

KANARANZI-LITTLE ROCK
WATERSHED DISTRICT

ADRIAN, MINNESOTA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2025

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INTRODUCTORY SECTION

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
ORGANIZATIONAL INFORMATION
DECEMBER 31, 2025

WATERSHED DISTRICT
BOARD MEMBERS

MEMBER	POSITION	TERM EXPIRES
William Jansma	Chairman	10-07-28
Adam Henning	1st Vice Chairman	10-07-28
Jason Kellen	2nd Vice Chairman	10-07-26
Jerry Brake	Treasurer	10-07-26
Layton Gruis	Secretary	10-07-27

CONTRACTED EMPLOYEES

Scott Runck	Executive Secretary	Appointed
Tiffini Etsinger	Executive Secretary	Appointed

JOINT POWERS
BOARD MEMBERS

Lynn Darling	Chairman	Appointed
Jerry Brake	Director	Appointed
Gene Metz	Director	Appointed
Don Reker	Director	Appointed

FINANCIAL SECTION

KATIE M. JACOBSON, CPA

Katie M. Jacobson, CPA
Kimberly Eisfeld - Snr. Mgr.
Brandon Winter, CPA - Staff Acct.
Christine Thompson - Staff Acct.
Melanie Steinle - Staff Acct.

Licensed CPA Firm

2330 26th Street
Slayton, MN 56172

Telephone: (507) 836-8564
Fax: (507) 836-8566

INDEPENDENT AUDITOR'S REPORT

To the District Board
Kanmaranzi-Little Rock Watershed District
Adrian, Minnesota

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of the Kanaranzi-Little Rock Watershed District, as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the Kanaranzi-Little Rock Watershed District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Kanaranzi-Little Rock Watershed District 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. 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 Kanaranzi-Little Rock Watershed District 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 these 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 Kanaranzi-Little Rock Watershed District'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 opinion. 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 generally accepted 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 generally accepted 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 amount 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 Kanaranzi-Little Rock Watershed District'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.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Kanaranzi-Little Rock Watershed District'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 on pages 4 through 11 and the budgetary comparison information and the related notes to the required supplementary information on pages 22 through 23 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 inquires 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 the Kanaranzi-Little Rock Watershed District's basic financial statements. The supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the 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 statement 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 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 report. The other information comprises of the introductory section but does not include the basic financial statements and our auditor's report thereon. Our opinions of 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.

June 12, 2026

Katie M. Jacobson, CPA

Katie M. Jacobson, CPA
Slayton, MN

**KANARANZI-LITTLE ROCK WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDING DECEMBER 31, 2025**

(Unaudited)

This section of Kanaranzi-Little Rock Watershed District's annual financial report represents our discussion and analysis of the District's performance during the year ended December 31, 2025. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The District's assets exceeded its liabilities by \$424,878 (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$341,193.

The District's total combined net position increased by \$83,685 or 24.53% between 2024 and 2025.

Total net position is comprised of the following:

- (1) Unrestricted net position of \$424,878 represents the portion available to maintain the District's continuing obligations to citizens and creditors.

As of the close of the current year, the District's governmental funds reported combined ending fund balances of \$424,878.

Overall revenues for 2025 were \$203,862, while overall expenses totaled \$120,177. Overall revenues for 2024 were \$204,403, while overall expenses totaled \$129,913. The decrease in expenses was due to lower project costs for District projects during 2025.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's financial statements comprise four components: 1) Independent Auditor's Report, 2) required supplementary information, which includes the management's discussion and analysis (this section), 3) the basic financial statements, and 4) supplementary information.

The basic financial statements include two kinds of statements that present different views of the District:

The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.

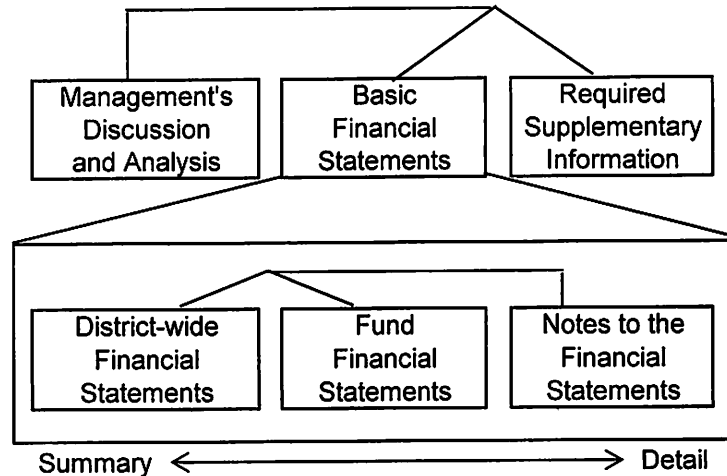
The remaining statements are fund financial statements that focus on individual parts of the government, reporting the District's operations in more detail than the government-wide statements. The governmental fund statements tell how general government services were financed in the short term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

**KANARANZI-LITTLE ROCK WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDING DECEMBER 31, 2025**

(Unaudited)

The diagram below shows how the various parts of this annual report are arranged and related to one another.



The major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain, are summarized below. The remainder of the overview section of the MD&A highlights the structure and content of each of the statements.

Type of Statement	Government-wide	Fund Financial Statements
		Governmental Funds
Scope	Entire Agency's government (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary
Required Financial Statements	Statement of Net Position Statement of Activities	Balance Sheet Statement of Revenues, Expenditures and Changes in Fund Balance
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus
Types of Assets/Liability Information	All assets and liabilities both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Types of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable

**KANARANZI-LITTLE ROCK WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDING DECEMBER 31, 2025**

(Unaudited)

GOVERNMENT-WIDE STATEMENTS

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how it has changed. Net position- the difference between the District's assets and liabilities- is one way to measure the District's financial health or position.

Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's tax base.

Both government-wide financial statements distinctively report governmental activities of the District that are principally supported by taxes and intergovernmental revenues, such as grants. Governmental activities include general government administration and programs which includes conservation project costs.

The District's financial reporting entity includes the funds of the District (primary government) and organizations for which the District is accountable (component units). These legally separate organizations operate like District departments, serve as financing vehicles for District services, or are governed by a board which includes District board members. These organizations are blended into the primary government for financial reporting purposes. The District Joint Powers Board has been included in the District's financial statement as a blended component unit.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's most significant funds- not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

Some funds are required by State law or by bond covenants.

The Board may establish other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and state and federal grants.

The District has only one kind of fund:

Governmental funds - All of the District's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information following the governmental funds statements that explain the relationship (or differences) between them.

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDING DECEMBER 31, 2025

(Unaudited)

Notes to the financial statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The footnotes to the financial statements are found on pages 18 - 21.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position was \$424,878 on December 31, 2025 (see detail in Table A-1). This is up from \$341,193 at December 31, 2024.

Table A-1
Summary of Net Position

	2025	2024	Change
Current and Other Assets	\$ 456,281	\$ 341,193	33.73%
Total Assets	\$ 456,281	\$ 341,193	33.73%
Current Liabilities	\$ 31,403		100.00%
Total Liabilities	\$ 31,403	\$ -	100.00%
Net Position			
Unrestricted	\$ 424,878	\$ 341,193	24.53%
Total Net Position	\$ 424,878	\$ 341,193	24.53%

For 2025, the balance of the District's net position, \$424,878, is reported as unrestricted and therefore is available to fund future operations.

For 2024, the balance of the District's net position, \$341,193, is reported as unrestricted and therefore is available to fund future operations.

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDING DECEMBER 31, 2025

(Unaudited)

Changes in net assets. The District's total governmental activities revenues were \$203,862 for the year ended December 31, 2025. Property taxes and unrestricted state aid accounted for 98 percent of the total revenue for the year (See Figure A-3). The remaining 2 percent came from investment earnings.

The total cost of governmental activities programs and services was \$120,177 for 2025.

Table A-2
Changes in Net Position

	Governmental Activities	Total 2025	Total 2024	Percentage Change
Revenues				
General Revenues:				
Property Taxes	\$ 195,426	\$ 195,426	\$ 193,305	1.10%
Unrestricted State Aid	4,270	4,270	4,664	-8.45%
Interest	4,166	4,166	6,434	-35.25%
Total Revenues	<u>\$ 203,862</u>	<u>\$ 203,862</u>	<u>\$ 204,403</u>	-0.26%
Expenses				
General Government Administration	\$ 85,448	\$ 85,448	\$ 83,047	2.89%
Program Expense:				
District	34,729	34,729	46,866	-25.90%
Total Expenses	<u>\$ 120,177</u>	<u>\$ 120,177</u>	<u>\$ 129,913</u>	-7.49%
Change in Net Position	\$ 83,685	\$ 83,685	\$ 74,490	12.34%
Beginning Net Position	341,193	341,193	266,703	27.93%
Ending Net Position	<u>\$ 424,878</u>	<u>\$ 424,878</u>	<u>\$ 341,193</u>	24.53%

The District's total revenues for 2025 consisted of property taxes of \$195,426, unrestricted aids and payments from the State of Minnesota of \$4,270, and interest revenue of \$4,166.

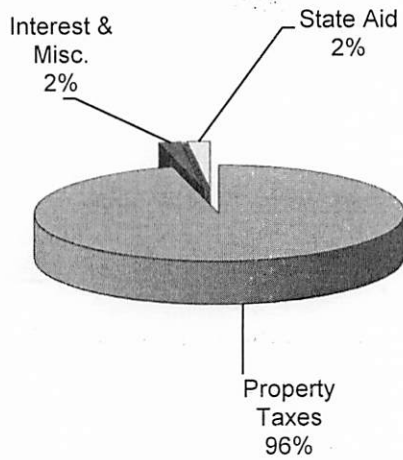
Expenses for 2025 totaling \$120,177 consisted of general government administration expense of \$85,448 and program expenses of \$34,729. Program expense included conservation cost share project expense of \$34,729 which was funded by the District.

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDING DECEMBER 31, 2025

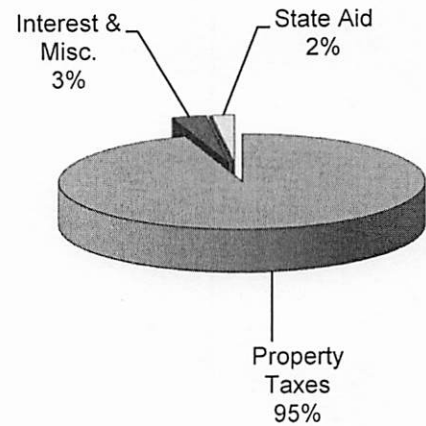
(Unaudited)

Pie charts for revenue and expense categories are presented in Tables A-3 and A-4.

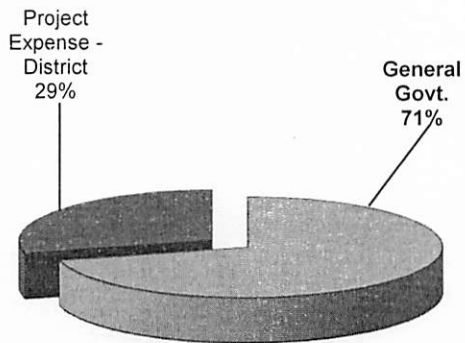
2025 Gov. Activities Revenues - Table A-3



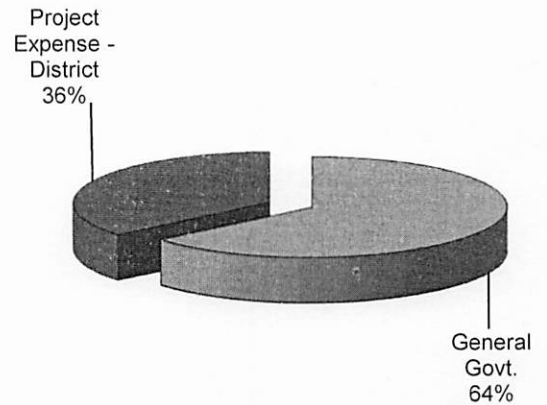
2024 Gov. Activities Revenues - Table A-3



2025 Gov. Activities Expenses - Table A-4



2024 Gov. Activities Expenses - Table A-4



**KANARANZI-LITTLE ROCK WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDING DECEMBER 31, 2025**

(Unaudited)

The net cost of governmental activities is their total cost less program revenue applicable to each category. Table A-5 presents these net costs.

Table A-5
Net Cost of Services

	Total Cost of Services	Program Income	Net Cost of Services
General Government	\$ 85,448		\$ 85,448
Project Expense: District	34,729		34,729
Total	<u>\$ 120,177</u>	<u>\$ -</u>	<u>\$ 120,177</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

Governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements.

Fund Balance

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$424,878. This was up from \$341,193 at the end of the prior year, an increase of \$83,685. The increase occurred primarily because of an increase in property tax revenues and less project expense.

Revenues and Expenditures

Revenues of the governmental funds totaled \$203,862, while total expenditures were \$120,177. A summary of the revenues and expenditures reported on the governmental fund financial statements appears in Table A-6 below:

Table A-6
Revenues and Expenditures - Governmental Funds

	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balance Increase (Decrease)
General Fund	\$ 203,862	\$ 120,177		\$ 83,685
Joint Powers Board				-
Totals	<u>\$ 203,862</u>	<u>\$ 120,177</u>	<u>\$ -</u>	<u>\$ 83,685</u>

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDING DECEMBER 31, 2025

(Unaudited)

Budgetary Highlights

The District adopted a formal budget for the General Fund for 2025, however no budget was adopted for the Joint Powers. Budgets are prepared on the modified accrual basis of accounting which is consistent with how the governmental fund statements are presented. Actual revenues exceeded budgeted revenues by \$4,767 primarily due to interest revenue in the amount of \$4,166 that was not budgeted for.

The actual expenditures were under the budget by \$78,918. Most of this favorable variance was due to a lower than projected cost share project expenditures in the amount of \$68,516 and budgeted expenditures for legal fees of \$5,000 that were not spent.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District is highly dependent on federal and state grants and property tax levies to support its governmental activities. Property tax reforms, state budget deficits, and federal funding availability may have an impact on future project programs and may shift the local tax burden.

CONTACTING DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's taxpayers, customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or would like additional information, contact Tiffini Etsinger, Executive Secretary, at the District offices at 1567 McMillan Street, Suite 3, Worthington, MN 56187.

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2025

	GOVERNMENTAL ACTIVITIES	TOTAL
ASSETS		
Cash in Checking and Savings	\$ 324,778	\$ 324,778
Certificate of Deposit	105,883	105,883
Interest Receivable	1,183	1,183
Property Taxes Receivable	5,822	5,822
Less: Allowance for Delinquent Taxes	(1,020)	(1,020)
Due from Other Governmental Units	2,135	2,135
Prepaid Expense	17,500	17,500
TOTAL ASSETS	<u>\$ 456,281</u>	<u>\$ 456,281</u>
LIABILITIES AND NET POSITION		
LIABILITIES		
Total Liabilities	<u>\$ 31,403</u>	<u>\$ 31,403</u>
NET POSITION		
Unrestricted	<u>\$ 424,878</u>	<u>\$ 424,878</u>
Total Net Position	<u>\$ 424,878</u>	<u>\$ 424,878</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 456,281</u>	<u>\$ 456,281</u>

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2025

	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
FUNCTIONS/PROGRAMS					
Governmental Activities:					
Administration	\$ 85,448				\$ (85,448)
Project Expense:					
District	<u>34,729</u>				<u>(34,729)</u>
Total Governmental Activities	<u>\$ 120,177</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (120,177)</u>
Total Government	<u>\$ 120,177</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (120,177)</u>
General Revenues:					
Property Taxes					\$ 195,426
Unrestricted State Aid					4,270
Interest Revenue					<u>4,166</u>
Total General Revenues					<u>\$ 203,862</u>
Change in Net Position					\$ 83,685
Net Position - Beginning					<u>341,193</u>
Net Position - Ending					<u><u>\$ 424,878</u></u>

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2025

	GENERAL FUND	SPECIAL REVENUE JOINT POWERS	TOTAL
ASSETS			
Cash in Checking and Savings	\$ 324,613	\$ 165	\$ 324,778
Certificate of Deposit	105,883		105,883
Accrued Interest Receivable	1,183		1,183
Taxes Receivable			
Current	4,802		4,802
Delinquent	1,020		1,020
Less: Allowance for Delinquent Taxes	(1,020)		(1,020)
Due from Other Governmental Units	2,135		2,135
Prepaid Expense	17,500		17,500
TOTAL ASSETS	<u>\$ 456,116</u>	<u>\$ 165</u>	<u>\$ 456,281</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts Payable	\$ 31,403		\$ 31,403
Total Liabilities	<u>\$ 31,403</u>	<u>\$ -</u>	<u>\$ 31,403</u>
FUND BALANCE			
Nonspendable	\$ 17,500		\$ 17,500
Unassigned	407,213	\$ 165	407,378
Total Fund Balance	<u>\$ 424,713</u>	<u>\$ 165</u>	<u>\$ 424,878</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 456,116</u>	<u>\$ 165</u>	<u>\$ 456,281</u>

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2025

Total Fund Balances for Governmental Funds	\$ 424,878
There are no timing differences between the Fund Balance and Net Position for December 31, 2025	
Total Net Position of Governmental Activities	<u><u>\$ 424,878</u></u>

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025

	GENERAL FUND	SPECIAL REVENUE JOINT POWERS	TOTAL
REVENUES			
General Property Taxes	\$ 195,426		\$ 195,426
Intergovernmental Aid - State	4,270		4,270
Interest Revenue	4,166		4,166
TOTAL REVENUES	<u>\$ 203,862</u>	<u>\$ -</u>	<u>\$ 203,862</u>
EXPENDITURES			
Current			
Administration	\$ 85,448		\$ 85,448
Project Expense			
District	34,729		34,729
TOTAL EXPENDITURES	<u>\$ 120,177</u>	<u>\$ -</u>	<u>\$ 120,177</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 83,685	\$ -	\$ 83,685
FUND BALANCE - January 1	<u>341,028</u>	<u>165</u>	<u>341,193</u>
FUND BALANCE - December 31	<u><u>\$ 424,713</u></u>	<u><u>\$ 165</u></u>	<u><u>\$ 424,878</u></u>

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2025

Net Change in Fund Balance - Total Governmental Funds	\$ 424,878
There are no timing differences between the Net Change in Fund Balance and Change in Net Position for December 31, 2025	
Change in Net Position of Governmental Activities	<u><u>\$ 424,878</u></u>

KANARANZI-LITTLE ROCK WATERSHED DISTRICT NOTES TO FINANCIAL STATEMENTS

1. INTRODUCTION

The Board of Supervisors composed of five members governs the Kanaranzi-Little Rock Watershed District. The District was established to conserve the land and water resources of the Kanaranzi-Little Rock Watershed. The Kanaranzi-Little Rock Watershed District, in cooperation with the United States Department of Agriculture's Soil Conservation Service and other agencies, provides technical and financial assistance to individuals, groups, organizations, and governments in applying conservation practices. These practices are intended to reduce costly waste of natural resources resulting from soil erosion, sedimentation, pollution and improper land use.

Each year the District develops a work plan that is used as a guide in using resources effectively to provide maximum conservation of all lands within its boundaries. The work plan includes guidelines for employees and technicians to follow in order to achieve the District's objectives.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Kanaranzi-Little Rock Watershed District, conform to generally accepted accounting principles as applicable to governmental units. This financial report has been prepared in conformity with GASB Statement No. 34, as amended.

Reporting Entity

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of the potential component unit addressed in defining the government's reporting entity.

Included in the Reporting Entity as a Blended Component Unit:

Joint Powers Board

The District with Nobles and Rock Counties formed a joint powers board which administers and applies for federal assistance to local individuals, businesses, and organizations for conservation practices. The Kanaranzi-Little Rock Watershed District has funded the Joint Powers Board with levied funds to cover technical and administrative costs which are contracted from Nobles County Soil Conservation Services and Southwest Conservation District. The Joint Powers Board does not issue separate financial statements.

Basic Financial Statements

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District has no business-type activities.

Government-wide financial statements report information about the reporting government as a whole. For the most part, the effect of interfund activity has been removed from these statements. These statements focus on the sustainability of the District as an entity and the change in aggregate financial position resulting from activities for the year. These aggregated statements consist of the Statement of Net Position and the Statement of Activities. The statement of activities demonstrates the degree to which the direct expenses of a given function or business-type activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or business-type activity. Program revenues include 1) charges to customers who purchase, use or directly benefit from goods, services, or privileges provided by a given function or business-type activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or business type activity. Taxes and other items not included among program revenues are reported instead as general revenues.

Fund financial statements report information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified as governmental, proprietary and fiduciary. Currently, the District has only governmental type funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Due to the limited number of funds that the District maintains, all funds are considered to be major funds.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation Cont.

basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues when levied. Grants and similar items are recognized 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. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and claims, are recorded only when payment is due.

The District reports deferred inflows on its governmental fund combined balance sheet. Deferred inflows arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred inflows also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incidence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred inflows is removed from the combined balance sheet and revenue is recognized.

Major revenues that are susceptible to accrual include property taxes, intergovernmental revenues, charges for services and interest on investments.

The District reports the following funds all of which are considered major funds:

Governmental Fund Types

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of certain specific revenue sources that are legally restricted to expenditures for specified purposes.

Joint Powers Board Fund - The Joint Powers Board Fund has been established to account for all assets, revenues and expenditures related to the District's joint powers activity with Nobles and Rock Counties.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable fund balance, is not employed by the District.

Cash and Cash Equivalents

Cash balances are invested to the extent available in money market savings. Earnings from money market savings are recorded in the respective funds.

Taxes Receivable

Property tax levies are set by the Board in September each year, and are certified to Nobles County and Rock County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes.

The County spreads all levies over taxable property. Property taxes may be paid by taxpayers in two equal installments, on May 15 and October 15. The County provides tax settlements to all taxing districts three times a year. Generally, the settlements are received in January, June and December.

Property taxes become a lien on January 1 and are recorded as receivable by the District on that date. Taxes which remain unpaid at December 31, are classified as delinquent taxes receivable and are fully offset by a contra account, estimated uncollectible taxes, because they are not available to finance current expenditures.

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

Capital Assets

The District currently has no capitalized capital assets.

Compensated Absences

The District contracts employee services with the Nobles County Soil and Water Conservation District. Accordingly, no liability for compensated absences is applicable.

Fund Balances

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are as follows:

Nonspendable - consists of amounts that cannot be spent because it is not in spendable form, such as prepaid items.

Restricted - consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - consists of amounts that are constrained for specific purposes that are internally imposed by formal action (resolution) of the District 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 it employed to previously commit those amounts.

Assigned - consists of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to Board Resolution, the District Board and/or Executive Secretary may be authorized to establish assignments of fund balance.

Unassigned - is the residual classification for the general fund and also reflects negative residual amounts in other funds.

The District uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The District has not formally adopted a fund balance policy for the General Fund.

Net Position

In the government-wide financial statements, net position represent the difference between assets and liabilities. Net position is displayed in three components:

- a. Net Investment in Capital Assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted - Consists of net position restricted when there are limitations imposed on their use imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted - All remaining net positions that do not meet the definition of "restricted" or "net investment in capital assets".

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the period. Actual results could differ from those estimates.

Fair Values

The carrying amounts for cash, short-term investments, receivables, accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments.

Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through June 12, 2026, the date the financial statements were available to be issued.

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
NOTES TO FINANCIAL STATEMENTS

3 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are prepared on the modified accrual basis of accounting. The District's procedures in establishing the budgetary data reflected in the financial statements are as follows:

1. The District's managers prepare the budget for the following year sometime before October 31.
2. The proposed budget is presented to the District's Board for review. The board holds a public hearing on its tax levy established based upon its budget prior to the date the levy is required to be certified to the county auditor.
3. The annual budget finally agreed upon sets forth in detail the complete financial plan of the District for the ensuing fiscal year for the funds budgeted and is approved by the majority of the full Board when adopted.
4. The Board adopts the budget, according to state guidelines, by a resolution that sets forth the total for each budgeted fund on a basis consistent with generally accepted accounting principles (GAAP).
5. Budget appropriations lapse at year-end.
6. The budgetary data presented represents the original adopted budget. No budget amendments were made during 2025.

4. CASH AND CASH EQUIVALENTS

Cash balances of the primary government and component unit are invested to the extent available in various investments authorized by state statutes. The District's investing activities are managed by the executive secretary upon the approval of the board. For purposes of identifying risk of investing public funds, the balances and related restrictions are summarized below.

Deposits and Investments

Minnesota statutes require that all deposits with financial institutions must be collateralized in an amount equal to 110% of deposits in excess of FDIC insurance. As of December 31, 2025, the carrying amount of the District's deposits with financial institutions was \$430,661 and the bank balance was \$472,261.

The bank balance is categorized as follows:

Insured by FDIC Insurance	\$ 472,261
Total Bank Balance	<u>\$ 472,261</u>

5. RELATED PARTY TRANSACTIONS

The District paid for services to certain members of the organization. The individuals and amounts paid for the year ending December 31, 2025 are as follows:

	<u>PER DIEM</u>	<u>EXPENSE</u>
Jerry Brake	\$ 450	\$ 149
Adam Henning	525	97
William Jansma	525	165
Layton Gruis	375	72
Jason Kellen	450	8
	<u>\$ 2,325</u>	<u>\$ 491</u>

6. RISK MANAGEMENT

Significant losses are covered by commercial insurance for property coverage, workers compensation, general liability and auto liability. There have been no significant reductions in insurance coverage from prior years.

7. CONTRACTED SERVICES

The District currently contracts with Nobles Soil and Water Conservation District for project services, special EQIP/KLR program services, technical services, and joint powers board expense. Contracted service payments made during 2025 under this contract were \$70,000 for technical and administrative services.

REQUIRED SUPPLEMENTARY INFORMATION

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2025

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE OVER (UNDER)
REVENUES			
General Property Taxes	\$ 199,095	\$ 195,426	\$ (3,669)
Intergovernmental Aid		4,270	4,270
Interest Revenue		4,166	4,166
TOTAL REVENUES	<u>\$ 199,095</u>	<u>\$ 203,862</u>	<u>\$ 4,767</u>
EXPENDITURES			
Current			
Administration			
Board Compensation	\$ 5,000	\$ 2,325	\$ (2,675)
Payroll Taxes		178	178
Mileage and Travel	1,500	491	(1,009)
Soil and Water Conservation District Contracted Services	70,000	70,000	-
Insurance and Bonds	2,600	1,644	(956)
Audit	3,000	3,615	615
Legal Fees	5,000		(5,000)
Dues (MAWD and LMC)	5,000	5,000	-
Publications and Hearings	2,000	1,847	(153)
Supplies and Postage	750		(750)
Other Services and Charges	1,000	348	(652)
Project Expenditures			
District	103,245	34,729	(68,516)
TOTAL EXPENDITURES	<u>\$ 199,095</u>	<u>\$ 120,177</u>	<u>\$ (78,918)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ -	\$ 83,685	\$ 83,685
FUND BALANCE - January 1	<u>341,028</u>	<u>341,028</u>	<u>-</u>
FUND BALANCE - December 31	<u><u>\$ 341,028</u></u>	<u><u>\$ 424,713</u></u>	<u><u>\$ 83,685</u></u>

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2025

NOTE 1 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are prepared on the modified accrual basis of accounting. The District's procedures in establishing the budgetary date reflected in the financial statements are as follows:

1. The District's managers prepare the budget for the following year sometime before October 31.
2. The proposed budget is presented to the District's Board for review. The board holds a public hearing on its tax levy established based upon its budget prior to the date the levy is required to be certified to the county auditor.
3. The annual budget finally agreed upon sets forth in detail the complete financial plan of the District for the ensuing fiscal year for the funds budgeted and is approved by the majority of the full Board when adopted.
4. The Board adopts the budget, according to state guidelines, by a resolution that sets forth the total for each budgeted fund on a basis consistent with generally accepted accounting principles (GAAP).
5. Budget appropriations lapse at year end.
6. The budgetary date presented represents the original budget. No budget amendments were made during 2025.

Expenditures in Excess of Budget

The expenditures were not in excess of budget during 2025.

NOTE 2 – SIGNIFICANT VARIANCES

Variances of Actual Revenues/Expenditures Compared to Budgetary Appropriations.

The following line items exceeded budgetary expectations by 8% or more in the General Fund.

- Payroll taxes were not budgeted as a separate line item.
- Audit fees were higher than budgeted but was less than 2% higher than the prior year.

SUPPLEMENTARY INFORMATION

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
SCHEDULES OF ASSETS, LIABILITIES AND FUND BALANCE
GENERAL FUND
DECEMBER 31, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
ASSETS		
Cash in Checking and Savings - Adrian State Bank	\$ 129,971	\$ 132,777
Cash in Money Market	194,642	92,465
Certificate of Deposit - Adrian State Bank	105,883	103,773
Accrued Interest Receivable	1,183	1,305
Taxes Receivable		
Current	4,802	8,716
Delinquent	1,020	1,248
Less: Allowance for Delinquent Taxes	(1,020)	(1,248)
Due from Other Governmental Units	2,135	
Prepaid Expenses	<u>17,500</u>	<u>1,992</u>
TOTAL ASSETS	<u><u>\$ 456,116</u></u>	<u><u>\$ 341,028</u></u>
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts Payable	<u>\$ 31,403</u>	
Total Liabilities	<u><u>\$ 31,403</u></u>	<u><u>\$ -</u></u>
FUND BALANCE		
Nonspendable	\$ 17,500	\$ 1,992
Unassigned	<u>407,213</u>	<u>339,036</u>
Total Fund Balance	<u><u>\$ 424,713</u></u>	<u><u>\$ 341,028</u></u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 456,116</u></u>	<u><u>\$ 341,028</u></u>

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
REVENUES		
General Property Taxes	\$ 195,426	\$ 194,876
State Market Value Credit Aid	4,270	4,664
Interest Revenue	<u>4,166</u>	<u>6,434</u>
TOTAL REVENUES	<u>\$ 203,862</u>	<u>\$ 205,974</u>
EXPENDITURES - CURRENT		
ADMINISTRATION:		
Board Compensation	\$ 2,325	\$ 1,650
Payroll Taxes	178	126
Mileage and Travel	491	307
Soil and Water Conservation District Contracted Service	70,000	70,000
Insurance and Bonds	1,644	1,626
Audit	3,615	3,558
Dues	5,000	4,761
Publications and Hearings	1,847	676
Supplies and Postage		79
Other Services and Charges	348	264
Total Administration	<u>\$ 85,448</u>	<u>\$ 83,047</u>
PROJECT EXPENDITURES:		
District	<u>\$ 34,729</u>	<u>\$ 46,866</u>
Total Project Expenditures	<u>\$ 34,729</u>	<u>\$ 46,866</u>
TOTAL EXPENDITURES	<u>\$ 120,177</u>	<u>\$ 129,913</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 83,685	\$ 76,061
FUND BALANCE - January 1	<u>341,028</u>	<u>264,967</u>
FUND BALANCE - December 31	<u><u>\$ 424,713</u></u>	<u><u>\$ 341,028</u></u>

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
SCHEDULES OF ASSETS, LIABILITIES AND FUND BALANCE
JOINT POWERS
DECEMBER 31, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
ASSETS		
Cash in Checking	<u>\$ 165</u>	<u>\$ 165</u>
TOTAL ASSETS	<u><u>\$ 165</u></u>	<u><u>\$ 165</u></u>
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Total Liabilites	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCE		
Unassigned	<u>\$ 165</u>	<u>\$ 165</u>
Total Fund Balance	<u><u>\$ 165</u></u>	<u><u>\$ 165</u></u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 165</u></u>	<u><u>\$ 165</u></u>

KANARANZI-LITTLE ROCK WATERSHED DISTRICT
SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
JOINT POWERS
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
REVENUES		
TOTAL REVENUES	<u>\$ -</u>	<u>\$ -</u>
EXPENDITURES - CURRENT		
TOTAL EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCE - January 1	<u>165</u>	<u>165</u>
FUND BALANCE - December 31	<u><u>\$ 165</u></u>	<u><u>\$ 165</u></u>

OTHER REQUIRED REPORT

KATIE M. JACOBSON, CPA

Katie M. Jacobson, CPA
Kimberly Eisfeld - Snr. Mgr.
Brandon Winter, CPA - Staff Acct.
Christine Thompson - Staff Acct.
Melanie Steinle - Staff Acct.

Licensed CPA Firm

2330 26th Street
Slayton, MN 56172

Telephone: (507) 836-8564
Fax: (507) 836-8566

MINNESOTA LEGAL COMPLIANCE

Independent Auditor's Report

To the District Board
Kanmaranzi-Little Rock Watershed District
Adrian, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities and each major fund of Kanaranzi-Little Rock Watershed District, as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the Kanaranzi-Little Rock Watershed District's basic financial statements, and have issued our report thereon dated June 12, 2026.

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

This report is intended solely for the information and use of those charged with governance and management of Kanaranzi-Little Rock Watershed District and the State Auditor and is not intended to be, and should not be, used by anyone other than these specified parties.

June 12, 2026

Katie M. Jacobson, CPA

Katie M. Jacobson, CPA
Slayton, MN