture is to provide regional administration of enhancements to the Statewide Public Safety Radio and Communication System for the Allied Radio Matrix for Emergency Response (ARMER), owned and operated by the State of Minnesota, and to enhance and improve interoperable public safety communications.

The Board consists of one County Commissioner from each county included in the agreement, one City Council member from each city included in the agreement, a member of the South Central Minnesota Regional Advisory Committee, a member of the South Central Minnesota Regional Radio System User Committee, and a member of the Owners and Operators Committee.

Blue Earth County acts as the fiscal agent for the Board. During 2025, Watonwan County made no contributions to the Board.

Financial information can be obtained at the Blue Earth County Justice Center, 401 Carver Road, Mankato, Minnesota 56002.

South Central Workforce Service Area Joint Powers Board

In June 2012, the County entered into a joint powers agreement with Blue Earth, Brown, Faribault, Le Sueur, Martin, Nicollet, Sibley, and Waseca Counties, creating the South Central Workforce Service Area Joint Powers Board. The agreement is authorized by Minn. Stat. § 471.59. The Board is comprised of one voting member and one alternate member for each participating county. The goal of the Board is to develop and maintain a quality workforce for South Central Minnesota.

Watonwan County made no contributions to this organization in 2025.

Separate financial information can be obtained from the South Central Workforce Council, 706 North Victory Drive, Mankato, Minnesota 56001.

Vision for Family and Community Collaborative

The Vision for Family and Community Collaborative was established in 1996 under the authority of Minn. Stat. § 121.8355 (now Minn. Stat. § 142D.15). The Collaborative includes Watonwan County and Saint James, Madelia, and Butterfield Independent School Districts. The Collaborative ensures the availability of comprehensive services designed to enhance or strengthen family functioning.

Control of the Collaborative is vested in a Joint Powers Board. The Joint Powers Board is composed of nine members. Watonwan County Human Services acts as fiscal agent for the Collaborative. The Collaborative is financed by local collaborative time study funds. During 2025, Watonwan County made contributions of $22,422 to the Collaborative.

Any withdrawing party remains fiscally liable until the effective date of withdrawal. Should the Collaborative cease to exist, all property, real and personnel, held by the Collaborative at the time of the termination shall be distributed by resolution of the Joint Powers Board in accordance with law and in a manner to best accomplish the purpose of the Collaborative.

Jointly-Governed Organizations

Greater Blue Earth River Basin Alliance

The Greater Blue Earth River Basin Alliance (GBERBA) establishes goals, policies, and objectives to protect and enhance land and water resources in the Greater Blue Earth River Basin. The Board consists of County

Commissioners and members of the Soil and Water Conservation Districts. During the year, Watonwan County paid $3,150 to the GBERBA.

Region Five – Southwest Minnesota Homeland Security Emergency Management Organization

The Region Five – Southwest Minnesota Homeland Security Emergency Management Organization was established to provide for regional coordination of planning, training, purchase of equipment, and allocating emergency services and staff in order to better respond to emergencies and natural or other disasters within the region. Control is vested in the Board, which is composed of representatives appointed by each Board of County Commissioners. Watonwan County's responsibility does not extend beyond making this appointment. During the year, Watonwan County paid $25 in membership fees.

Minnesota Counties Computer Cooperative

Under Minnesota Joint Powers Law, Minn. Stat. § 471.59, Minnesota counties have created the Minnesota Counties Computer Cooperative (MCCC) to jointly provide for the establishment, operation, and maintenance of data processing systems, facilities, and management information systems. During the year, Watonwan County expended $117,581 to the MCCC.

Minnesota Criminal Justice Data Communications Network

The Minnesota Criminal Justice Data Communications Network Joint Powers Agreement exists to create access for the County Sheriff and County Attorney to systems and tools available from the State of Minnesota, Department of Public Safety, and the Bureau of Criminal Apprehension to carry out criminal justice. During the year, Watonwan County paid $2,225 to the Network.

South Central Community-Based Initiative Joint Powers Board

The South Central Community-Based Initiative Joint Powers Board was established pursuant to Minn. Stat. §§ 471.59 and 245.4661 and a joint powers agreement, effective June 20, 2008. The purpose of this joint powers agreement is to provide services to persons with mental illness in the most clinically-appropriate, person-centered, least restrictive, and cost-effective ways. The focus is on improved access and outcomes for persons with mental illness as a result of the collaboration between state-operated services programs and community-based treatment. The membership of the Board is comprised of one representative appointed by Blue Earth, Brown, Faribault, Freeborn, Le Sueur, Martin, Nicollet, Rice, Sibley, and Watonwan Counties. Watonwan County did not contribute to the Joint Powers Board in 2025.

South Central Emergency Medical Service Joint Powers Board

The South Central Emergency Medical Service (SCEMS) Joint Powers Board consists of Blue Earth, Brown, Faribault, Le Sueur, Martin, Nicollet, Sibley, Waseca, and Watonwan Counties. The purpose of the SCEMS is to ensure quality patient care is available throughout the nine-county area by maximizing the response capabilities of emergency medical personnel and to promote public education on injury prevention and appropriate response during a medical emergency. Each county appoints one member for the Joint Powers Board. During the year, Watonwan County made payments of $2,500 to the SCEMS.

South Central Regional Immtrack Joint Powers Board

The South Central Regional Immtrack Joint Powers Board promotes an implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records. During 2025, Watonwan County made no payments to Immtrack.

Subsequent Event

On August 18, 2026, the County issued $2,275,000 of General Obligation Ditch Bonds, Series 2026A. The proceeds will be used to fund all or a portion of the costs of improvements to Judicial Ditch 8 and Judicial Ditch 5. Principal and interest will be paid from revenues derived primarily from assessments levied against properties specifically benefited.

Required Supplementary Information

Exhibit A-1

Watonwan County
Saint James, Minnesota

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

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues				
Taxes	$ 6,952,113	$ 6,952,113	$ 6,939,718	$ (12,395)
Special assessments	125,000	125,000	180,164	55,164
Licenses and permits	14,650	14,650	13,697	(953)
Intergovernmental	1,978,984	1,978,984	2,116,366	137,382
Charges for services	1,082,752	1,082,752	1,062,229	(20,523)
Fines and forfeits	-	-	238	238
Gifts and contributions	500	500	1,276	776
Investment earnings	450,000	450,000	1,100,061	650,061
Miscellaneous	237,600	237,600	234,716	(2,884)
Total Revenues	**$ 10,841,599**	**$ 10,841,599**	**$ 11,648,465**	**$ 806,866**
Expenditures				
Current				
General government				
County commissioners	$ 232,716	$ 232,716	$ 223,888	$ 8,828
Court administrator	41,000	41,000	6,831	34,169
Law library	7,000	7,000	8,235	(1,235)
County auditor/treasurer	513,213	513,213	456,289	56,924
License center	199,294	199,294	231,969	(32,675)
Personnel	180,572	180,572	152,742	27,830
Central services	220,604	220,604	177,757	42,847
Elections	43,640	43,640	13,647	29,993
Information technology	662,225	662,225	570,901	91,324
County attorney	380,077	380,077	367,627	12,450
Attorney's contingent	7,500	7,500	-	7,500
County recorder	318,545	318,545	300,059	18,486
County assessor	560,510	560,510	543,062	17,448
Building maintenance	425,975	425,975	392,803	33,172
Veterans service	181,186	181,186	176,002	5,184
Motor pool	67,000	67,000	52,783	14,217
Public transit	839,400	839,400	717,654	121,746
Other general government	671,771	671,771	982,292	(310,521)
Total general government	**$ 5,552,228**	**$ 5,552,228**	**$ 5,374,541**	**$ 177,687**
Public safety				
County sheriff	$ 2,278,423	$ 2,278,423	$ 2,329,066	$ (50,643)
Sheriff's contingent	5,000	5,000	-	5,000
Jail	958,465	958,465	900,323	58,142
E-911 and radio maintenance	85,000	85,000	197,495	(112,495)
County coroner	35,000	35,000	20,464	14,536
Court services	332,381	332,381	285,970	46,411
Emergency management	144,006	144,006	132,994	11,012
Total public safety	**$ 3,838,275**	**$ 3,838,275**	**$ 3,866,312**	**$ (28,037)**

The notes to the required supplementary information are an integral part of this schedule.

Exhibit A-1
(Continued)

Watonwan County
Saint James, Minnesota

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

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Expenditures				
Current (Continued)				
Culture and recreation				
County parks	$ 65,000	$ 65,000	$ 31,165	$ 33,835
Historical society	48,000	48,000	48,000	-
Total culture and recreation	**$ 113,000**	**$ 113,000**	**$ 79,165**	**$ 33,835**
Conservation of natural resources				
Environmental services	$ 673,766	$ 673,766	$ 665,205	$ 8,561
County extension	154,832	154,832	149,716	5,116
Agricultural society/fair grounds	92,455	92,455	59,594	32,861
Soil and water conservation	105,000	105,000	105,000	-
Local water plan block grant	89,124	89,124	90,435	(1,311)
Total conservation of natural resources	**$ 1,115,177**	**$ 1,115,177**	**$ 1,069,950**	**$ 45,227**
Economic development				
Employment and training	$ 106,119	$ 106,119	$ 100,294	$ 5,825
Economic development	48,000	48,000	48,000	-
Total economic development	**$ 154,119**	**$ 154,119**	**$ 148,294**	**$ 5,825**
Capital outlay				
General government	**$ 221,000**	**$ 221,000**	**$ 231,720**	**$ (10,720)**
Debt service				
Principal	$ 124,800	$ 124,800	$ 200,565	$ (75,765)
Interest	200	200	997	(797)
Total debt service	**$ 125,000**	**$ 125,000**	**$ 201,562**	**$ (76,562)**
Total Expenditures	**$ 11,118,799**	**$ 11,118,799**	**$ 10,971,544**	**$ 147,255**
Excess of Revenues Over (Under) Expenditures	**$ (277,200)**	**$ (277,200)**	**$ 676,921**	**$ 954,121**
Other Financing Sources (Uses)				
Transfers out	$ -	$ -	$ (29,392)	$ (29,392)
Proceeds from loan	140,000	140,000	216,808	76,808
Total Other Financing Sources (Uses)	**$ 140,000**	**$ 140,000**	**$ 187,416**	**$ 47,416**
Net Change in Fund Balance	**$ (137,200)**	**$ (137,200)**	**$ 864,337**	**$ 1,001,537**
Fund Balance – January 1	**15,162,518**	**15,162,518**	**15,162,518**	**-**
Fund Balance – December 31	**$ 15,025,318**	**$ 15,025,318**	**$ 16,026,855**	**$ 1,001,537**

The notes to the required supplementary information are an integral part of this schedule.

Exhibit A-2

Watonwan County
Saint James, Minnesota

Budgetary Comparison Schedule
Road and Bridge Special Revenue Fund
For the Year Ended December 31, 2025

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues				
Taxes	$ 2,497,142	$ 2,497,142	$ 2,985,028	$ 487,886
Special assessments	200,000	200,000	-	(200,000)
Intergovernmental	22,094,216	22,094,216	12,595,449	(9,498,767)
Charges for services	332,000	332,000	311,513	(20,487)
Miscellaneous	45,000	45,000	96,765	51,765
Total Revenues	**$ 25,168,358**	**$ 25,168,358**	**$ 15,988,755**	**$ (9,179,603)**
Expenditures				
Current				
Highways and streets				
Administration	$ 375,519	$ 375,519	$ 393,039	$ (17,520)
Maintenance and construction	13,105,633	13,105,633	5,128,209	7,977,424
Equipment maintenance and shops	1,664,966	1,664,966	1,440,033	224,933
Other	1,000	1,000	45	955
Total highways and streets	**$ 15,147,118**	**$ 15,147,118**	**$ 6,961,326**	**$ 8,185,792**
Intergovernmental				
Highways and streets	10,081,240	10,081,240	7,213,764	2,867,476
Total Expenditures	**$ 25,228,358**	**$ 25,228,358**	**$ 14,175,090**	**$ 11,053,268**
Net Change in Fund Balance	**$ (60,000)**	**$ (60,000)**	**$ 1,813,665**	**$ 1,873,665**
Fund Balance – January 1	**1,015,443**	**1,015,443**	**1,015,443**	**-**
Increase (decrease) in inventories	**-**	**-**	**(37,730)**	**(37,730)**
Fund Balance – December 31	**$ 955,443**	**$ 955,443**	**$ 2,791,378**	**$ 1,835,935**

The notes to the required supplementary information are an integral part of this schedule.

Exhibit A-3

Watonwan County
Saint James, Minnesota

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

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues				
Taxes	$ 2,609,354	$ 2,609,354	$ 2,570,327	$ (39,027)
Intergovernmental	4,324,111	4,324,111	4,311,077	(13,034)
Settlements	-	-	32,699	32,699
Charges for services	666,000	666,000	632,738	(33,262)
Miscellaneous	287,700	287,700	329,948	42,248
Total Revenues	**$ 7,887,165**	**$ 7,887,165**	**$ 7,876,789**	**$ (10,376)**
Expenditures				
Current				
Human services				
Income maintenance	$ 1,514,889	$ 1,514,889	$ 1,493,853	$ 21,036
Social services	5,462,421	5,462,421	4,660,815	801,606
Total human services	**$ 6,977,310**	**$ 6,977,310**	**$ 6,154,668**	**$ 822,642**
Health				
Community health services	982,855	982,855	914,007	68,848
Total Expenditures	**$ 7,960,165**	**$ 7,960,165**	**$ 7,068,675**	**$ 891,490**
Net Change in Fund Balance	**$ (73,000)**	**$ (73,000)**	**$ 808,114**	**$ 881,114**
Fund Balance – January 1	**5,240,818**	**5,240,818**	**5,240,818**	**-**
Fund Balance – December 31	**$ 5,167,818**	**$ 5,167,818**	**$ 6,048,932**	**$ 881,114**

The notes to the required supplementary information are an integral part of this schedule.

Exhibit A-4

Watonwan County
Saint James, 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	$ 53,286	$ 49,993	$ 46,703	$ 54,227
Interest	16,562	15,736	8,509	8,070
Differences between expected and actual experience	(1,976)	-	(20,623)	-
Changes of assumption or other inputs	(42,173)	7,151	(45,430)	-
Benefit payments	(10,523)	(33,138)	(16,095)	(49,440)
Net change in total OPEB liability	**$ 15,176**	**$ 39,742**	**$ (26,936)**	**$ 12,857**
Total OPEB Liability – Beginning	**399,547**	**359,805**	**386,741**	**373,884**
Total OPEB Liability – Ending	**$ 414,723**	**$ 399,547**	**$ 359,805**	**$ 386,741**
Covered-employee payroll	$ 9,786,302	$ 7,950,346	$ 7,718,783	$ 7,735,654
Total OPEB liability (asset) as a percentage of covered-employee payroll	4.24%	5.03%	4.66%	5.00%

	2021	2020	2019	2018
Total OPEB Liability				
Service cost	$ 52,648	$ 45,637	$ 39,758	$ 49,676
Interest	12,687	16,451	20,900	20,036
Differences between expected and actual experience	(47,205)	-	(160,641)	-
Changes of assumption or other inputs	(17,049)	18,748	(6,414)	-
Benefit payments	(23,888)	(141,563)	(59,019)	(8,648)
Net change in total OPEB liability	**$ (22,807)**	**$ (60,727)**	**$ (165,416)**	**$ 61,064**
Total OPEB Liability – Beginning	**396,691**	**457,418**	**622,834**	**561,770**
Total OPEB Liability – Ending	**$ 373,884**	**$ 396,691**	**$ 457,418**	**$ 622,834**
Covered-employee payroll	$ 7,510,344	$ 7,189,059	$ 6,979,669	$ 6,600,642
Total OPEB liability (asset) as a percentage of covered-employee payroll	4.98%	5.52%	6.55%	9.44%

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

Exhibit A-5

Watonwan County
Saint James, 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 Watonwan County (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	0.0920	$ 3,047,547	$ 73,516	$ 3,121,063	$ 8,331,361	36.58	90.78
2024	0.0906	3,349,940	86,623	3,436,563	7,669,166	43.68	89.08
2023	0.8760	4,898,494	135,012	5,033,506	6,964,872	70.33	83.10
2022	0.0920	7,286,430	213,623	7,500,053	6,894,355	105.69	76.67
2021	0.0926	3,954,435	120,725	4,075,160	6,652,784	59.44	87.00
2020	0.0883	5,293,989	163,207	5,457,196	6,294,095	84.11	79.06
2019	0.0862	4,765,805	148,160	4,913,965	6,099,771	78.13	80.23
2018	0.0848	4,704,356	154,344	4,858,700	5,698,907	82.55	79.53
2017	0.0864	5,515,719	69,390	5,585,109	5,568,869	99.05	75.90
2016	0.0873	7,088,327	92,639	7,180,966	5,419,996	130.78	68.91

The measurement date for each year is June 30.

Exhibit A-6

Watonwan County
Saint James, 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	$ 639,833	$ 639,833	$ -	$ 8,533,461	7.50
2024	603,578	603,578	-	8,047,698	7.50
2023	542,406	542,406	-	7,234,073	7.50
2022	521,026	521,026	-	6,947,024	7.50
2021	509,807	509,807	-	6,797,424	7.50
2020	485,571	485,571	-	6,474,222	7.50
2019	464,679	464,679	-	6,195,743	7.50
2018	445,931	445,931	-	5,945,747	7.50
2017	415,925	415,925	-	5,545,670	7.50
2016	407,922	407,922	-	5,438,961	7.50

The County's year-end is December 31.

Exhibit A-7

Watonwan County
Saint James, Minnesota

Schedule of Proportionate Share of Net Pension Liability
PERA Public Employees Police and Fire 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 Watonwan County (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	0.0563	$ 659,239	$ 22,852	$ 682,091	$ 853,921	77.20	91.78
2024	0.0560	736,887	28,090	764,977	775,606	95.01	90.17
2023	0.0562	970,501	39,117	1,009,618	738,266	131.46	86.47
2022	0.0541	2,354,218	102,912	2,457,130	657,144	358.25	70.53
2021	0.0492	379,722	17,070	396,792	581,268	65.33	93.66
2020	0.0521	686,734	16,200	702,934	588,485	116.70	87.19
2019	0.0547	582,337	N/A	582,337	577,355	100.86	89.26
2018	0.0528	562,794	N/A	562,794	556,596	101.11	88.84
2017	0.0510	688,561	N/A	688,561	523,413	131.55	85.43
2016	0.0570	2,287,509	N/A	2,287,509	544,559	420.07	63.88

The measurement date for each year is June 30.
N/A – Not Applicable

Watonwan County
Saint James, Minnesota

Schedule of Contributions
PERA Public Employees Police and Fire 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	$ 153,000	$ 153,000	$ -	$ 864,405	17.70
2024	146,179	146,179	-	825,871	17.70
2023	132,076	132,076	-	746,195	17.70
2022	125,121	125,121	-	706,989	17.70
2021	108,614	108,614	-	613,639	17.70
2020	102,655	102,655	-	579,974	17.70
2019	96,272	96,272	-	567,972	16.95
2018	97,128	97,128	-	599,558	16.20
2017	85,287	85,287	-	526,465	16.20
2016	84,828	84,828	-	523,630	16.20

The County's year-end is December 31.

Exhibit A-9

Watonwan County
Saint James, Minnesota

Schedule of Proportionate Share of Net Pension Liability
PERA Public Employees Local Government Correctional Service 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)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b) (%)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (%)
2025	0.1670	$ (110,482)	$ 456,488	(24.20)	105.18
2024	0.1694	51,618	429,944	12.01	97.54
2023	0.1570	70,972	368,042	19.28	95.94
2022	0.1599	531,508	351,220	151.33	74.58
2021	0.1566	(25,726)	346,224	(7.43)	101.61
2020	0.1596	43,306	347,375	12.47	96.67
2019	0.1518	21,017	323,846	6.49	98.17
2018	0.1537	25,279	313,855	8.05	97.64
2017	0.1400	399,001	270,441	147.54	67.89
2016	0.1500	547,971	283,457	193.32	58.16

The measurement date for each year is June 30.

Watonwan County
Saint James, Minnesota

Schedule of Contributions
PERA Public Employees Local Government Correctional Service 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	$ 45,822	$ 45,822	$ -	$ 481,070	9.53
2024	38,903	38,903	-	444,606	8.75
2023	35,082	35,082	-	400,942	8.75
2022	30,874	30,874	-	352,844	8.75
2021	30,907	30,907	-	353,227	8.75
2020	30,169	30,169	-	344,792	8.75
2019	29,455	29,455	-	336,635	8.75
2018	28,121	28,121	-	321,386	8.75
2017	25,628	25,628	-	292,887	8.75
2016	23,129	23,129	-	264,332	8.75

The County's year-end is December 31.

The notes to the required supplementary information are an integral part of this schedule.

Note 1 – Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds, except the County Ditch Special Revenue Fund. All annual appropriations lapse at year-end.

On or before mid-August of each year, all departments submit requests for appropriations to the County Auditor/Treasurer so that a budget can be prepared. Before October 31, the proposed budget is presented to the County Board for review. The Board holds public hearings, and a final budget must be prepared and adopted no later than December 31.

The appropriated budget is prepared by fund, function, and department. Additional appropriations up to $10,000 require approval of the County Administrator; anything over $10,000 requires approval of the County Board. The legal level of budgetary control, the level at which expenditures may not legally exceed appropriations, is the fund level.

Note 2 – Other Postemployment Benefits Funded Status

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

Note 3 – Other Postemployment Benefits – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes in actuarial assumptions occurred:

<u>2025</u>

- The health care trend rates were updated.
- The retirement, withdrawal, and salary increase rates for non-police were updated to reflect the latest experience study.
- The discount rate was changed from 3.70 percent to 4.20 percent.

<u>2024</u>

- The discount rate was changed from 4.00 percent to 3.70 percent.

<u>2023</u>

- The health care trend rates and mortality tables were updated.
- The retirement, withdrawal, and salary increase rates for public safety employees were updated.

- 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

There were no changes in actuarial assumptions.

2021

- The health care trend rates, mortality rates, and salary increase rates were all updated.
- The retirement and withdrawal rates for non-public safety employees were updated.
- The inflation rate was changed from 2.50 percent to 2.00 percent.
- The discount rate used changed from 2.90 percent to 2.00 percent.

2020

- The discount rate used changed from 3.80 percent to 2.90 percent.

2019

- The discount rate used changed from 3.30 percent to 3.80 percent.
- Health care trend rates and mortality tables were updated.
- The retirement and withdrawal tables for public safety employees were updated.

2018

- The discount rate used changed from 3.50 percent to 3.30 percent.
- The actuarial cost method was changed from projected unit credit to entry age as prescribed by GASB Statement 75.

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.

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.

<u>2022</u>

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

<u>2021</u>

- 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.

<u>2020</u>

- 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 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.

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.

Public Employees Police and Fire Plan

2025

- Assumed rates of salary increases were reduced slightly.
- Assumed rates of retirement were adjusted, resulting in an overall increase in unreduced (full) retirements and an overall increase in reduced (early) retirements.
- Assumed rates of withdrawal were modified; the new rates will increase predicted terminations, especially in the first few years of employment.
- Assumed rates of disabled retirement were significantly increased, especially for ages over age 30.
- Continued to use the Pub-2010 Public Safety Mortality table with rates adjusted to better fit observed experience.
- Percent married assumption for female retirees lowered from 70 percent to 65 percent.
- Minor changes were made to form of payment assumptions for retirees.
- Minor changes were made to assumptions made with respect to missing participant data.
- The combined service annuity load changed from 33 percent to 13 percent for vested, terminated members and from 2.00 percent to 38 percent for non-vested, terminated members.
- The period of time needed for benefit recipients to receive their first benefit increase was reduced by one year (from 36 months to 24 months for a full increase).
- The January 1, 2026, benefit increase changed from 1.00 percent to 3.00 percent; subsequent January 1 increases will be 1.00 percent.
- The threshold to end the $9 million annual state aid contribution changed from the earlier of July 1, 2048, or 90 percent funded for both PERA Police and Fire and State Patrol Retirement Fund for three consecutive

years to 100 percent funded for both PERA Police and Fire and State Patrol Retirement Fund for three consecutive years (on an actuarial value of assets basis).

- The threshold to end the additional $9 million annual state aid contribution changed from the earlier of July 1, 2048, or 100 percent funded for a minimum of three consecutive years to 110 percent funded for a minimum of three consecutive years (on an actuarial value of assets basis).

- An additional $17.7 million in direct state aid will be paid annually each October 1 beginning October 1, 2025, through June 30, 2048.

- Joint and survivor actuarial equivalent factors were updated to reflect changes in assumptions.

2024

- The state contribution of $9 million per year will continue until the earlier of: (1) both the Public Employees Retirement Association Police and Fire Plan and the State Patrol Retirement Fund attaining 90 percent funded status for three consecutive years (on an actuarial value of assets basis), or (2) July 1, 2048. The contribution was previously due to expire upon attainment of 90 percent funded status for one year.

- The additional $9 million contribution will continue until the Plan is fully funded for a minimum of three consecutive years on an actuarial value of assets basis or July 1, 2048, if earlier. This contribution was previously due to expire upon attainment of fully funded status on an actuarial value of assets basis for one year (or July 1, 2048, if earlier).

2023

- The investment return assumption was changed from 6.50 percent to 7.00 percent.

- The single discount rate changed from 5.40 percent to 7.00 percent.

- A one-time direct state aid contribution of $19.4 million occurred on October 1, 2023.

- The vesting requirement for new hires after June 30, 2014, was changed from a graded 20-year vesting schedule to a graded ten-year vesting schedule, with 50 percent vesting after five years, increasing incrementally to 100 percent after ten years.

- A one-time, non-compounding benefit increase of 3.00 percent will be payable in a lump sum for calendar year 2024 by March 31, 2024.

- Psychological treatment is required effective July 1, 2023, prior to approval for a duty disability benefit for a psychological condition relating to the member’s occupation.

- A total and permanent duty disability benefit was added effective July 1, 2023.

2022

- The single discount rate changed from 6.50 percent to 5.40 percent.

- 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 inflation assumption was changed from 2.50 percent to 2.25 percent.
- The payroll growth assumption was changed from 3.25 percent to 3.00 percent.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.
- The base mortality table for disabled annuitants was changed from the RP-2014 Healthy Annuitant Mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety Disabled Annuitant Mortality table (with future mortality improvement according to Scale MP-2020).
- Assumed rates of salary increase were modified as recommended in the July 14, 2020, experience study. The overall impact is a decrease in gross salary increase rates.
- Assumed rates of retirement were changed as recommended in the July 14, 2020, experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements.
- Assumed rates of withdrawal were changed from select and ultimate rates to service-based rates. The changes result in more assumed terminations.
- Assumed rates of disability were increased for ages 25-44 and decreased for ages over 49. Overall, proposed rates result in more projected disabilities.
- Assumed percent married for active female members was changed from 60 percent to 70 percent. Minor changes to form of payment assumptions were applied.

2020

- The mortality projection scale was changed from Scale MP-2018 to Scale MP-2019.

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-2016 to Scale MP-2017.
- Post-retirement benefit increases changed to 1.00 percent for all years with no trigger.
- An end date of July 1, 2048, was added to the existing $9.0 million state contribution. Additionally, annual

state aid will equal $4.5 million in fiscal years 2019 and 2020, and $9.0 million thereafter, until the plan reaches 100 percent funding, or July 1, 2048, if earlier.

- Member contributions were changed effective January 1, 2019, and January 1, 2020, from 10.80 percent to 11.30 and 11.80 percent of pay, respectively. Employer contributions were changed effective January 1, 2019, and January 1, 2020, from 16.20 percent to 16.95 and 17.70 percent of pay, respectively. 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.

- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017

- The assumed salary increases were changed as recommended in the June 30, 2016, experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.

- The assumed rates of retirement were changed, resulting in fewer retirements.

- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA load has been changed to 33 percent for vested members and 2.00 percent for non-vested members.

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality table assumed for healthy retirees.

- The assumed termination rates were decreased to 3.00 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.

- The assumed percentage of married female members was decreased from 65 percent to 60 percent.

- The assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.

- The assumed percentage of female members electing joint and survivor annuities was increased.

- The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.

- The single discount rate was changed from 5.60 percent per annum to 7.50 percent per annum.

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 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 changed from 7.90 percent to 5.60 percent.

- 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.

Public Employees Local Government Correctional Service Retirement Plan

<u>2025</u>

- Assumed rates of salary increases were reduced slightly and changed to service-based (vs. age-based).

- Assumed rates of retirement were adjusted resulting in an overall increase in unreduced (full) retirements and reduced (early) retirements.

- Assumed rates of withdrawal were changed from age-based rates after three years of service to service-based for all years; the new rates result in an increase in predicted terminations for males and females.

- Minor changes were made to assumed rates of disability retirements.

- Continued to use the Pub-2010 Public Safety Mortality table, with no adjustments.

- Minor changes were made to the assumed percent married, beneficiary age difference, and form of payment assumptions for future retirees.

- Minor changes were made to assumptions made with respect to missing participant data.

- The combined service annuity load was changed from 35 percent to 9.00 percent for vested, terminated members, and from 1.00 percent to 119 percent for non-vested, terminated members.

- The benefit payable to a member who qualifies for a duty disability benefit was changed to 47.50 percent of average salary plus, for each year of service in excess of 25 years, 1.90 percent for each year of allowable service before July 1, 2025, and 2.20 percent for each year of allowable service beginning after June 30, 2025.

- Actuarial equivalent factors were updated to reflect changes in assumptions.

<u>2024</u>

- Employee contribution rates will increase from 5.83 percent of pay to 6.83 percent of pay, effective July 1, 2025.

- Employer contribution rates will increase from 8.75 percent of pay to 10.25 percent of pay, effective July 1, 2025.

- The benefit multiplier was changed from 1.9 percent to 2.2 percent for service earned after June 30, 2025.

2023

- The investment return rate was changed from 6.50 percent to 7.00 percent.
- The single discount rate changed from 5.42 percent to 7.00 percent.
- A one-time direct state aid contribution of $5.3 million occurred on October 1, 2023.
- 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.
- The maximum benefit increase will revert back to 2.50 percent, if the maximum increase is 1.50 percent and the Plan’s funding ratio improves to 85 percent for two consecutive years on a market value of assets basis.

2022

- The single discount rate changed from 6.50 percent to 5.42 percent.
- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.
- The benefit increase assumption was changed from 2.00 percent per annum to 2.00 percent per annum through December 31, 2054, and 1.50 percent per annum thereafter.

2021

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent.
- The inflation assumption was changed from 2.50 percent to 2.25 percent.
- The payroll growth assumption was changed from 3.25 percent to 3.00 percent.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.
- The base mortality table for disabled annuitants was changed from the RP-2014 Healthy Annuitant Mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety Disabled Annuitant Mortality table (with future mortality improvement according to Scale MP-2020).
- Assumed rates of salary increase were modified as recommended in the July 10, 2020, experience study. The overall impact is a decrease in gross salary increase rates.
- Assumed rates of retirement were changed as recommended in the July 10, 2020, experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements.
- Assumed rates of withdrawal were changed as recommended in the July 10, 2020, experience study. The new rates predict more terminations, both in the three-year select period (based on service) and the ultimate rates (based on age).

- Assumed rates of disability were lowered.
- Assumed percent married for active members was lowered from 85 percent to 75 percent.
- Minor changes to form of payment assumptions were applied.

2020

- The mortality projection scale was changed from Scale MP-2018 to Scale MP-2019.

2019

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

2018

- The single discount rate was changed from 5.96 percent per annum to 7.50 percent per annum.
- The mortality projection scale was changed from Scale MP-2016 to Scale MP-2017.
- The assumed post-retirement benefit increase was changed from 2.50 percent per year to 2.00 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.
- Post-retirement benefit increases were changed from 2.50 percent per year with a provision to reduce to 1.00 percent if the funding status declines to a certain level, to 100 percent of the Social Security cost-of-living adjustment, not less than 1.00 percent and not more than 2.50 percent, beginning January 1, 2019. If the funding status declines to 85 percent for two consecutive years, or 80 percent for one year, the maximum increase will be lowered to 1.50 percent.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to Scale MP-2016).

- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA load has been changed to 35 percent for vested members and 1.00 percent for non-vested members.

- The single discount rate was changed from 5.31 percent per annum to 5.96 percent per annum.

2016

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.31 percent.

- 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

Nonmajor Governmental Funds

Nonmajor Special Revenue Funds

County Library – accounts for the funds of the County library system. Financing comes primarily from an annual tax levy and state grants.

Solid Waste – accounts for the County recycling programs. Financing is provided by a tax levy, special assessments, user charges, and state grants.

Nonmajor Debt Service Fund

Debt Service – accounts for the restricted property tax revenues for the payment of principal, interest, and related costs of County debt.

Exhibit B-1

Watonwan County
Saint James, Minnesota

Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2025

	County Library Special Revenue	Solid Waste Special Revenue	Total Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds (Exhibit 3)
Assets					
Cash and pooled investments	$ 1,550,646	$ 225,073	$ 1,775,719	$ 219,715	$ 1,995,434
Taxes receivable – delinquent	10,571	234	10,805	1,954	12,759
Special assessments receivable – delinquent	-	14,913	14,913	-	14,913
Total Assets	**$ 1,561,217**	**$ 240,220**	**$ 1,801,437**	**$ 221,669**	**$ 2,023,106**
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities					
Accounts payable	$ 1,115	$ 1,911	$ 3,026	$ 1,750	$ 4,776
Salaries payable	32,492	1,398	33,890	-	33,890
Due to other funds	-	532	532	-	532
Total Liabilities	**$ 33,607**	**$ 3,841**	**$ 37,448**	**$ 1,750**	**$ 39,198**
Deferred Inflows of Resources					
Unavailable revenue	**$ 7,922**	**$ 11,651**	**$ 19,573**	**$ 1,448**	**$ 21,021**
Fund Balances					
Restricted for					
Library operations from donations	$ 434,810	$ -	$ 434,810	$ -	$ 434,810
Debt service	-	-	-	218,471	218,471
Committed for library operations	1,084,878	-	1,084,878	-	1,084,878
Assigned to solid waste	-	224,728	224,728	-	224,728
Total Fund Balances	**$ 1,519,688**	**$ 224,728**	**$ 1,744,416**	**$ 218,471**	**$ 1,962,887**
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	**$ 1,561,217**	**$ 240,220**	**$ 1,801,437**	**$ 221,669**	**$ 2,023,106**

Exhibit B-2

Watonwan County
Saint James, Minnesota

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

	County Library Special Revenue	Solid Waste Special Revenue	Total Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds (Exhibit 5)
Revenues					
Taxes	$ 790,074	$ 16,472	$ 806,546	$ 138,261	$ 944,807
Special assessments	-	183,959	183,959	-	183,959
Intergovernmental	100,565	88,341	188,906	1,981	190,887
Charges for services	5,682	14,391	20,073	-	20,073
Fines and forfeits	2,304	-	2,304	-	2,304
Gifts and contributions	1,625	-	1,625	-	1,625
Total Revenues	**$ 900,250**	**$ 303,163**	**$ 1,203,413**	**$ 140,242**	**$ 1,343,655**
Expenditures					
Current					
Sanitation	$ -	$ 320,730	$ 320,730	$ -	$ 320,730
Culture and recreation	906,087	-	906,087	-	906,087
Debt service					
Principal	-	-	-	135,000	135,000
Interest	-	-	-	9,320	9,320
Administrative charges	-	-	-	4,490	4,490
Total Expenditures	**$ 906,087**	**$ 320,730**	**$ 1,226,817**	**$ 148,810**	**$ 1,375,627**
Excess of Revenues Over (Under) Expenditures	**$ (5,837)**	**$ (17,567)**	**$ (23,404)**	**$ (8,568)**	**$ (31,972)**
Other Financing Sources (Uses)					
Transfers in	29,392	-	29,392	-	29,392
Net Change in Fund Balance	**$ 23,555**	**$ (17,567)**	**$ 5,988**	**$ (8,568)**	**$ (2,580)**
Fund Balance – January 1	**1,496,133**	**242,295**	**1,738,428**	**227,039**	**1,965,467**
Fund Balance – December 31	**$ 1,519,688**	**$ 224,728**	**$ 1,744,416**	**$ 218,471**	**$ 1,962,887**

Exhibit B-3

Watonwan County
Saint James, Minnesota

Budgetary Comparison Schedule
County Library Special Revenue Fund
For the Year Ended December 31, 2025

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues				
Taxes	$ 802,385	$ 802,385	$ 790,074	$ (12,311)
Intergovernmental	67,211	67,211	100,565	33,354
Charges for services	4,000	4,000	5,682	1,682
Fines and forfeits	2,000	2,000	2,304	304
Gifts and contributions	1,000	1,000	1,625	625
Investment earnings	10,000	10,000	-	(10,000)
Total Revenues	**$ 886,596**	**$ 886,596**	**$ 900,250**	**$ 13,654**
Expenditures				
Current				
Culture and recreation				
County library	**886,596**	**886,596**	**906,087**	**(19,491)**
Excess of Revenues Over (Under) Expenditures	**$ -**	**$ -**	**$ (5,837)**	**$ (5,837)**
Other Financing Sources (Uses)				
Transfers in	-	-	29,392	29,392
Net Change in Fund Balance	**$ -**	**$ -**	**$ 23,555**	**$ 23,555**
Fund Balance – January 1	**1,496,133**	**1,496,133**	**1,496,133**	**-**
Fund Balance – December 31	**$ 1,496,133**	**$ 1,496,133**	**$ 1,519,688**	**$ 23,555**

Exhibit B-4

Watonwan County
Saint James, Minnesota

Budgetary Comparison Schedule
Solid Waste Special Revenue Fund
For the Year Ended December 31, 2025

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues				
Taxes	$ 16,710	$ 16,710	$ 16,472	$ (238)
Special assessments	175,000	175,000	183,959	8,959
Intergovernmental	73,840	73,840	88,341	14,501
Charges for services	15,000	15,000	14,391	(609)
Total Revenues	**$ 280,550**	**$ 280,550**	**$ 303,163**	**$ 22,613**
Expenditures				
Current				
Sanitation				
SCORE	**408,345**	**408,345**	**320,730**	**87,615**
Net Change in Fund Balance	**$ (127,795)**	**$ (127,795)**	**$ (17,567)**	**$ 110,228**
Fund Balance – January 1	**242,295**	**242,295**	**242,295**	**-**
Fund Balance – December 31	**$ 114,500**	**$ 114,500**	**$ 224,728**	**$ 110,228**

Exhibit B-5

Watonwan County
Saint James, Minnesota

Budgetary Comparison Schedule
Debt Service Fund
For the Year Ended December 31, 2025

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues				
Taxes	$ 140,000	$ 140,000	$ 138,261	$ (1,739)
Intergovernmental	-	-	1,981	1,981
Total Revenues	**$ 140,000**	**$ 140,000**	**$ 140,242**	**$ 242**
Expenditures				
Debt service				
Principal	$ 135,000	$ 135,000	$ 135,000	$ -
Interest	9,321	9,321	9,320	1
Administrative charges	2,740	2,740	4,490	(1,750)
Total Expenditures	**$ 147,061**	**$ 147,061**	**$ 148,810**	**$ (1,749)**
Net Change in Fund Balance	**$ (7,061)**	**$ (7,061)**	**$ (8,568)**	**$ (1,507)**
Fund Balance – January 1	**227,039**	**227,039**	**227,039**	**-**
Fund Balance – December 31	**$ 219,978**	**$ 219,978**	**$ 218,471**	**$ (1,507)**

Fiduciary Funds

Custodial Funds

Taxes and Penalties Custodial Fund – accounts for all taxes and penalties collected and the distribution of the taxes.

State Revenue Custodial Fund – accounts for collections for and disbursements to the State of Minnesota.

Soil and Water Conservation Custodial Fund – accounts for the funds received and expended for the activities of the Watonwan Soil and Water Conservation District.

Jail Canteen Custodial Fund – accounts for inmate deposits, inmate canteen purchases, and fees paid to various agencies.

Cemetery Custodial Fund – accounts for the investment of funds for Antrim Township Cemetery.

Vision for Family and Community Custodial Fund – accounts for the funds of the County/multi-school district families service collaborative.

Exhibit C-1

Watonwan County
Saint James, Minnesota

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

	Taxes and Penalties	State Revenue	Soil and Water Conservation	Jail Canteen	Cemetery	Vision for Family and Community	Total Custodial Funds
<u>Assets</u>							
Cash and pooled investments	$ 307,193	$ 436,718	$ 1,025,687	$ 2,339	$ 66,362	$ 224,105	$ 2,062,404
Due from other governments	-	-	105,024	-	-	34,870	139,894
Taxes receivable for other governments	346,564	-	-	-	-	-	346,564
Special assessments receivable for other governments	114,569	-	-	-	-	-	114,569
Accounts receivable	-	1,282	6,095	-	-	-	7,377
Accrued Interest receivable	-	-	-	-	1,021	-	1,021
Total Assets	**$ 768,326**	**$ 438,000**	**$ 1,136,806**	**$ 2,339**	**$ 67,383**	**$ 258,975**	**$ 2,671,829**
<u>Liabilities</u>							
Due to others	$ -	$ -	$ 4,082	$ -	$ -	$ 771	$ 4,853
Due to other governments	245,263	117,792	62,951	-	-	-	426,006
Total Liabilities	**$ 245,263**	**$ 117,792**	**$ 67,033**	**$ -**	**$ -**	**$ 771**	**$ 430,859**
<u>Net Position</u>							
Restricted for individuals, organizations, and other governments	**$ 523,063**	**$ 320,208**	**$ 1,069,773**	**$ 2,339**	**$ 67,383**	**$ 258,204**	**$ 2,240,970**

Exhibit C-2

Watonwan County
Saint James, Minnesota

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

	Taxes and Penalties	State Revenue	Soil and Water Conservation	Jail Canteen	Cemetery	Vision for Family and Community	Total Custodial Funds
Additions							
Contributions from individuals	$ -	$ 568,254	$ -	$ -	$ -	$ -	$ 568,254
Interest earnings	-	-	-	-	2,421	-	2,421
Property tax collections for other governments	10,356,073	-	-	-	-	-	10,356,073
Fees collected for the state	-	3,141,685	-	-	-	-	3,141,685
Payments from the state	-	-	575,563	-	-	90,935	666,498
Payments from other entities	-	-	256,010	20,302	5,157	44,124	325,593
Total Additions	**$ 10,356,073**	**$ 3,709,939**	**$ 831,573**	**$ 20,302**	**$ 7,578**	**$ 135,059**	**$ 15,060,524**
Deductions							
Payments of property taxes to other governments	$ 10,258,694	$ -	$ -	$ -	$ -	$ -	$ 10,258,694
Payments to the state	-	3,389,731	-	-	-	-	3,389,731
Payments to other entities	6,481	-	406,238	18,899	2,657	110,695	544,970
Total Deductions	**$ 10,265,175**	**$ 3,389,731**	**$ 406,238**	**$ 18,899**	**$ 2,657**	**$ 110,695**	**$ 14,193,395**
Change in Net Position	**$ 90,898**	**$ 320,208**	**$ 425,335**	**$ 1,403**	**$ 4,921**	**$ 24,364**	**$ 867,129**
Net Position – January 1	**432,165**	**-**	**644,438**	**936**	**62,462**	**233,840**	**1,373,841**
Net Position – December 31	**$ 523,063**	**$ 320,208**	**$ 1,069,773**	**$ 2,339**	**$ 67,383**	**$ 258,204**	**$ 2,240,970**

Other Schedules

Exhibit D-1

Watonwan County
Saint James, Minnesota

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

	Governmental Funds
Appropriations and Shared Revenue	
State	
Aquatic invasive species prevention aid	$ 31,782
County program aid	1,061,524
Disparity reduction aid	5,064
Enhanced 911	167,673
Highway users tax	5,432,769
Local homeless prevention aid	89,207
Market value credit	181,302
PERA aid	34,801
Police aid	124,727
Cannabis aid	5,454
Statewide affordable housing aid	37,099
SCORE	86,705
Total appropriations and shared revenue	**$ 7,258,107**
Reimbursement for Services	
State	
Minnesota Department of Human Services	**$ 959,695**
Payments	
Local	
Other contributions	**$ 22,000**
Grants	
State	
Minnesota Department/Board of	
Corrections	$ 44,184
Health	462,541
Human Services	636,707
Children, Youth, and Families	274,284
Natural Resources	33,688
Public Safety	136,597
Transportation	7,485,249
Veterans Affairs	7,500
Water and Soil Resources	57,540
Pollution Control Agency	84,305
Secretary of State	11,279
Total state	**$ 9,233,874**
Federal	
Department of	
Agriculture	$ 305,875
Transportation	104,641
Health and Human Services	1,400,574
Homeland Security	38,108
Total federal	**$ 1,849,198**
Total state and federal grants	**$ 11,083,072**
Total Intergovernmental Revenue	**$ 19,322,874**

Exhibit D-2

Watonwan County
Saint James, 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	$ 158,643
Passed Through Minnesota Department of Human Services			
SNAP Cluster			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	252MN101S2514	111,327
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	252MN127Q7503	931
(Total State Administrative Matching Grants for the Supplemental Nutrition Assistance Program 10.561 $147,232)			
Passed Through Minnesota Department of Children, Youth, and Families			
SNAP Cluster			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	252MN101S2514	34,974
(Total State Administrative Matching Grants for the Supplemental Nutrition Assistance Program 10.561 $147,232)			
Total U.S. Department of Agriculture			**$ 305,875**
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Formula Grants for Rural Areas and Tribal Transit Program	20.509	MN-2023-045	$ 80,244
Passed Through Blue Earth County, Minnesota			
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	Not Provided	7,133
Total U.S. Department of Transportation			**$ 87,377**
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Health			
Public Health Emergency Preparedness	93.069	NU90TU000040	$ 27,535
COVID-19 – Immunization Cooperative Agreements	93.268	NH23IP922628	13,361
Temporary Assistance for Needy Families	93.558	2501MNTANF	32,469
(Total Temporary Assistance for Needy Families 93.558 $146,459)			
Centers for Disease Control and Prevention Collaboration with Academia to Strengthen Public Health	93.967	NE11OE000048	11,125
Maternal and Child Health Services Block Grant to the States	93.994	B0452933	17,949

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Exhibit D-2
(Continued)

Watonwan County
Saint James, 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	2501MNPSGP	585
(Total Title IV-E Prevention Program 93.472 $3,334)			
MaryLee Allen Promoting Safe and Stable Families Program	93.556	2401MNFPSS	2,036
Temporary Assistance for Needy Families	93.558	2501MNTANF	113,990
(Total Temporary Assistance for Needy Families 93.558 $146,459)			
Child Support Services	93.563	2501MNSCSS	215,969
Child Support Services	93.563	2501MNICSS	48,827
(Total Child Support Services 93.563 $335,059)			
Refugee and Entrant Assistance State/Replacement Designee Administered Programs	93.566	2501MNRCMA	661
CCDF Cluster			
Child Care and Development Block Grant	93.575	2501MNCCDF	3,108
Community-Based Child Abuse Prevention Grants	93.590	2402MNBCAP	2,460
Stephanie Tubbs Jones Child Welfare Services Program	93.645	2401MNCWSS	3,047
Foster Care Title IV-E	93.658	2501MNFOST	35,398
(Total Foster Care Title IV-E 93.658 $105,631)			
Social Services Block Grant	93.667	2501MNSOSR	80,000
(Total Social Services Block Grant 93.667 $96,003)			
John H. Chafee Foster Care Program for Successful Transition to Adulthood	93.674	2401MNCILP	4,690
Children's Health Insurance Program	93.767	2405MN5021	84
Medicaid Cluster			
Grants to States for Medicaid	93.778	2505MN5ADM	704,195
Grants to States for Medicaid	93.778	2505MN5MAP	4,798
(Total Grants to States for Medicaid 93.778 $708,993)			
Passed Through Minnesota Department of Children, Youth, and Families			
Title IV-E Prevention Program	93.472	2501MNPSGP	2,749
(Total Title IV-E Prevention Program 93.472 $3,334)			
Child Support Services	93.563	2501MNSCSS	55,877
Child Support Services	93.563	2501MNICSS	14,386
(Total Child Support Services 93.563 $335,059)			
Foster Care Title IV-E	93.658	2501MNFOST	70,233
(Total Foster Care Title IV-E 93.658 $105,631)			
Social Services Block Grant	93.667	2501MNSOSR	16,003
(Total Social Services Block Grant 93.667 $96,003)			
Total U.S. Department of Health and Human Services			**$ 1,481,535**
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Public Safety			
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	Not Provided	$ 21,428
Emergency Management Performance Grants	97.042	F-EMPG-2023-WATONWCO-0359	16,680
Total U.S. Department of Homeland Security			**$ 38,108**
Total Federal Awards			**$ 1,912,895**

The County did not pass any federal awards through to subrecipients during the year ended December 31, 2025.

Totals by Cluster

Total expenditures for SNAP Cluster	$ 147,232
Total expenditures for CCDF Cluster	3,108
Total expenditures for Medicaid Cluster	708,993

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 Watonwan County. The County's 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 Watonwan County 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 Watonwan County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Watonwan County.

Expenditures reported on the schedule are reported on the modified accrual basis of accounting with recognition criteria following the 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

Watonwan County has elected to not use the de minimis indirect cost rate allowed under the Uniform Guidance.

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	$ 1,849,198
Grants received more than 60 days after year-end, considered unavailable revenue in 2025	
Formula Grants for Rural Areas and Tribal Transit Program (Assistance Listing Number 20.509)	19,742
Title IV-E Prevention Program (Assistance Listing Number 93.472)	353
MaryLee Allen Promoting Safe and Stable Families Program (Assistance Listing Number 93.556)	457
Temporary Assistance for Needy Families (Assistance Listing Number 93.558)	25,748
Child Support Services (Assistance Listing Number 93.563)	16,277
Community-Based Child Abuse Prevention Grants (Assistance Listing Number 93.590)	550
Stephanie Tubbs Jones Child Welfare Services Program (Assistance Listing Number 93.645)	814
Foster Care Title IV-E (Assistance Listing Number 93.658)	6,526
Grants to States for Medicaid (Assistance Listing Number 93.778)	33,106
Unavailable revenue in 2024, recognized as revenue in 2025	
Formula Grants for Rural Areas and Tribal Transit Program (Assistance Listing Number 20.509)	(37,006)
MaryLee Allen Promoting Safe and Stable Families Program (Assistance Listing Number 93.556)	(584)
Refugee and Entrant Assistance State/Replacement Designee Administered Programs (Assistance Listing Number 93.566)	(248)
Foster Care Title IV-E (Assistance Listing Number 93.658)	(998)
Child Abuse and Neglect State Grants (Assistance Listing Number 93.669)	(1,040)
Expenditures per Schedule of Expenditures of Federal Awards	$ 1,912,895

Management and Compliance Section

STATE OF MINNESOTA

Julie Blaha
State Auditor

Office of the State Auditor

Suite 500
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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*

Board of County Commissioners
Watonwan County
Saint James, 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 Watonwan County, Minnesota, as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 14, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Watonwan County's 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 County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's 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 Watonwan County's 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

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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, we noted that Watonwan County failed to comply with the provisions of the contracting – bid laws section of the *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters, as described in the Schedule of Findings and Questioned Costs as item 2025-002. Also, in connection with our audit, nothing came to our attention that caused us to believe that Watonwan County failed to comply with the provisions of the depositories of public funds and public investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Counties*, 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 County's noncompliance with the above-referenced provisions, insofar as they relate to accounting matters.

Other Items

Included in the Schedule of Findings and Questioned Costs is a management practice comment. We believe this recommendation and information to be of benefit to the County, and it is reported for that purpose.

Watonwan County's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Watonwan County's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs and Corrective Action Plan. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 Counties* and the results of that testing, and not to provide an opinion on the effectiveness of the County's 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 County's 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

September 14, 2026

STATE OF MINNESOTA

Julie Blaha
State Auditor

Office of the State Auditor

Suite 500
525 Park Street
Saint Paul, MN 55103

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

Board of County Commissioners
Watonwan County
Saint James, Minnesota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Watonwan County's 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 Watonwan County's major federal programs for the year ended December 31, 2025. Watonwan County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, Watonwan County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2025.

Basis for Opinion on Each Major Federal Program

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 Watonwan County 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Watonwan County's compliance with the compliance requirements referred to above.

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 Watonwan County's federal programs.

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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 Watonwan County's 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 Watonwan County's 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 County's 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 County's 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 County's 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 an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance, and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2025-001. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on Watonwan County's response to the noncompliance finding identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. Watonwan County's 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a significant deficiency.

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. 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 deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2025-001 to be a significant deficiency.

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 Watonwan County's response to the internal control over compliance finding identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. Watonwan County's 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

/s/Lisa Young

Lisa Young, CPA
Deputy State Auditor

September 14, 2026

Watonwan County
Saint James, 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? **No**
- Significant deficiencies identified? **Yes**

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

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
93.563	Child Support Services
93.778	Medicaid Cluster

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

Watonwan County qualified as a low-risk auditee? **No**

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

2025-001 **Reporting**
Prior Year Finding Number: 2024-004
Year of Finding Origination: 2024
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.

Administrative program costs are submitted to the Minnesota Department of Human Services (DHS) on a quarterly basis through the Local Collaborative Time Study Cost Schedule Report (DHS-3220) for the Grants to States for Medicaid program. DHS provides reporting instructions, including information regarding eligible and ineligible costs.

Condition: Allocated expenses in the sampled second and fourth quarter DHS-3220 reports were overstated by $28,734.

Questioned Costs: $28,734; known questioned costs were determined based on the exceptions noted in the DHS-3220 reports tested.

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

Total Grants to States for Medicaid expenditures reported on the Schedule of Expenditures of Federal Awards (SEFA) are $708,993. The reporting population consisted of four quarterly DHS-3220 reports. The sample was two quarterly DHS-3220 reports. The sample sizes were based on the 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 County receiving either more or less federal funds than justified based on the actual underlying activity.

Cause: The County’s controls over the preparation and review of quarterly reports were not sufficient to identify these errors.

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

View of Responsible Official: Acknowledge

Section IV – Other Findings and Recommendations

2025-002 **Contracting and Bidding – Withholding Affidavit for Contractors (IC-134)**
Prior Year Finding Number: 2024-005
Year of Finding Origination: 2024
Type of Finding: Minnesota Legal Compliance

Criteria: Minnesota Statutes, Section 270C.66, states that, before making final settlement with any contractor under a contract requiring the employment of employees for wages by the contractor and by subcontractors, the County is required to obtain proof of compliance with the withholding requirements of Minn. Stat. § 290.92. This requirement can be satisfied through the receipt of Form IC-134 from the Commissioner of Revenue certifying compliance.

Condition: For one of the five finalized contracts tested that included the employment of individuals for wages by the contractor, the County issued final payment prior to receiving a Minnesota Department of Revenue approved Form IC-134, which certifies the reporting of employee withholdings.

Context: Individual County departments are responsible for overseeing the contracting and bidding process for their own projects and for obtaining the required certificate prior to submitting the final payment for processing.

Effect: The County is not in compliance with Minn. Stat. § 270C.66.

Cause: The County indicated they have implemented procedures to obtain Form IC-134, but this project was overlooked.

Recommendation: We recommend the County obtain the required Form IC-134 withholding affidavit before final payment is made to contractors and subcontractors on all construction contracts requiring the employment of employees for wages.

View of Responsible Official: Acknowledge

2025-003 **Deficit Fund Balance – Ditch Special Revenue Fund**
Prior Year Finding Number: N/A
Year of Finding Origination: 2025
Type of Finding: Management Practice

Criteria: Each County fund should be maintained with a positive fund balance to ensure financial obligations can be met.

Condition: As of December 31, 2025, the Ditch Special Revenue Fund had a deficit fund balance of $1,707,505.

Context: As of December 31, 2025, 16 of the 40 ditch systems had deficit fund balances totaling $3,064,843. Ditch systems with deficit balances have been advanced cash from the General Fund to finance system costs. These advances will be paid back with interest at the established annual special assessment interest rate. As of December 31, 2025, advances from the General Fund totaled $2,666,414.

Effect: Ditch systems with deficit fund balances indicate that measures may need to be taken to ensure that the ditch systems can meet financial obligations. In carrying deficit balances, the financial burden of maintaining ditch systems is temporarily placed on the General Fund and the county as a whole. Assets that would otherwise be available for use in the General Fund are made unavailable until advances can be returned.

Cause: The County indicated its general practice is to approve ditch assessments after costs are incurred and projects are completed, noting that negative fund balances can occur until the related assessments are levied and collected.

Recommendation: We recommend the County continue to monitor the balances of the ditch systems and eliminate deficit fund balances by approving necessary special assessments as soon as practical for each system.

View of Responsible Official: Acknowledge

Watonwan County Auditor/Treasurer/Coordinator

Kelly Pauling

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Representation of Watonwan County
Saint James, Minnesota

Corrective Action Plan

For the Year Ended December 31, 2025

Finding Number: 2025-001
Finding Title: Reporting
Program: 93.778 Grants to States for Medicaid

Name of Contact Person Responsible for Corrective Action:
Erin Sandbo – Support Services and Accounting Supervisor (Human Services)

Corrective Action Planned:
The cause of the errors resulted from two issues within the County's cost allocation and the County's Local Collaborative Time Study breakout process.

First, the Public Health cost allocation was inadvertently entered using a "dup" (duplicate) key on the keyboard that was also being used for the Income Maintenance cost allocation. As a result, the same account code was used for two separate program allocations. This caused the allocation calculation to be carried forward incorrectly and resulted in Q1-2025 amount not being appropriately included in each subsequent quarterly calculation. The error ultimately affected the accuracy of the annual allocation reporting.

Second, an adjustment was made to the County's "LCTS Breakout" spreadsheet that is used quarterly to calculate the line entries on the LCTS Cost Schedule. Following this spreadsheet adjustment, only a portion of the salary and fringe associated with the CHS Supervisor was deducted from the allocation amount. The entire salary and fringe amount should have been deducted. This resulted in an additional error in the allocation calculation and contributed to the overstatement of reported expenses.

The County reviewed the affected DHS-3220 reports and corrected and resubmitted them to DHS on September 1, 2026.

In addition, the County has reviewed the allocation process and will ensure that:

- The appropriate account number/code is used for each program allocation.
- Allocation calculations are accurate and consistent from quarter to quarter.
- Compare the IFS User Selected Budget Report to the IFS Account Activity Report to verify that the allocation amounts are accurate and recorded in the appropriate program area.

Equal Opportunity Employer

The County has revised and strengthened the "LCTS Breakout" spreadsheet developed by the Fiscal Officer. The revised spreadsheet is designed to provide greater assurance that salary and fringe amounts are accurately reflected and appropriately deducted.

The Supervisor will continue to review and sign off on quarterly reports to provide a secondary level of verification to ensure that costs are allowed, properly allocated, and accurately reported.

Anticipated Completion Date:
The County has corrected and resubmitted the 2025 DHS-3220 reports to DHS as of September 1, 2026.

Finding Number: 2025-002
Finding Title: Contracting and Bidding – Withholding Affidavit for Contractors (IC-134)

Name of Contact Person Responsible for Corrective Action:
Kelly Pauling

Corrective Action Planned:
The County will obtain the required Form IC-134 withholding affidavits before final payment is made to contractors and subcontractors requiring the employment of employees for wages.

Anticipated Completion Date:
12/31/2026

Finding Number: 2025-003
Finding Title: Deficit Fund Balance – Ditch Special Revenue Fund

Name of Contact Person Responsible for Corrective Action:
Kelly Pauling

Corrective Action Planned:
The County will continue to monitor the balance of the Ditch Special Revenue Fund and approve special assessments as soon as practical for each ditch system.

Anticipated Completion Date:
10/01/2026

Watonwan County Auditor/Treasurer/Coordinator
Kelly Pauling

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Representation of Watonwan County
Saint James, Minnesota

Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2025

Finding Number: 2024-001
Year of Finding Origination: 2023
Finding Title: Material Audit Adjustment

Summary of Condition: A material audit adjustment was identified that resulted in a significant change to the County's financial statements.

Summary of Corrective Action Previously Reported: Management will review account structure, so revenues are recorded correctly. Management will also continue to train additional staff to review the ditch fund to ensure financial statements are fairly presented.

Status: Fully Corrected. Corrective action was taken.

Finding Number: 2024-002
Year of Finding Origination: 2024
Finding Title: Eligibility - METS
Program: 93.778 Grants to States for Medicaid

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

- One participant's Social Security number was entered incorrectly and not verified, and citizenship status was not verified.
- One participant's application was processed 199 days after receipt.

Summary of Corrective Action Previously Reported: Timeliness: This error occurred from a worker that is no longer in our agency. It was discovered after the worker left that the application was filed away without processing. This is not our policy, and we will be discussing the importance of program timelines in our unit meetings.

Verification of Citizenship status (error with SSN entry): This case was received from a previous county. The SSN was entered incorrectly which did not produce citizenship verification in the system. It was noted that there was a birth certificate on file, but METS case files do not get transferred between counties, so we did not have the birth certificate. The SSN was corrected which was able to ping the verification of the citizenship. Going forward, for the next 3 months we will be looking at each case that is transferred into our county to make sure the citizenship has been verified and if not, request the birth certificate or other verification. After the initial 3 months, we plan to do random case checks.

Status: Fully Corrected. Corrective action was taken.

Finding Number: 2024-003
Year of Finding Origination: 2024
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 Watonwan County to support the eligibility determination process. In the case files tested for eligibility, not all documentation to support participant eligibility was updated or input correctly. In a sample of 40 case files tested, two participants' citizenship was not verified and one participants' assets were not verified.

Summary of Corrective Action Previously Reported: Verification of Citizenship/assets: We will have discussions at our next unit meeting about making sure all health care cases have their citizenship verified. We will also have training on the policy regarding verifying vehicles if there is more than one in the household.

Status: Fully Corrected. Corrective action was taken.

Finding Number: 2024-004
Year of Finding Origination: 2024
Finding Title: Reporting
Program: 93.778 Grants to States for Medicaid

Summary of Condition: The following exceptions were noted in the tested program reports:

- Sampled DHS-3220.3 reports understated the federal funds cost pool by including state grant funds in the reported federal revenue offsets. In total, the two sampled reports understated the federal funds cost pool by $17,494.

- The 2024 Annual Collaborative Report was submitted on July 2, 2025, which is after the due date of April 30, 2025.

Summary of Corrective Action Previously Reported: Regarding the DHS-3220.3 Local Collaborative Time Study (LCTS) Cost Schedule, it was discovered that the Sexual Reproductive Health Services Grant Award was not accurately reported on the LCTS Cost Schedule due to the misguidance from MN Department of Health (MDH) and the interpretation of Watonwan County. After clarification form MDH, all SRHS funds will be reported as state funds only and should not be reflected on the LCTS reporting. Fiscal office will amend the last 4 quarters of the LCTS reporting to reflect that change. Moving forward, we will retain documentation from MDH showing SRHS funds are state only funds, regardless of what our grant agreement shows, and ensure that this funding source is not reported on the LCTS reporting in the future. Fiscal Officer will continue to complete the quarterly LCTS reporting, while the Accounting & Support Services Supervisor will review and sign off on it.

Regarding the late submission of the 2024 Annual Collaborative Report. This report is emailed and completed by the LCTS Coordinator. Watonwan County's LCTS Coordinator is our Social Services Supervisor. To ensure on time submission of the Annual Collaborative Report, that is due on April 30 each year, a reminder will be added to both the Social Services Supervisor and the Accounting & Support Services Supervisor's Outlook calendars for a reminder beginning April 1st giving time to complete and submit the report prior to April 30th.

Status: Partially Corrected. The DHS-3220.3 Local Collaborative Time Study (LCTS) Cost Schedule applicable 2024 reports were amended and resubmitted on September 5, 2025. Additionally, the 2025 and 2026 reports do not include Sexual Reproductive Health Services (SRHS) funding as a federal revenue offset; therefore, SRHS funding is not included on the LCTS Cost Schedules for reporting periods after the 2024 corrections were made. Based on these corrective actions, we feel the finding has been fully addressed.

The issue related to the late submission of the 2024 Annual Collaborative Report. The 2025 Annual Collaborative Report was submitted timely by the LCTS Coordinator on May 27, 2026, prior to the May 31, 2026, submission deadline. This demonstrates that the County has implemented corrective action to ensure future Annual Collaborative Reports are submitted by the required deadline.

The County added additional review of the allocation process to ensure accurate allocation calculations and account entries in addition to the Supervisor continuing to review and sign off on quarterly reports to provide a secondary level of verification to ensure that costs are allowed, properly allocated, and accurately reported.

Finding Number: 2024-005
Year of Finding Origination: 2024
Finding Title: Contracting and Bidding – Withholding Affidavit for Contractors (IC-134)

Summary of Condition: Testing of compliance with State of Minnesota contracting and bid laws identified two instances where final settlement was made on a contract requiring the employment of individuals for wages prior to receiving a Minnesota Department of Revenue approved Form IC-134, which certifies the reporting of employee withholdings from the contractor.

Summary of Corrective Action Previously Reported: County will obtain Form IC-134 when required prior to submitting final payment for processing.

Status: Not Corrected. The County made an error and didn't collect the required Form IC-134. The County will obtain the required Form IC-134 withholding affidavits before final payment is made to contractors and subcontractors requiring the employment of employees for wages.