

PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 10, 2026

NEW ISSUE
BANK QUALIFIED

BOOK ENTRY ONLY
S&P GLOBAL RATINGS' RATING "AA"

In the opinion of Fryberger, Buchanan, Smith & Frederick, P.A., Bond Counsel, based on present federal and Minnesota laws, regulations, rulings and decisions, and assuming compliance with certain requirements of the Internal Revenue Code of 1986, as amended, and certain covenants of the County, interest to be paid on the Bonds is excluded from gross income for federal income tax purposes and from taxable net income of individuals, trusts and estates for Minnesota income tax purposes (such interest is includable in taxable income of corporations and financial institutions for purposes of Minnesota franchise tax), and is not an item of tax preference which is included in alternative minimum taxable income for purposes of the federal alternative minimum tax imposed on individuals or the Minnesota alternative minimum tax imposed on individuals, trusts and estates; however, interest on the Bonds may affect the federal alternative minimum tax imposed on certain corporations.

The Bonds will be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended, relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations. No opinion will be expressed regarding other state or federal tax consequences caused by the receipt or accrual of interest on or arising with respect to ownership of the Bonds. See "TAX EXEMPTION" herein for additional information.

WATONWAN COUNTY, MINNESOTA
\$2,340,000*
General Obligation Ditch Bonds, Series 2026A

**Dated Date: Date of Delivery (Estimated to be September 16, 2026) Interest Due: Each February 1 and August 1
Commencing August 1, 2027**

<u>Maturity*</u>	<u>Amount*</u>	<u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>Maturity*</u>	<u>Amount*</u>	<u>Rate</u>	<u>Yield</u>	<u>Price</u>
2/1/2028	100,000	_____ %	_____ %	_____	2/1/2036	\$160,000	_____ %	_____ %	_____
2/1/2029	130,000	_____	_____	_____	2/1/2037	165,000	_____	_____	_____
2/1/2030	135,000	_____	_____	_____	2/1/2038	170,000	_____	_____	_____
2/1/2031	135,000	_____	_____	_____	2/1/2039	180,000	_____	_____	_____
2/1/2032	140,000	_____	_____	_____	2/1/2040	185,000	_____	_____	_____
2/1/2033	145,000	_____	_____	_____	2/1/2041	195,000	_____	_____	_____
2/1/2034	150,000	_____	_____	_____	2/1/2042	195,000	_____	_____	_____
2/1/2035	155,000	_____	_____	_____					

The General Obligation Ditch Bonds, Series 2026A (the "Bonds" or the "Issue") are being issued by Watonwan County, Minnesota (the "County" or the "Issuer"), pursuant to Minnesota Statutes, Chapters 475 and Section 103E.635, as amended. Proceeds of the Bonds will be used to finance improvements to Judicial Ditch 8, Judicial Ditch 26 and to pay costs associated with issuance of the Bonds. See *Authority and Purpose* herein for additional information.

The Bonds are valid and binding general obligations of the County and are payable from special assessments against benefitted properties. The full faith and credit of the County is also pledged to their payment. In the event of any deficiency in the debt service account established for this Issue, the County has validly obligated itself to levy additional ad valorem taxes upon all of the taxable property within the County, without limitation of amount. See *Security/Sources and Uses of Funds* herein for additional information.

The Bonds maturing on February 1, 2032 and thereafter are subject to redemption, in whole or in part, on February 1, 2031 and on any date thereafter at a price of par plus accrued interest.

Principal due with respect to the Bonds is payable annually on February 1, commencing February 1, 2028. Interest due with respect to the Bonds is payable semiannually on February 1 and August 1, commencing August 1, 2027. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Individual purchases will be made in book-entry form only, in the principal amount of \$5,000 or any whole multiple thereof. Purchasers will not receive physical delivery of Bonds. See "Book-Entry System" in *Description of the Bonds* herein for additional information. The Paying Agent/Registrar will be Northland Bond Services, a division of First National Bank of Omaha, Minneapolis, Minnesota.

Proposals: Monday, August 17, 2026 11:00 A.M., Central Time
Award: Tuesday, August 18, 2026 9:00 A.M., Central Time

Bids may contain a maturity schedule providing for any combination of serial or term bonds. All term bonds shall be subject to mandatory sinking fund redemption and must conform to the maturity schedule set forth above at a price of par plus accrued interest. Bids must be for not less than \$2,307,240 (98.60%) and accrued interest on the total principal amount of the Bonds. **Bids will not be subject to cancellation – see "Establishment of Issue Price" in the Notice of Sale herein for additional details.** The rate for any maturity may not be more than 2.00% less than the rate for any preceding maturity. A Good Faith Deposit (the "Deposit") in the amount of \$46,800, in the form of a federal wire transfer payable to the order of the County, will only be required from the apparent winning bidder, and must be received within two hours after the receipt of bids. See Notice of Sale for additional details. Award of the Bonds will be on the basis of True Interest Cost (TIC).

* Preliminary, subject to change.



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The Bonds are offered, subject to prior sale when, as and if accepted by the underwriter(s) named on the front cover of this official statement and subject to an opinion as to validity of the Bonds by Bond Counsel. Subject to applicable securities laws and prevailing market conditions, the underwriter(s) intends, but is not obligated, to effect secondary market trading for the Bonds. Closing Date is estimated to be September 16, 2026.

No person has been authorized to give any information or to make any representations other than those contained in this official statement in connection with the offers made hereby, and if given or made, such information or representations must not be relied upon as having been authorized by the Issuer or the underwriter(s). This official statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized, or in which the person makes such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation.

The information set forth herein has been obtained from the Issuer and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the underwriter(s). Neither the delivery of this official statement nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Issuer since the date hereof.

Within the meaning of Securities and Exchanges Commission Rule 15c2-12, the information included in the preliminary official statement is deemed final by the Issuer as of its date and is accurate and complete in all material respects, except for the omission of the offering price(s), interest rate(s), selling compensation, aggregate principal amount, principal amount per maturity, delivery date, rating(s), other terms of the issue depending on such matters, and the identity of the underwriter(s).

References herein to laws, rules, regulations, resolutions, agreements, reports, and other documents do not purport to be comprehensive or definitive. All references to such documents are qualified in their entirety by reference to the particular document, the full text of which may contain qualifications of and exceptions to statements made herein. Where full texts have not been included as appendices to the Preliminary Official Statement or the Final Official Statement, they will be furnished upon request.

References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for the purposes of, and as that term is defined in, Securities and Exchange Commission Rule 15c2-12.

The Bonds are considered securities and have not been approved or disapproved by the Securities and Exchange Commission or any state or federal regulatory authority nor has any state or federal regulatory authority confirmed the accuracy or determined the adequacy of this Official Statement. Any representation to the contrary may be a criminal offense. Investors must rely on their own examination of this Official Statement, the security pledged to repay the Bonds, the Issuer and the merits and risks of the investment opportunity.

FORWARD-LOOKING STATEMENTS

This Official Statement, including its appendices, contains statements which should be considered "forward-looking statements," meaning they refer to possible future events or conditions. Such statements are generally identifiable by the words such as "plan," "expect," "estimate," "budget," "may," or similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause a deviation from the actual results, performance or achievements expressed or implied by such forward-looking statements. The Issuer does not expect or intend to update or revise any forward-looking statements contained herein if or when its expectations, or events, conditions, or circumstances on which such statements are based occur.

SUMMARY OF OFFERING

Watonwan County, Minnesota \$2,340,000 * General Obligation Ditch Bonds, Series 2026A (Book-Entry Only)

AMOUNT -	\$2,340,000*																																
ISSUER -	Watonwan County, Minnesota (the “County” or the “Issuer”)																																
AWARD DATE -	August 18, 2026																																
MUNICIPAL ADVISOR -	Northland Securities, Inc. (the “Municipal Advisor”), 150 South 5th Street, Suite 3300, Minneapolis, Minnesota 55402, telephone: 612-851-5900 or 800-851-2920																																
TYPE OF ISSUE -	General Obligation Ditch Bonds, Series 2026A (the “Bonds” or the “Issue”)																																
AUTHORITY, PURPOSE & SECURITY -	The General Obligation Ditch Bonds, Series 2026A (the “Bonds”) are being issued by Watonwan County, Minnesota (the “County”) pursuant to Minnesota Statutes, Chapters 475 and Section 103E.635, as amended. Proceeds of the Bonds will be used to finance improvements to Judicial Ditch 8, Judicial Ditch 26 and to pay costs associated with issuance of the Bonds. The Bonds are valid and binding general obligations of the County and are payable from special assessments against benefitted properties. The full faith and credit of the County is also pledged to their payment. In the event of any deficiency in the debt service account established for this Issue, the County has validly obligated itself to levy additional ad valorem taxes upon all of the taxable property within the County, without limitation of amount. See <i>Authority and Purpose</i> as well as <i>Security/Sources and Uses of Funds</i> herein for additional information.																																
DATE OF ISSUE -	Date of Delivery (Estimated to be September 16, 2026)																																
INTEREST PAID -	Semiannually on each February 1 and August 1, commencing August 1, 2027, to registered owners of the Bonds appearing of record in the bond register as of the close of business on the fifteenth day (whether or not a business day) of the calendar month next preceding such interest payment date (the “Record Date”).																																
MATURITIES* -	<table><tr><td>2/1/2028</td><td>\$100,000</td><td>2/1/2032</td><td>\$140,000</td><td>2/1/2036</td><td>\$160,000</td><td>2/1/2040</td><td>\$185,000</td></tr><tr><td>2/1/2029</td><td>130,000</td><td>2/1/2033</td><td>145,000</td><td>2/1/2037</td><td>165,000</td><td>2/1/2041</td><td>195,000</td></tr><tr><td>2/1/2030</td><td>135,000</td><td>2/1/2034</td><td>150,000</td><td>2/1/2038</td><td>170,000</td><td>2/1/2042</td><td>195,000</td></tr><tr><td>2/1/2031</td><td>135,000</td><td>2/1/2035</td><td>155,000</td><td>2/1/2039</td><td>180,000</td><td></td><td></td></tr></table>	2/1/2028	\$100,000	2/1/2032	\$140,000	2/1/2036	\$160,000	2/1/2040	\$185,000	2/1/2029	130,000	2/1/2033	145,000	2/1/2037	165,000	2/1/2041	195,000	2/1/2030	135,000	2/1/2034	150,000	2/1/2038	170,000	2/1/2042	195,000	2/1/2031	135,000	2/1/2035	155,000	2/1/2039	180,000		
2/1/2028	\$100,000	2/1/2032	\$140,000	2/1/2036	\$160,000	2/1/2040	\$185,000																										
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2/1/2031	135,000	2/1/2035	155,000	2/1/2039	180,000																												
REDEMPTION -	The Bonds maturing on February 1, 2032 and thereafter are subject to redemption, in whole or in part, on February 1, 2031 and on any date thereafter at a price of par plus accrued interest. See <i>Description of the Bonds</i> herein for additional information.																																
BOOK-ENTRY -	The Bonds will be issued as fully registered and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, to which principal and interest payments will be made. Individual purchases will be made in book-entry form only, in the principal amount of \$5,000 or any whole multiple thereof. Purchasers will not receive physical delivery of the Bonds.																																
PAYING AGENT/REGISTRAR -	Northland Bond Services, a division of First National Bank of Omaha, Minneapolis, Minnesota																																
TAX DESIGNATIONS -	<u>NOT Private Activity Bonds</u> - The Bonds are not “private activity bonds” as defined in Section 141 of the Internal Revenue Code of 1986, as amended (the “Code”). <u>Bank Qualified Tax-Exempt Obligations</u> - The County will designate the Bonds as “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Code.																																
LEGAL OPINION -	Fryberger, Buchanan, Smith & Frederick, P.A., Duluth, Minnesota (“Bond Counsel”)																																
BOND RATING -	The County received an underlying rating of “AA” from S&P Global Ratings (“S&P”). See <i>Bond Rating</i> herein for additional information.																																
CLOSING -	Estimated to be September 16, 2026																																
PRIMARY CONTACTS -	Kelly Pauling, County Auditor, Watonwan County, Minnesota 507-375-3547 George Eilertson, Managing Director, Northland Securities, Inc., 612-851-5906																																

* Preliminary, subject to change.

WATONWAN COUNTY, MINNESOTA

PRINCIPAL COUNTY OFFICIALS

Elected Officials

County Board of Commissioners

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Jim Pettersen - District 1	Commissioner	12/31/28
Bill Miller - District 2	Commissioner	12/31/26
Jim Branstad - District 3	Commissioner	12/31/28
Scott Westman - District 4	Commissioner	12/31/26
Dillon Melheim - District 5	Commissioner	12/31/28

Primary Contacts

Kelly Pauling

County Auditor

BOND COUNSEL

Fryberger, Buchanan, Smith & Frederick, P.A
Duluth, Minnesota

MUNICIPAL ADVISOR

Northland Securities, Inc.
Minneapolis, Minnesota

NOTICE OF SALE

\$2,340,000*
GENERAL OBLIGATION DITCH BONDS, SERIES 2026A

WATONWAN COUNTY, MINNESOTA
(Book-Entry Only)

NOTICE IS HEREBY GIVEN that these Bonds will be offered for sale according to the following terms:

TIME AND PLACE:

Proposals (also referred to herein as "bids") will be opened by the County's Auditor, or designee, on Monday, August 17, 2026, at 11:00 A.M., CT, at the offices of Northland Securities, Inc. (the County's "Municipal Advisor"), 150 South 5th Street, Suite 3300, Minneapolis, Minnesota 55402. Consideration of the Proposals for award of the sale will be by the County Board at its meeting at the County Offices beginning Tuesday, August 18, 2026 at 9:00 A.M., CT.

SUBMISSION OF PROPOSALS

Proposals may be:

- a) submitted to the office of Northland Securities, Inc.,
- b) emailed to PublicSale@northlandsecurities.com
- c) submitted electronically.

Notice is hereby given that electronic proposals will be received via PARITY™, or its successor, in the manner described below, until 11:00 A.M., CT, on Monday, August 17, 2026. Proposals may be submitted electronically via PARITY™ or its successor, pursuant to this Notice until 11:00 A.M., CT, but no Proposal will be received after the time for receiving Proposals specified above. To the extent any instructions or directions set forth in PARITY™, or its successor, conflict with this Notice, the terms of this Notice shall control. For further information about PARITY™, or its successor, potential bidders may contact Northland Securities, Inc. or i-Deal® at 1359 Broadway, 2nd floor, New York, NY 10018, telephone 212-849-5021.

Neither the County nor Northland Securities, Inc. assumes any liability if there is a malfunction of PARITY™ or its successor. All bidders are advised that each Proposal shall be deemed to constitute a contract between the bidder and the County to purchase the Bonds regardless of the manner in which the Proposal is submitted.

BOOK-ENTRY SYSTEM

The Bonds will be issued by means of a book-entry system with no physical distribution of bond certificates made to the public. The Bonds will be issued in fully registered form and one bond certificate, representing the aggregate principal amount of the Bonds maturing in each year, will be registered in the name of Cede & Co. as nominee of Depository Trust Company ("DTC"), New York, New York, which will act as securities depository of the Bonds.

Individual purchases of the Bonds may be made in the principal amount of \$5,000 or any multiple thereof of a single maturity through book entries made on the books and records of DTC and its participants. Principal and interest are payable by the County through Northland Bond Services, Inc., a division of First National Bank of Omaha, Minneapolis, Minnesota (the "Paying Agent/Registrar"), to DTC, or its nominee as registered owner of the Bonds. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC; transfer of principal and interest payments to beneficial owners by participants will be the responsibility of such participants and other nominees of beneficial owners. The successful bidder, as a condition of delivery of the Bonds, will be required to deposit the bond certificates with DTC. The County will pay reasonable and customary charges for the services of the Paying Agent/Registrar.

* The County reserves the right to increase or decrease the principal amount of the Bonds. Any such increase or decrease will be made in multiples of \$5,000 and may be made in any maturity. If any maturity is adjusted, the purchase price will also be adjusted to maintain the same gross spread.

DATE OF ORIGINAL ISSUE OF BONDS

Date of Delivery (Estimated to be September 16, 2026)

AUTHORITY/PURPOSE/SECURITY

The Bonds are being issued pursuant to Minnesota Statutes, Chapter 475 and Section 103E.635, as amended. Proceeds will be used to finance improvements to Judicial Ditch 8 and County Ditch 26 and to pay the costs of issuance of the Bonds. The Bonds are payable from special assessments against benefitted properties and ad valorem taxes. The full faith and credit of the County is pledged to their payment and the County has validly obligated itself to levy ad valorem taxes in the event of any deficiency in the debt service account established for this issue.

INTEREST PAYMENTS

Interest is due semiannually on each February 1 and August 1, commencing August 1, 2027, to registered owners of the Bonds appearing of record in the Bond Register as of the close of business on the fifteenth day (whether or not a business day) of the calendar month preceding such interest payment date.

MATURITIES

Principal is due annually on February 1, inclusive, in each of the years and amounts as follows:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2028	\$100,000	2033	\$145,000	2038	\$170,000
2029	130,000	2034	150,000	2039	180,000
2030	135,000	2035	155,000	2040	185,000
2031	135,000	2036	160,000	2041	195,000
2032	140,000	2037	165,000	2042	195,000

Proposals for the Bonds may contain a maturity schedule providing for any combination of serial bonds and term bonds, subject to mandatory redemption, so long as the amount of principal maturing or subject to mandatory redemption in each year conforms to the maturity schedule set forth above.

INTEREST RATES

All rates must be in integral multiples of 1/20th or 1/8th of 1%. *The rate for any maturity may not be more than 2.00% less than the rate for any preceding maturity.* All Bonds of the same maturity must bear a single uniform rate from date of issue to maturity.

ESTABLISHMENT OF ISSUE PRICE (HOLD-THE-OFFERING-PRICE RULE MAY APPLY – BIDS NOT CANCELLABLE)

The winning bidder shall assist the County in establishing the issue price of the Bonds and shall execute and deliver to the County at closing an "issue price" or similar certificate setting forth the reasonably expected initial offering price to the public or the sales price or prices of the Bonds, together with the supporting pricing wires or equivalent communications, substantially in the form attached hereto as Exhibit A, with such modifications as may be appropriate or necessary, in the reasonable judgment of the winning bidder, the County and Bond Counsel. All actions to be taken by the County under this Notice of Sale to establish the issue price of the Bonds may be taken on behalf of the County by the County's Municipal Advisor and any notice or report to be provided to the County may be provided to the County's Municipal Advisor.

The County intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining “competitive sale” for purposes of establishing the issue price of the Bonds) will apply to the initial sale of the Bonds (the “competitive sale requirements”) because:

- (1) the County shall disseminate this Notice of Sale to potential underwriters in a manner that is reasonably designed to reach potential underwriters;
- (2) all bidders shall have an equal opportunity to bid;
- (3) the County may receive bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- (4) the County anticipates awarding the sale of the Bonds to the bidder who submits a firm offer to purchase the Bonds at the highest price (or lowest cost), as set forth in this Notice of Sale.

Any bid submitted pursuant to this Notice of Sale shall be considered a firm offer for the purchase of the Bonds, as specified in the bid.

In the event that the competitive sale requirements are not satisfied, the County shall promptly so advise the winning bidder. The County may then determine to treat the initial offering price to the public as of the award date of the Bonds as the issue price of each maturity by imposing on the winning bidder the Hold-the-Offering-Price Rule as described in the following paragraph (the “Hold-the-Offering-Price Rule”). Bids will **not** be subject to cancellation in the event that the County determines to apply the Hold-the-Offering-Price Rule to the Bonds. **Bidders should prepare their bids on the assumption that the Bonds will be subject to the Hold-the-Offering-Price Rule in order to establish the issue price of the Bonds.**

By submitting a bid, the winning bidder shall (i) confirm that the underwriters have offered or will offer the Bonds to the public on or before the date of award at the offering price or prices (the “Initial Offering Price”), or at the corresponding yield or yields, set forth in the bid submitted by the winning bidder and (ii) agree, on behalf of the underwriters participating in the purchase of the Bonds, that the underwriters will neither offer nor sell unsold Bonds of any maturity to which the Hold-the-Offering Price Rule shall apply to any person at a price that is higher than the Initial Offering Price to the public during the period starting on the award date for the Bonds and ending on the **earlier** of the following:

- (1) the close of the fifth (5th) business day after the award date; or
- (2) the date on which the underwriters have sold at least 10% of a maturity of the Bonds to the public at a price that is no higher than the Initial Offering Price to the public (the “10% Test”), at which time only that particular maturity will no longer be subject to the Hold-the-Offering-Price Rule.

The County acknowledges that, in making the representations set forth above, the winning bidder will rely on (i) the agreement of each underwriter to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the Hold-the-Offering-Price Rule, if applicable to the Bonds, as set forth in an agreement among underwriters and the related pricing wires, (ii) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the requirements for establishing issue price of the Bonds, including but not limited to, its agreement to comply with the Hold-the-Offering-Price Rule, if applicable to the Bonds, as set forth in a selling group agreement and the related pricing wires, and (iii) in the event that an underwriter or dealer who is a member of the selling group is a party to a third-party distribution agreement that was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the Hold-the-Offering-Price Rule, if applicable to the Bonds, as set forth in the third-party distribution agreement and the related pricing wires. The County further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the requirements for establishing issue price of the Bonds, including but not limited to, its agreement to comply with the Hold-the-Offering-Price Rule, if applicable to the Bonds, and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a third-party distribution agreement to comply with its corresponding agreement to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the Hold-the-Offering-Price Rule if applicable to the Bonds.

By submitting a bid, each bidder confirms that: (i) any agreement among underwriters, any selling group agreement and each third-party distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such third-party distribution agreement, as applicable, (A) to comply with the Hold-the-Offering-Price Rule, if applicable if and for so long as directed by the winning bidder and as set forth in the related pricing wires, (B) to promptly notify the winning bidder of any sales of Bonds that to its knowledge, are made to a purchaser who is a related party to an underwriter

participating in the initial sale of the Bonds to the public (each such term being used as defined below), and (C) to acknowledge that, unless otherwise advised by the underwriter, dealer or broker-dealer, the winning bidder shall assume that each order submitted by the underwriter, dealer or broker-dealer is a sale to the public, and (ii) any agreement among underwriters or selling group agreement relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter or dealer that is a party to a third-party distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require each broker-dealer that is a party to such retail distribution agreement to comply with the Hold-the-Offering-Price Rule, if applicable, in each case if and for so long as directed by the winning bidder or the underwriter and as set forth in the related pricing wires.

Notes: Sales of any Bonds to any person that is a related party to an underwriter participating in the initial sale of the Bonds to the public (each such term being used as defined below) shall not constitute sales to the public for purposes of this Notice of Sale. Further, for purposes of this Notice of Sale:

- (1) "public" means any person other than an underwriter or a related party,*
- (2) "underwriter" means (A) any person that agrees pursuant to a written contract with the County (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a third-party distribution agreement participating in the initial sale of the Bonds to the public).*
- (3) a purchaser of any of the Bonds is a "related party" to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (A) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation or another), (B) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership or another), or (C) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and*
- (4) "sale date" means the date that the Bonds are awarded by the County to the winning bidder.*

ADJUSTMENTS TO PRINCIPAL AMOUNT AFTER PROPOSALS

The County reserves the right to increase or decrease the principal amount of the Bonds. Any such increase or decrease will be made in multiples of \$5,000 and may be made in any maturity. If any maturity is adjusted, the purchase price will also be adjusted to maintain the same gross spread. Such adjustments shall be made promptly after the sale and prior to the award of Proposals by the County and shall be at the sole discretion of the County. The successful bidder may not withdraw or modify its Proposal once submitted to the County for any reason, including post-sale adjustment. Any adjustment shall be conclusive and shall be binding upon the successful bidder.

OPTIONAL REDEMPTION

Bonds maturing on February 1, 2032 through 2042 are subject to redemption and prepayment at the option of the County on February 1, 2031 and any date thereafter, at a price of par plus accrued interest. Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the maturities and principal amounts within each maturity to be redeemed shall be determined by the County and if only part of the Bonds having a common maturity date are called for prepayment, the specific Bonds to be prepaid shall be chosen by lot by the Bond Registrar.

CUSIP NUMBERS

If the Bonds qualify for assignment of CUSIP numbers such numbers will be printed on the Bonds, but neither the failure to print such numbers on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the successful bidder thereof to accept delivery of and pay for the Bonds in accordance with terms of the purchase contract. The CUSIP Service Bureau charge for the assignment of CUSIP identification numbers shall be paid by the successful bidder.

DELIVERY

Delivery of the Bonds will be within thirty days after award, subject to an approving legal opinion by Fryberger, Buchanan Smith & Frederick, P.A., Bond Counsel. The legal opinion will be paid by the County and delivery will be anywhere in the continental United States without cost to the successful bidder at DTC.

TYPE OF PROPOSAL

Proposals of not less than \$2,307,240 (98.60%) and accrued interest on the principal sum of \$2,340,000 must be filed with the undersigned prior to the time of sale. Proposals must be unconditional except as to legality. Proposals for the Bonds should be delivered to Northland Securities, Inc. and addressed to:

Kelly Pauling, County Auditor
710 Second Ave. S.
St. James, MN 56081

A good faith deposit (the "Deposit") in the amount of \$46,800 in the form of a federal wire transfer (payable to the order of the County) is only required from the apparent winning bidder, and must be received within two hours after the time stated for the receipt of Proposals. The apparent winning bidder will receive notification of the wire instructions from the Municipal Advisor promptly after the sale. If the Deposit is not received from the apparent winning bidder in the time allotted, the County may choose to reject their Proposal and then proceed to offer the Bonds to the next lowest bidder based on the terms of their original proposal, so long as said bidder wires funds for the Deposit amount within two hours of said offer.

The County will retain the Deposit of the successful bidder, the amount of which will be deducted at settlement and no interest will accrue to the successful bidder. In the event the successful bidder fails to comply with the accepted Proposal, said amount will be retained by the County. No Proposal can be withdrawn after the time set for receiving Proposals unless the meeting of the County scheduled for award of the Bonds is adjourned, recessed, or continued to another date without award of the Bonds having been made.

AWARD

The Bonds will be awarded on the basis of the lowest interest rate to be determined on a true interest cost (TIC) basis. The County's computation of the interest rate of each Proposal, in accordance with customary practice, will be controlling. In the event of a tie, the sale of the Bonds will be awarded by lot. The County will reserve the right to: (i) waive non-substantive informalities of any Proposal or of matters relating to the receipt of Proposals and award of the Bonds, (ii) reject all Proposals without cause, and (iii) reject any Proposal which the County determines to have failed to comply with the terms herein.

INFORMATION FROM SUCCESSFUL BIDDER

The successful bidder will be required to provide, in a timely manner, certain information relating to the initial offering price of the Bonds necessary to compute the yield on the Bonds pursuant to the provisions of the Internal Revenue Code of 1986, as amended.

OFFICIAL STATEMENT

By awarding the Bonds to any underwriter or underwriting syndicate submitting a Proposal therefor, the County agrees that, no more than seven business days after the date of such award, it shall provide to the senior managing underwriter of the syndicate to which the Bonds are awarded, the Final Official Statement in an electronic format as prescribed by the Municipal Securities Rulemaking Board (MSRB).

FULL CONTINUING DISCLOSURE UNDERTAKING

The County will covenant in the resolution awarding the sale of the Bonds and in a Continuing Disclosure Undertaking to provide, or cause to be provided, annual financial information, including audited financial statements of the County, and notices of certain material events, as required by SEC Rule 15c2-12.

BANK QUALIFICATION

The County will designate the Bonds as qualified tax-exempt obligations for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

BOND INSURANCE AT UNDERWRITER'S OPTION

If the Bonds qualify for issuance of any policy of municipal bond insurance or commitment therefor at the option of the successful bidder, the purchase of any such insurance policy or the issuance of any such commitment shall be at the sole option and expense of the successful bidder of the Bonds. Any increase in the costs of issuance of the Bonds resulting from such purchase of insurance shall be paid by the successful bidder, except that, if the County has requested and received a rating on the Bonds from a rating agency, the County will pay that rating fee. Any other rating agency fees shall be the responsibility of the successful bidder. Failure of the municipal bond insurer to issue the policy after the Bonds have been awarded to the successful bidder shall not constitute cause for failure or refusal by the successful bidder to accept delivery on the Bonds.

The County reserves the right to reject any and all Proposals, to waive informalities and to adjourn the sale.

Dated: July 21, 2026

BY ORDER OF THE WATONWAN COUNTY BOARD

/s/ Kelly Pauling
County Auditor

Additional information may be obtained from:
Northland Securities, Inc.
150 South 5th Street, Suite 3300
Minneapolis, Minnesota 55402
Telephone No.: 612-851-5900

EXHIBIT A

(ISSUE PRICE CERTIFICATE – COMPETITIVE SALE SATISFIED)

\$ _____
GENERAL OBLIGATION DITCH BONDS, SERIES 2026A

ISSUE PRICE CERTIFICATE

The undersigned, on behalf of [NAME OF UNDERWRITER] (“[SHORT NAME OF UNDERWRITER]”), hereby certifies as set forth below with respect to the sale of the above-captioned obligations (the “Bonds”).

1. ***Reasonably Expected Initial Offering Price.***

(a) As of the Sale Date, the reasonably expected initial offering prices of the Bonds to the Public by [SHORT NAME OF UNDERWRITER] are the prices listed in Schedule A (the “Expected Offering Prices”). The Expected Offering Prices are the prices for the Maturities of the Bonds used by [SHORT NAME OF UNDERWRITER] in formulating its bid to purchase the Bonds. Attached as Schedule B is a true and correct copy of the bid provided by [SHORT NAME OF UNDERWRITER] to purchase the Bonds.

(b) [SHORT NAME OF UNDERWRITER] was not given the opportunity to review other bids prior to submitting its bid.¹

(c) The bid submitted by [SHORT NAME OF UNDERWRITER] constituted a firm offer to purchase the Bonds.

2. ***Defined Terms.***

(a) *Maturity* means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate Maturities.

(b) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term “related party” for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(c) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds. The Sale Date of the Bonds is _____.

(d) *Underwriter* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents [SHORT NAME OF UNDERWRITER]’s interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by Fryberger, Buchanan, Smith & Frederick, P.A. in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds.

¹ Treas. Reg. §1.148-1(f)(3)(i)(B) requires that all bidders have an equal opportunity to bid to purchase bonds. If the bidding process affords an equal opportunity for bidders to review other bids prior to submitting their bids, then this representation should be modified to describe the bidding process.

[UNDERWRITER]

By: _____

Name: _____

Dated: September 16, 2026

SCHEDULE A

EXPECTED OFFERING PRICES

(Attached)

SCHEDULE B

COPY OF UNDERWRITER'S BID

(Attached)

(ISSUE PRICE CERTIFICATE – HOLD-THE-OFFERING-PRICE RULE APPLIED)

\$ _____
GENERAL OBLIGATION DITCH BONDS, SERIES 2026A

ISSUE PRICE CERTIFICATE

The undersigned, on behalf of [NAME OF UNDERWRITER] (“[SHORT NAME OF UNDERWRITER]”), hereby certifies as set forth below with respect to the sale and issuance of the above-captioned obligations (the “Bonds”).

1. Initial Offering Price of the Bonds.

(a) [SHORT NAME OF UNDERWRITER] offered each Maturity of the Bonds to the Public for purchase at the respective initial offering prices listed in Schedule A (the “Initial Offering Prices”) on or before the Sale Date. A copy of the pricing wire or equivalent communication for the Bonds is attached to this certificate as Schedule B.

(b) As set forth in the Notice of Sale and bid award, [SHORT NAME OF UNDERWRITER] has agreed in writing that, (i) for each Maturity of the Bonds, it would neither offer nor sell any of the Bonds of such Maturity to any person at a price that is higher than the Initial Offering Price for such Maturity during the Holding Period for such Maturity (the “hold-the-offering-price rule”), and (ii) any selling group agreement shall contain the agreement of each dealer who is a member of the selling group, and any retail distribution agreement shall contain the agreement of each broker-dealer who is a party to the retail distribution agreement, to comply with the hold-the-offering-price rule. Pursuant to such agreement, no Underwriter (as defined below) has offered or sold any Maturity of the Bonds at a price that is higher than the respective Initial Offering Price for that Maturity of the Bonds during the Holding Period.

2. Defined Terms.

(a) *Holding Period* means, for each Maturity of the Bonds, the period starting on the Sale Date and ending on the earlier of (i) the close of the fifth business day after the Sale Date (November 3rd, 2020), or (ii) the date on which [SHORT NAME OF THE UNDERWRITER][the Underwriters] [has][have] sold at least 10% of such Maturity of the Bonds to the Public at prices that are no higher than the Initial Offering Price for such Maturity.

(b) *Issuer* means the Murray County, Minnesota.

(c) *Maturity* means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate Maturities.

(d) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term "related party" for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(e) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds. The Sale Date of the Bonds is_____.

(f) *Underwriter* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents [NAME OF UNDEWRITING FIRM] interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by Fryberger, Buchanan, Smith & Frederick, P.A. in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds.

[UNDERWRITER]

By: _____

Name: _____

Dated: September 16, 2026

SCHEDULE A

INITIAL OFFERING PRICES OF THE BONDS

(Attached)

SCHEDULE B

PRICING WIRE OR EQUIVALENT COMMUNICATION

(Attached)

AUTHORITY AND PURPOSE

The General Obligation Ditch Bonds, Series 2026A (the “Bonds” or the “Issue”) are being issued by Watonwan County, Minnesota (the “County”) pursuant to Minnesota Statutes, Chapters 475 and Section 103E.635, as amended. Proceeds from issuance of the Bonds will be used to finance improvements to Judicial Ditch 8, Judicial Ditch 26 and to pay costs associated with issuance of the Bonds.

SECURITY/SOURCES AND USES OF FUNDS

Security

The Bonds are valid and binding general obligations of the County and are payable from special assessments against benefitted properties. The full faith and credit of the County is also pledged to their payment. In the event of any deficiency in the debt service account established for this Issue, the County has validly obligated itself to levy additional ad valorem taxes upon all of the taxable property within the County, without limitation of amount.

Sources and Uses of Funds

Following are the sources and uses of funds in connection with the issuance of the Bonds.

Sources of Funds

Par Amount of Bonds	\$ 2,340,000*
Total Sources of Funds:	<u>\$ 2,340,000</u>

Uses of Funds

Deposit to Project Fund	\$ 2,250,000
Costs of Issuance/Underwriter's Discount	86,140
Rounding Amount	<u>3,860</u>
Total Uses of Funds:	<u>\$ 2,340,000</u>

BONDHOLDERS' RISKS

An investment in the Bonds involves an element of risk. In order to identify risk factors and make an informed investment decision, potential investors should be thoroughly familiar with this entire Official Statement (including the appendices hereto) in order to make a judgment as to whether the Bonds are an appropriate investment.

Secondary Market

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history of economic prospects connected with a particular issue, any secondary marketing practices in connection with a particular bond issue are suspended or terminated. Additionally, prices of bond issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price of the Bonds.

Ratings Loss

S&P Global Ratings has assigned a rating of “AA” to the Bonds. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that the rating will continue for any given period of time, or that such rating will not be revised, suspended or withdrawn, if, in the judgment of S&P, circumstances so warrant. A revision, suspension or withdrawal of a rating may have an adverse effect on the market price of the Bonds.

* Preliminary, subject to change.

Additional regulation of rating agencies could materially alter the methodology, rating levels, and types of ratings available, for example, and these changes, if ever, could materially affect the market value of the Bonds.

Forward-Looking Statements

This Official Statement contains statements relating to future results that are “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words “estimate,” “forecast,” “intend,” “expect” and similar expressions identify forward-looking statements. Any forward-looking statement is subject to uncertainty. Accordingly, such statements are subject to risks that could cause actual results to differ, possibly materially, from those contemplated in such forward-looking statements. Inevitably, some assumptions used to develop forward-looking statements will not be realized or unanticipated events and circumstances may occur. Therefore, investors should be aware that there are likely to be differences between forward-looking statements and the actual results. These differences could be material and could impact the availability of funds of the Issuer to pay debt service when due on the Bonds.

Tax Exemption, Bank Qualification and Loss of Tax Exemption

If the federal government or the State of Minnesota taxes all or a portion of the interest on municipal obligations, directly or indirectly, or if there is a change in federal or state tax policy, the value of the Bonds may fall for purposes of resale. Noncompliance following the issuance of the Bonds with certain requirements of the Internal Revenue Code of 1986, as amended (the “Code”) and post-issuance tax covenants of the Issuer may result in the inclusion of interest on the Bonds in gross income of the recipient for federal income tax purposes or in taxable net income of individuals, estates or trusts for State of Minnesota income tax purposes. No provision has been made for redemption of the Bonds, or for an increase in the interest rate on the Bonds, in the event that interest on the Bonds becomes subject to federal or State of Minnesota income taxation, retroactive to the date of issuance.

The Bonds are designated as “qualified tax-exempt obligations” under the exception provided in Section 265(b)(3) of the Code, and the Issuer has further covenanted to comply with certain other requirements, which affords banks and certain other financial institutions more favorable treatment of their deduction for interest expense than would otherwise be allowed under Section 265(b)(2) of the Code. Actions, or inactions, by the Issuer in violation of its covenants could affect the designation, which could also affect the pricing and marketability of the Bonds.

It is also possible that actions of the Issuer after the closing of the Bonds will alter the tax status of the Bonds, and, in the extreme, remove the tax exempt status from the Bonds. In that instance, the Bonds are not subject to mandatory prepayment, and the interest rate on the Bonds does not increase or otherwise reset.

Pending Federal and State Tax Legislation

From time to time, there is State legislation proposed, as well as Presidential proposals, proposals of various federal committees, and legislative proposals pending in Congress that could, if enacted, alter or amend one or more of the federal or state tax matters described herein in certain respects or would adversely affect the market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. It cannot be predicted whether or in what forms any of such proposals, either pending or that may be introduced, may be enacted and there can be no assurance that such proposals will not apply to the Bonds. In addition, regulatory actions are from time to time announced or proposed, and litigation threatened or commenced, which if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby.

Tax Levy Procedures

The Bonds are general obligations of the Issuer, payable from and secured by a continuing ad valorem tax levied against all of the property valuation within the Issuer. A failure on the part of the Issuer to make a timely levy request or a levy request by the Issuer that is inaccurate or is insufficient to make full payments of the debt service of the Bonds for a particular fiscal year may cause Bondholders to experience delay in the receipt of distributions of principal of and/or interest on the Bonds. In the event of a default in the payment of principal of or interest on the Bonds, there is no provision for acceleration of maturity of the principal of the Bonds. Consequently, the remedies of the owners of the Bonds (consisting primarily of an action in the nature of mandamus requiring the Issuer and certain other public officials to perform the terms of the resolution for the Bonds) may have to be enforced from year to year.

Factors Beyond Issuer's Control

A combination of epidemic, pandemic, economic, climatic, political or civil disruptions outside of the control of the Issuer, including loss of major taxpayers or major employers, could affect the local economy and result in reduced tax collections and/or increased demands upon local governments. Real or perceived threats to the financial stability of the Issuer may have an adverse effect on the value of the Bonds in the secondary market. State of Minnesota cash flow problems could also affect local governments, including reductions in, or delayed payments of, local government state aid (LGA) and possibly increase Issuer property taxes.

Cybersecurity

The Issuer, like many other public and private entities, relies on a large and complex technology environment to conduct its operations. As such, it may face multiple cybersecurity threats including, but not limited to, hacking, viruses, malware and other attacks on computer or other sensitive digital systems and networks. There can be no assurances that any security and operational control measures implemented by the Issuer will be completely successful to guard against and prevent cyber threats and attacks. The result of any such attacks could impact business operations and/or digital networks and systems and the costs of remedying any such damage could be significant.

Suitability of Investment

The interest rate borne by the Bonds is intended to compensate the investor for assuming the risk of investing in the Bonds. Each prospective investor should carefully examine this Official Statement and its own financial condition to make a judgment as to its ability to bear the economic risk of such an investment, and whether or not the Bonds are an appropriate investment for such investor.

Summary

The foregoing is intended only as a summary of certain risk factors attendant to an investment in the Bonds. In order for potential investors to identify risk factors and make an informed investment decision, potential investors should become thoroughly familiar with this entire Official Statement and the Appendices hereto.

DESCRIPTION OF THE BONDS

Details of Certain Terms

The Bonds will be dated, as originally issued, as of the date of delivery (estimated to be September 16, 2026), and will be issued as fully registered Bonds in the denominations of \$5,000 or any integral multiple thereof. Principal, including mandatory redemptions on the Bonds, if applicable, will be payable annually February 1, commencing February 1, 2028. Interest on the Bonds will be payable semiannually on each February 1 and August 1, commencing August 1, 2027. The Bonds when issued, will be registered in the name of Cede & Co. (the "Registered Holder"), as nominee of The Depository Trust Company, New York, New York ("DTC"), the initial custodian for the Bonds, to which principal and interest payments on the Bonds will be made so long as Cede & Co. is the Registered Holder of the Bonds. See "Book-Entry System" in *Description of the Bonds* herein for additional information. So long as the Book-Entry Only System is used, individual purchases of the Bonds will be made in book-entry form only, in the principal amount of \$5,000 or any integral multiple thereof ("Authorized Denominations"). Individual purchasers ("Beneficial Owners") of the Bonds will not receive physical delivery of bond certificates, and registration, exchange, transfer, tender and redemption of the Bonds with respect to Beneficial Owners shall be governed by the Book-Entry Only System.

So long as the Book-Entry Only System is used, payments from Cede & Co., as the Registered Holder, to the Beneficial Owners shall be governed by the Book-Entry Only System. If the Book-Entry Only System is discontinued, the principal of and premium, if any, on the Bonds will be payable upon presentation and surrender at the offices of the Paying Agent and Bond Registrar or a duly appointed successor. Interest on the Bonds will be paid by check or draft mailed by the Bond Registrar to the registered holders thereof as such appear on the registration books maintained by the Bond Registrar as of the close of business on the fifteenth day (whether or not a business day) of the calendar month next preceding such interest payment date (the "Record Date").

Registration, Transfer and Exchange

So long as the Book-Entry Only System is used, payments from Cede & Co., as the Registered Holder, to the Beneficial Owners shall be governed by the Book-Entry Only System. If the Book-Entry Only System is discontinued, the Bonds may be transferred upon surrender of the Bonds at the principal office of the Bond Registrar, duly endorsed for transfer or accompanied by an assignment duly executed by the registered owner or his or her attorney duly authorized in writing. The Bonds, upon surrender thereof at the principal office of the Bond Registrar, may also be exchanged for other Bonds of the same series, of any authorized denominations having the same form, terms, interest rates and maturities as the Bonds being exchanged. The Bond Registrar will require the payment by the Bond holder requesting such exchange or transfer of any tax or governmental charge required to be paid with respect to such exchange or transfer. The Bond Registrar is not required to (i) issue, transfer or exchange any Bond during a period beginning at the opening of business fifteen days before any selection of Bonds of a particular stated maturity for redemption in accordance with the provisions of the Bond resolution and ending on the day of the first mailing of the relevant notice of redemption or (ii) to transfer any Bonds or portion thereof selected for redemption.

Optional Redemption

The Bonds maturing on February 1, 2032 and thereafter are subject to redemption, in whole or in part, on February 1, 2031 and on any date thereafter at a price of par plus accrued interest. If redemption is in part, the selection of the amounts and maturities of the Bonds to be prepaid shall be at the discretion of the County. Notice of redemption shall be given by written notice to the registered owner of the Bonds not less than 30 days prior to such redemption date.

Book-Entry System

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds (the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtcc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the County as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the County or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the County or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

[A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to [Tender/Remarketing] Agent's DTC account.]

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the County or Agent. Under such circumstances, in the event that a successor depository is not obtained, certificates for the Bonds are required to be printed and delivered.

The County may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates for the Bonds will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the County believes to be reliable, but the Watonwan County takes no responsibility for the accuracy thereof.

FULL CONTINUING DISCLOSURE

In order to assist the Underwriter(s) in complying with SEC Rule 15c2-12 (the "Rule"), pursuant to a resolution awarding the Issue and a Continuing Disclosure Certificate (the "Certificate") to be executed on behalf of the County on or before Bond closing, the County has and will covenant for the benefit of holders of the Bonds to annually provide certain financial and operating data, relating to the County to the Municipal Securities Rulemaking Board ("MSRB") in an electronic format prescribed by the MSRB, and to provide notices of the occurrence of certain events enumerated in the Rule to the MSRB. The specific nature of the Certificate, as well as the information to be

contained in the annual report or the notices of material events is set forth in the Continuing Disclosure Certificate in substantially the form attached hereto as Appendix B.

To the best of its knowledge, the County has never failed to comply in all material respects with any previous undertakings under the Rule to provide annual reports or notices of material events within the past five years. A failure by the County to comply with the Certificate will not constitute an event of default on the Bonds (although holders will have an enforceable right to specific performance). Nevertheless, such a failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price. Please see *Appendix B – Continuing Disclosure Certificate* herein for additional information.

The County has retained a Dissemination Agent for its continuing disclosure filings.

UNDERWRITER

The Bonds are being purchased by _____ (the “Underwriter”) at a purchase price of \$_____, which is the par amount of the Bonds of \$_____ less the Underwriter’s discount of \$_____, plus the original issue premium of \$_____.

MUNICIPAL ADVISOR

The County has retained Northland Securities, Inc. as municipal advisor (the “Municipal Advisor”) in connection with the issuance of the Bonds. Northland Securities, Inc. is registered as a municipal advisor with both the Securities and Exchange Commission (SEC) and the Municipal Securities Rulemaking Board (MSRB). In preparing the Official Statement, the Municipal Advisor has relied upon governmental officials, and other sources that have access to relevant data to provide accurate information for the Official Statement, and the Municipal Advisor has not been engaged, nor has it undertaken, to independently verify the accuracy of such information. The Municipal Advisor is not a public accounting firm and has not been engaged by the County to compile, review, examine or audit any information in the Official Statement in accordance with accounting standards.

Northland Securities, Inc., is a subsidiary of Northland Capital Holdings, Inc. First National of Nebraska, Inc., is the parent company of Northland Capital Holdings, Inc. and First National Bank of Omaha.

FUTURE FINANCING

The County does not anticipate the need to issue any additional general obligation debt within the next three months.

BOND RATING

The County received an underlying rating of “AA” from S&P Global Ratings (“S&P”). No application was made to any other rating agency for the purpose of obtaining an additional rating on the Bonds. This rating reflects only the opinion of S&P and any explanation of the significance of this rating may be obtained only from S&P. There is no assurance that a rating will continue for any given period of time, or that such rating will not be revised or withdrawn, if in the judgment of S&P, circumstances so warrant. A revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds. This rating is not a recommendation to buy, sell or hold the Bonds, and such rating may be subject to revision or withdrawal at any time by the rating agency.

LITIGATION

As of the date of this Official Statement, the County is not aware of any threatened or pending litigation that questions the organization or boundaries of the County or the right of any of its officers to their respective offices or in any manner questioning their rights and power to execute and deliver the Bonds or otherwise questioning the validity of the Bonds.

CERTIFICATION

The County will furnish a statement to the effect that this Official Statement to the best of its knowledge and belief, as of the date of sale and the date of delivery, is true and correct in all material respects, and does not contain any untrue statements of a material fact or omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

The County has always promptly met all payments of principal and interest on its indebtedness when due.

LEGALITY

Legal matters incident to the authorization and issuance of the Bonds are subject to the approving opinion of Fryberger, Buchanan, Smith & Frederick, P.A., Duluth, Minnesota ("Bond Counsel") as to validity and tax exemption. A copy of such opinion will be available at the time of the delivery of the Bonds. See *Appendix A – Form of Legal Opinion*.

Bond Counsel has not participated in the preparation of this Official Statement and is not passing upon its accuracy, completeness or sufficiency. Bond Counsel has not examined, nor attempted to examine, or verify, any of the financial or statistical statements or data contained in this Official Statement, and will express no opinion with respect thereto.

TAX EXEMPTION

The following is a summary of certain U. S. federal and Minnesota income tax considerations relating to the purchase, ownership, and disposition of the Bonds. This summary is based on present federal and Minnesota laws, regulations, rulings and decisions, including the U.S. Internal Revenue Code of 1986, as amended (the "Code") and the Treasury Regulations promulgated thereunder, judicial decisions, and published rulings and administrative pronouncements of the Internal Revenue Service (the "IRS"), all as of the date hereof and all of which are subject to change, possibly with retroactive effect. Any such change could adversely affect the matters discussed below, including the tax exemption of interest on the Bonds. The City has not sought and will not seek any rulings from the IRS regarding the matters discussed below, and there can be no assurance the IRS or a court will not take a contrary position regarding these matters.

Prospective purchasers of Bonds should consult their own tax advisors with respect to applicable federal, state, and local tax rules, and any pending or proposed legislation or regulatory or administrative actions, relating to the Bonds based on their own particular circumstances.

Tax-Exempt Interest

In the opinion of Fryberger, Buchanan, Smith & Frederick, P.A., Duluth, Minnesota, as Bond Counsel, based on present federal and Minnesota laws, regulations, rulings and decisions, and on certifications to be furnished at closing, and assuming compliance by the County with certain tax covenants, that interest to be paid on the Bonds is excluded from gross income for federal income tax purposes and from taxable net income of individuals, trusts and estates for Minnesota income tax purposes (such interest is includable in taxable income of corporations and financial institutions for purposes of Minnesota franchise tax), and is not an item of tax preference which is included in alternative minimum taxable income for purposes of the federal alternative minimum tax imposed on individuals or the Minnesota alternative minimum tax imposed on individuals, trusts and estates; however, interest on the Bonds may affect the federal alternative minimum tax imposed on certain corporations.

The Code establishes certain requirements that must be met after the issuance of the Bonds in order that interest on the Bonds be excluded from federal gross income and from Minnesota taxable net income of individuals, estates, and trusts. The City has made certain representations and covenanted to comply with certain restrictions, conditions, and requirements designed to ensure interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or noncompliance with these covenants may cause interest on the Bonds to be included in federal gross income or in Minnesota taxable net income retroactively to their date of issue. Bond Counsel has not independently verified the accuracy of these representations and will not verify the continuing compliance with these covenants. No provision has been made for redemption of or for an increase in the interest rate on the Bonds in the event that interest on the Bonds is included in federal gross income or in Minnesota taxable net income.

Premium Bonds

A bondholder that acquires a Bond for an amount in excess of its principal amount generally must, from time to time, reduce the bondholder's federal and Minnesota tax bases for the Bond. Premium generally is

amortized for federal income tax purposes and Minnesota income and franchise tax purposes on the basis of a bondholder's constant yield to maturity or to certain call dates with semiannual compounding. Accordingly, bondholders who acquire Bonds at a premium might recognize taxable gain upon sale of the Bonds, even if such Bonds are sold for an amount equal to or less than their original cost. Amortized premium is not deductible for federal income tax purposes or for purposes of the Minnesota income tax applicable to individuals, estates and trusts. Bondholders should consult their tax advisers for an explanation of the amortization rules.

Discount Bonds

If a Bond is purchased for a cost that is less than the Bond's issue price (plus accrued original issue discount, if any), the purchaser will be treated as having purchased the Bond with market discount (unless a statutory *de minimis* rule applies). Market discount is treated as ordinary income and generally is recognized on the maturity or earlier disposition of the Bond (to the extent that the gain realized does not exceed the accrued market discount on the Bond). Bondholders should consult their tax advisers for an explanation of accrual.

Collateral Tax Matters

Ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and applicable corporations as defined in Section 59(k) of the Code relating to the alternative minimum tax imposed on corporations for tax years beginning after December 31, 2022. Bond Counsel expresses no opinion regarding such consequences. Prospective purchasers of the Bonds should consult their own tax advisors as to such consequences.

Backup Withholding

Payments of interest on the Bonds (including any allocable bond premium or accrued original issue discount) and proceeds from the sale or other disposition of the Bonds are expected to be reported to the IRS as required under applicable Treasury Regulations. Backup withholding will apply to these payments if the bondholder fails to provide an accurate taxpayer identification number and certification that it is not subject to backup withholding (generally on an IRS Form W-9) or otherwise fails to comply with the applicable backup withholding requirements. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against the bondholder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS. Certain bondholders are exempt from information reporting. Potential bondholders should consult their tax advisors regarding qualification for an exemption and the procedures for obtaining such an exemption.

Federal and State Tax Law Developments

From time to time, legislative proposals are introduced in Congress and in the states which, if enacted, could alter or amend the federal and state tax matters referred to above or would adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal may be enacted or whether, if enacted, it would apply to Bonds (such as the Bonds contemplated herein) issued prior to enactment. In addition, regulatory actions are from time-to-time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds or the market value thereof would be impacted thereby. Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

The above, including the discussion concerning collateral tax matters, is not intended to be a comprehensive list of all federal or state tax consequences which may arise from the receipt of interest on the Bonds. The receipt of interest on the Bonds may otherwise affect the federal or state income tax liability of the recipient based on the particular taxes to which the recipient is subject and the particular tax status of other items or deductions. Bond Counsel expresses no opinion regarding any such consequences. All prospective purchasers of the Bonds should consult their tax advisors as to the tax consequences of, or tax considerations for, purchasing or holding the Bonds, including without limitation the calculations of alternative minimum tax or foreign branch profits tax liability or the inclusion of Social Security or other retirement payments in taxable income.

Qualified Tax-Exempt Obligations

The City will designate the Bonds as “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Code relating to the ability of financial institutions to deduct from income for federal income tax purposes a portion of the interest expense that is allocable to carrying and acquiring tax-exempt obligations. Sections 265(a)(2) and 291 of the Code impose additional limitations on the deductibility of such interest expense.

WATONWAN COUNTY, MINNESOTA

GENERAL INFORMATION

Location/Access/Transportation

Watonwan County is located in the south central Minnesota, approximately 100 miles from the Twin Cities Metropolitan Area. The County is comprised of twenty municipalities, eight cities and twelve townships, in addition to six school districts that are located entirely or partially within the County. The County Seat is located in the City of St. James, which lies in the center of the County. Access is provided via State Highways 4, 30 and 60, as well as County Roads 3, 12 and 14.

Area

277,120 Acres
(433 Square Miles)

Population

2000 Census	11,876	2020 Census	11,253
2010 Census	11,211	2026 Estimate ¹	11,460

Labor Force Data²

Comparative average labor force and unemployment rate figures for 2026 (through May) and year-end 2025 are listed below. Figures are not seasonally adjusted and numbers of people are estimated by place of residence.

	<u>May 2026</u>		<u>2025</u>	
	<u>Civilian Labor Force</u>	<u>Unemployment Rate</u>	<u>Civilian Labor Force</u>	<u>Unemployment Rate</u>
Watonwan County	6,042	5.2%	6,083	4.0%
Minnesota	3,127,005	4.7	3,171,537	3.9

Income Data³

Comparative income levels are listed below for the County, the State of Minnesota and the United States.

	<u>Watonwan County</u>	<u>State of Minnesota</u>	<u>United States</u>
Median Family Income	\$95,037	\$113,993	\$99,999
Per Capita Income	35,869	48,237	44,673

County Government

Watonwan County, organized in 1860, is an organized County having the powers, duties, and privileges granted Counties by Minnesota Statutes, Chapter 373. The Board sets policies and makes program decisions for all departments and business. The Board meets the first and third Tuesday of each month. The County has a governing body with a chairperson and four commissioners. The professional staff consists of an Attorney, Auditor, Treasurer, Assessor, Engineer, and others.

Employee Pension Programs

The County employs 182 people, 155 full-time and 27 part-time. The pension plan currently covers 168 of the County's employees.

The County participates in contributory pension plans through the Public Employees Retirement Association (PERA) under Minnesota Statutes, Chapters 353 and 356, which cover all full-time and certain part-time employees.

¹ Source: Watonwan County.

² Source: Minnesota Department of Employment and Economic Development website.

³ Source: 2020-2024 American Community Survey, U.S. Census Bureau.

PERA administers the General Employees Retirement Fund (GERF), the Public Employees Police and Fire Fund (PEPFF) and the Public Employees Correctional Fund (PECF), which are cost sharing, multiple-employer retirement plans. Benefits are established by State Statute and vest after three years of credited service. State Statute requires the County to fund current service pension cost as it accrues. Defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF (formerly "PERF") and PEPFF. That report may be obtained at www.mnpera.org, or by writing to PERA at 60 Empire Drive, #200, St. Paul, MN 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

GERF Coordinated Plan members were required to contribute 6.50% of their annual covered salary in 2024. PEPFF members were required to contribute 11.8% of their annual covered salary in 2024. PECF members were required to contribute 5.83% of their annual covered salary in 2024. In 2024, State statute requires the County to contribute the following percentages of annual covered payroll: 7.50% for Coordinated Plan GERF members, 17.70% for PEPFF members and 8.75% for PECF members.

Other Postemployment Benefits (OPEB)

Plan Description

The County operates a single-employer retiree benefit plan which provides medical benefits for retirees. There are 144 active and no former employees in the plan. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Changes in Total OPEB Liability

	Total OPEB Liability
Total OPEB Liability beginning of fiscal year 2024	<u>\$ 359,805</u>
Changes for the year:	
Service Cost	\$ 49,993
Interest	15,736
Assumption Changes	7,151
Benefit payments	<u>(33,138)</u>
Net Changes	<u>39,742</u>
Total OPEB liability end of fiscal year 2024	<u><u>\$ 399,547</u></u>

Additional information regarding the County's OPEB obligations is provided in the County's Annual Financial Report, excerpts of which are provided in Appendix C of this Official Statement, with particular reference to page 44.

General Fund Budget Summary

	<u>2025 Budget</u>	<u>2025 Actual</u>	<u>2026 Budget</u>
Revenues:			
Property Taxes	\$6,767,571	\$6,746,170	\$7,301,548
Special Assessments	125,000	180,164	150,000
Licenses and Permits	14,650	13,697	12,650
Intergovernmental Revenue	1,973,526	2,077,996	1,714,870
Charges for Services	1,061,752	1,041,318	1,460,222
Fines and Forfeits	0	0	0
Gifts and Contributions	500	1,276	500
Investment Earnings	450,000	1,100,061	500,000
Miscellaneous	237,600	234,714	226,498
Total Revenues	\$10,630,000	\$11,395,396	\$11,366,288
Expenditures:			
General Government	\$5,552,228	\$5,385,296	\$5,550,037
Public Safety	3,838,275	3,846,224	4,550,242
Culture & Recreation	113,000	79,165	115,900
Conservation	1,115,177	1,069,950	1,166,021
Economic Development	154,119	148,294	48,000
Debt Service	125,000	176,091	150,000
Total Expenditures	\$10,897,799	\$10,705,020	\$11,580,200
Other Financing Sources:			
Transfers Out	0	(29,392)	0
Proceeds from Loan	140,000	216,808	140,000
Total Other Financing Sources	\$140,000	\$187,416	\$140,000

Estimated Cash/Investment Balances as of May 31, 2026 (unaudited)*Fund*

General Fund	\$ 8,085,945
Solid Waste Funds	179,046
Road and Bridge Funds	4,874,332
Library Funds	395,027
Human Services Funds	4,904,926
Building Equipment Funds	185,295
Capital Projects Funds	141,579
Debt Service Funds	78,267
Ditch Fund	570,042
Taxes and Penalties Fund	13,414,493
HUD Recapture Fund	46,479
Forfeited Land Fund	5,574
Sheriff's Contingency-Drugs and Liquor	<u>11,611</u>
Total Estimated Cash/Investment Balances	<u>\$ 32,892,616</u>

Financial Institutions

The County is served by the following financial institutions: Alliance Bank, Citizens Bank Minnesota, Odin State Bank, Pioneer Bank, The First National Bank at St. James, and Triumph State Bank.

Education

The following school districts serve students in the County: ISD No. 826 (Butterfield-Odin), ISD No. 837 (Madelia), ISD No. 840 (St. James), ISD No. 458 (Truman), ISD No. 081 (Comfrey), and ISD No. 173 (Mountain Lake).

Major Employers¹

Following are major/leading employers within the County:

<u><i>Name</i></u>	<u><i>Product/Service</i></u>	<u><i>Number of Employees²</i></u>
Smithfield Foods	Food Processing	500
Tony Downs Foods Co. ³	Food Processing (all County locations)	300
Watonwan County	County Government	182
Crystal Valley Co-op	Agricultural Co-op	140
ISD No. 840, St. James	Public Education	125
The Evangelical Lutheran Good Samaritan Society	Nursing Home	120
House of Print	Printing & Mailing	105
Madelia ISD No. 837	Public Education	100
St. James Medical Center-Mayo Health System	Health Care	82

¹ Sources: Data Axle Reference Solutions, and Watonwan County.

² Includes full-time, part-time, and seasonal employees.

³ Also known as Olympic Food Products Inc.

Largest Taxpayers¹

Following are ten of the largest taxpayers within the County:

<u>Name</u>	<u>Classification</u>	<u>2025/2026 Tax Capacity</u>	<u>Percent of Total Tax Capacity (\$28,278,581)²</u>
Downs Family Farms LLP	Agricultural	\$ 576,799	2.04%
Cunningham Family Farms	Agricultural	337,246	1.19
Xcel Energy	Utility	284,826	1.01
Tilney Farms LLP	Agricultural	268,911	0.95
Union Pacific Railroad Company	Railroad	256,904	0.91
Central Farm Service	Commercial	205,813	0.73
Individual	Agricultural	195,126	0.69
Individual Trust	Agricultural	173,341	0.61
Northern Natural Gas	Utility	158,786	0.56
Crystal Valley Cooperative	Agricultural	<u>157,912</u>	<u>0.56</u>
		<u>\$ 2,615,664</u>	<u>9.25%</u>

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¹ As reported by Watonwan County.

² Before tax increment adjustment.

MINNESOTA VALUATIONS; PROPERTY TAX CLASSIFICATIONS

Market Value

State Law defines the “market value” of real property as the usual selling price at the place where the property to which the term is applied shall be at the time of assessment; being the price which could be obtained at a private sale or an auction sale, if it is determined by the assessor that the price from the auction sale represents an arm's-length transaction. The assessor uses sales and market value income trends to estimate the value of property in an open market transaction. This value is also called “estimated market value”. This value is set on January 2 of each year. Property taxes levied each year are based on the value of property on January 2 of the preceding year. According to Minnesota Statutes, Chapter 273, all real property subject to taxation is to be appraised at maximum intervals of five years.

Taxable Market Value

The “taxable market value” is the amount used for calculating property taxes. The taxable market value may differ from the estimated market value due to the application of special programs that exclude value from taxation. These programs currently include, but are not limited to, Homestead Market Value Exclusion and Green Acres.

Market Value Exclusion

In 2011, the State Legislature eliminated the Homestead Market Value Credit. The Credit was an amount paid by the State to local taxing jurisdictions to reduce taxes paid by homesteaded property. The Credit has been replaced by a Homestead Market Value Exclusion. The Exclusion reduces the taxable market value (beginning with taxes payable 2012) of a jurisdiction by excluding a portion of the value of homesteaded property from taxation. For a homestead valued at \$95,000 or less, the exclusion is 40 percent of market value, yielding a maximum exclusion of \$38,000 at \$95,000 of market value. For a homestead valued between \$95,000 and \$517,200, the exclusion is \$38,000 minus nine percent of the valuation over \$95,000. For a homestead valued at \$517,200 or more, there is no valuation exclusion.

Sales Ratio

The Minnesota Department of Revenue conducts the Assessment Sales Ratio Study to compare real estate sales prices to local assessor valuations. The State uses the study results to ensure consistency in property assessments across the state. There are three different sales ratio studies that cover three distinct time periods. The 12-month study includes sales that occur from October 1st of a given year to September 30th of the following year and are compared to market values used for property taxation. The median ratio from the 12-month study is the sales ratio used to calculate indicated and economic market values.

Economic and Indicated Market Value

“Economic market value” and “indicated market value” reflect adjustments made to account for the effects of the sales ratio. The economic market value is determined by dividing the estimated market value of the jurisdiction by the sales ratio. Economic market value provides an estimation of the full value of property if it were valued at 100% of its value in the marketplace (prior to the application of legislatively mandated exclusions). The indicated market value is determined by dividing the taxable market value of the jurisdiction by the sales ratio. This value represents an estimation of the “full value” of property for taxation, after the deduction of legislative exclusions.

Net Tax Capacity

Property taxes are calculated on the basis of the “net tax capacity value”. Net tax capacity is calculated by multiplying the taxable market value of a parcel by the statutory class rate for the use classification of the property. These class rates are subject to revisions by the State Legislature. The table following this section contains current and historical class rates for primary property classifications.

Tax Cycle

Minnesota local government ad valorem property taxes are extended and collected by the various counties within the state. The process begins in the fall of every year with the certification, to the county auditor, of all local taxing districts' property tax levies. Local tax rates are calculated by dividing each taxing district's levy by its net tax capacity. One percentage point of local tax rate represents one dollar of tax per \$100 net tax capacity. A list of taxes due is then prepared by the county auditor and turned over to the county treasurer on or before the first Monday in January.

The county treasurer is responsible for collecting all property taxes within the county. Real estate and personal property tax statements (excluding manufactured homes) are to be mailed out no later than March 31, and manufactured home property tax statements no later than July 15. The due dates for payment of real and personal property taxes (excluding manufactured homes) are one-half on or before May 15 (May 31 for resorts) and one-half on or before October 15 (November 15 for farm property). Personal property taxes for manufactured homes become due one-half on or before August 31 and one-half on or before November 15. Delinquent property taxes are penalized at various rates depending on the type of property and the length of delinquency.

Tax Levies for General Obligation Bonds (Minnesota Statutes, Section 475.61)

State Law requires the governing body of any municipality issuing general obligations, prior to delivery of the obligations, to levy by resolution a direct general ad valorem tax upon all taxable property in the municipality to be spread upon the tax rolls for each year of the term of the obligations. The tax levies for all years shall be specified and such that if collected in full will, together with estimated collections of special assessments and other revenues pledged for the payment of said obligations, produce at least five percent in excess of the amount needed to meet the principal and interest payments on the obligations when due.

Such resolution shall irrevocably appropriate the taxes so levied and any special assessments or other revenues so pledged to the municipality's debt service fund or a special debt service fund or account created for the payment of one or more issues of obligations.

The governing body may, at its discretion, at any time after the obligations have been authorized, adopt a resolution levying only a portion of such taxes, to be filed, assessed, extended, collected and remitted, and the amount therein levied shall be credited against the tax required to be levied prior to delivery of the obligations.

The recording officer of the municipality shall file in the office of the county auditor of each county in which any part of the municipality is located a certified copy of the resolution, together with full information regarding the obligations for which the tax is levied. No further action by the municipality is required to authorize the extension, assessment and collection of the tax, but the municipality's liability on the obligations is not limited thereto and its governing body shall levy and cause to be extended, assessed and collected any additional taxes found necessary for full payment of the principal and interest. The auditor shall annually assess and extend upon the tax rolls the amount specified for such year in the resolution, unless the amount has been reduced as authorized below or, if the municipality is located in more than one county, the portion thereof that bears the same ratio to the whole amount as the tax capacity value of taxable property in that part of the municipality located in the county bears to the tax capacity value of all taxable property in the municipality.

Tax levies so made and filed shall be irrevocable, except that if the governing body in any year makes an irrevocable appropriation to the debt service fund of moneys actually on hand or if there is on hand any excess amount in the debt service fund, the recording officer may certify to the county auditor the fact and amount thereof and the auditor shall reduce by the amount so certified the amount otherwise to be included in the rolls next thereafter prepared.

All such taxes shall be collected and remitted to the municipality by the county treasurer as other taxes are collected and remitted, and shall be used only for payment of the obligations on account of that levied or to repay advances from other funds used for such payments, except that any surplus remaining in the debt service fund when the obligations and interest thereon are paid may be appropriated to any other general purpose by the municipality.

Levy Limits

The State Legislature periodically enacts limitations on the ability of cities and counties to levy property taxes. Levy limits were reenacted in 2013 and applied to all counties with a population over 5,000 and all cities with a population over 2,500 for taxes payable in 2014 only. Levies “to pay the costs of the principal and interest on bonded indebtedness” and “to provide for the bonded indebtedness portion of payments made to another political subdivision of the State of Minnesota” are designated special levies and can be levied in addition to the amount allowed by levy limitations.

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The following is a partial summary of these factors:

Property Tax Classifications

<u>Class</u>	<u>Type of Property</u>	<u>Class Rate Schedule</u>		
		<u>2023/ 2024</u>	<u>2024/ 2025</u>	<u>2025/ 2026</u>
1a	<u>Residential Homestead</u> : First \$500,000	1.00%	1.00%	1.00%
	Over \$500,000	1.25	1.25	1.25
1c	<u>Commercial seasonal-residential recreational-</u> under 250 days and includes homestead			
	First \$600,000	.50	.50	.50
	\$600,001-2,300,000	1.00	1.00	1.00
	Over \$2,300,000 [†]	1.25	1.25	1.25
2a	<u>Agricultural Homestead – House, Garage, One Acre:</u>			
	First \$500,000	1.00	1.00	1.00
	Over \$500,000	1.25	1.25	1.25
	Remainder of Farm* –			
	First \$2,150,000	0.50		
	Over \$2,150,000	1.00		
	First \$3,500,000		.50	
	Over \$3,500,000		1.00	
	First \$3,800,000			.50
	Over \$3,800,000			1.00
2b	<u>Non-Homestead Rural Vacant Land</u> ¹	1.00	1.00	1.00
3a	<u>Commercial/Industrial and Public Utility</u>			
	First \$150,000 [†]	1.50	1.50	1.50
	Over \$150,000 [†]	2.00	2.00	2.00
4a	<u>Apartment</u> (4+ units, incl. private for-profit hospitals)	1.25	1.25	1.25
4bb(1)	<u>Residential Non-Homestead</u> (Single Unit)			
)	First \$500,000	1.00	1.00	1.00
	Over \$500,000	1.25	1.25	1.25
4c(1)	<u>Seasonal Residential Recreational/Commercial</u> [†]			
	(Resort): First \$500,000	1.00	1.00	1.00
	Over \$500,000	1.25	1.25	1.25
4c(12)	<u>Seasonal Residential Recreational</u> [†]			
)	Non-Commercial (Cabin): First \$500,000*	1.00	1.00	1.00
	Over \$500,000*	1.25	1.25	1.25
4d	<u>Qualifying Low-Income Rental Housing</u>			
	First \$100,000	.75	.25	.25
	Over \$100,000	.25	.25	.25

[†] Subject to the state general property tax.

* Exempt from referendum market value-based taxes.

¹ Homestead remainder & non-homestead; includes minor ancillary structures.

WATONWAN COUNTY, MINNESOTA

ECONOMIC AND FINANCIAL INFORMATION¹

Valuations

	<i>Estimated Market Value 2025/2026</i>	<i>Net Tax Capacity 2025/2026</i>
Real Property	\$ 3,309,000,500	\$ 27,839,849
Personal Property	22,194,400	438,732
Less Tax Increment Deduction	<u>- - -</u>	<u>(130,220)</u>
Total Adjusted Valuation	<u>\$ 3,331,194,900</u>	<u>\$ 28,148,361</u>

Valuation Trends (Real and Personal Property)

<i>Levy Year/ Collection Year</i>	<i>Economic Market Value</i>	<i>Sales Ratio</i>	<i>Estimated Market Value</i>	<i>Taxable Market Value</i>	<i>Tax Capacity Before Tax Increments</i>	<i>Tax Capacity After Tax Increments</i>
2025/2026	\$3,559,145,806	93.73%	\$3,331,194,900	\$3,236,749,364	\$28,278,581	\$28,148,361
2024/2025	3,388,756,631	105.54	3,574,271,700	3,480,393,800	30,410,889	30,277,615
2023/2024	3,502,901,920	99.35	3,470,459,600	3,405,787,474	30,737,649	30,678,813
2022/2023	3,230,602,803	81.45	2,620,259,900	2,550,416,056	22,905,482	22,777,119
2021/2022	2,379,384,016	93.03	2,212,046,200	2,130,881,600	18,870,383	18,744,261

Breakdown of Valuations

2025/2026 Tax Capacity, Real and Personal Property (before tax increment adjustments):

Residential Homestead	\$ 4,702,324	16.63%
Agricultural	19,715,632	69.72
Commercial & Industrial	1,443,722	5.10
Public Utility	210,886	0.75
Railroad	256,904	0.91
Residential Non-Homestead	1,342,271	4.75
Seasonal/Recreational	168,110	0.59
Personal Property	<u>438,732</u>	<u>1.55</u>
Totals:	<u>\$ 28,278,581</u>	<u>100.00%</u>

¹ Property valuations, tax rates, and tax levies and collections are provided by Watonwan County. Economic market value and sales ratio are provided by the Minnesota Department of Revenue.

Tax Capacity Rates

Tax capacity rates for a County resident within the City of St. James, for the past five-assessable/collection years have been as follows:

<i>Levy Year/ Collection Year</i>	<i>2021/22 Tax Capacity Rates</i>	<i>2022/23 Tax Capacity Rates</i>	<i>2023/24 Tax Capacity Rates</i>	<i>2024/25 Tax Capacity Rates</i>	<i>2025/26 Tax Capacity Rates</i>
Watonwan County	57.959%	49.372%	39.587%	42.317%	48.250%
City of St. James	88.502	71.692	61.859	55.202	56.756
ISD No. 840, St. James	24.415	19.999	14.488	15.508	19.415
Region 9	0.187	0.150	0.118	0.137	0.147
Watonwan HRA	<u>0.562</u>	<u>0.472</u>	<u>0.357</u>	<u>0.000</u>	<u>0.000</u>
Totals:	<u>171.625%</u>	<u>141.685%</u>	<u>116.409%</u>	<u>113.164%</u>	<u>124.568%</u>
<i><u>Market Value Rates:</u></i>					
ISD No. 840, St. James	0.22077%	0.16619%	0.17727%	0.17519%	0.20804%

Tax Levies and Collections¹

<u>Levy/Collect</u>	<u>Net Levy</u>	<u>Collected During Collection Year</u>		<u>Collected and/or Abated as of 5/20/26</u>	
		<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
2025/2026	\$13,411,022		In Process of Collection		
2024/2025	12,626,373	\$12,507,358	99.06%	\$12,582,793	99.65%
2023/2024	11,944,720	11,857,314	99.27	11,927,148	99.85
2022/2023	11,017,887	10,881,669	98.76	11,008,946	99.92
2021/2022	10,668,578	10,575,491	99.13	10,665,388	99.97

¹ 2025/2026 property taxes are currently in the process of collection/reporting and updated figures are not yet available from Watonwan County.

SUMMARY OF DEBT AND DEBT STATISTICS

Statutory Debt Limit¹

Minnesota Statutes, Section 475.53 states that a city or county may not incur or be subject to a net debt in excess of three percent (3%) of its estimated market value. Net debt is, with limited exceptions, debt paid solely from ad valorem taxes.

Computation of Legal Debt Margin as of August 2, 2026:

2025/2026 Estimated Market Value	\$ 3,331,194,900
Multiplied by 3%	<u>x .03</u>
Statutory Debt Limit	<u>\$ 99,935,847</u>
Less outstanding debt applicable to debt limit:	
\$1,055,000 G.O. Capital Improvement Plan Refunding Bonds, Series 2021A	\$ <u>655,000</u>
Total Debt applicable to debt limit:	\$ 655,000
Legal debt margin	<u>\$ 99,280,847</u>

¹ Effective June 2, 1997 and pursuant to Minnesota Statutes 465.71, any lease revenue or public project revenue bond issues/agreements of \$1,000,000 or more are subject to the statutory debt limit. Lease revenue or public project revenue bond issues/agreements less than \$1,000,000 are not subject to the statutory debt limit.

WATONWAN COUNTY, MINNESOTA
GENERAL OBLIGATION DEBT PAYABLE FROM TAXES
(As of August 2, 2026)

Purpose:	G.O. Capital Improvement Plan Refunding Bonds, Series 2021A			
Dated:	01/05/21			
Original Amount:	\$1,045,000			
Maturity:	1-Feb	TOTAL	TOTAL	
Interest Rates:	0.20-1.20%	PRINCIPAL:	PRIN & INT:	
2026	\$0	\$0	\$0	2026
2027	80,000	80,000	86,295	2027
2028	80,000	80,000	85,735	2028
2029	80,000	80,000	85,055	2029
2030	80,000	80,000	84,255	2030
2031	80,000	80,000	83,415	2031
2032	85,000	85,000	87,508	2032
2033	85,000	85,000	86,530	2033
2034	85,000	85,000	85,510	2034
	\$655,000	\$655,000	\$684,303	
	(1)			

NOTE: 100% OF GENERAL OBLIGATION DEBT PAYABLE FROM TAXES WILL BE RETIRED WITHIN TEN YEARS.

(1) These bonds refunded, on February 1, 2021, the remaining maturities of the General Obligation Capital Improvement Plan Bonds, Series 2013A.

WATONWAN COUNTY, MINNESOTA
GENERAL OBLIGATION DEBT PAYABLE FROM SPECIAL ASSESSMENTS
(As of August 2, 2026, Plus This Issue)

Purpose:	This Issue		TOTAL PRINCIPAL:	TOTAL PRIN & INT:	
	G.O. Ditch Bonds Series 2022A	G.O. Ditch Bonds Series 2026A			
Dated:	09/15/22	09/16/26			
Original Amount:	\$7,190,000	\$2,340,000			
Maturity:	1-Feb	1-Feb			
Interest Rates:	3.00-5.00%				
2026	\$0	\$0	\$0	\$0	2026
2027	280,000	0	280,000	577,384	2027
2028	295,000	100,000	395,000	686,605	2028
2029	310,000	130,000	440,000	713,285	2029
2030	325,000	135,000	460,000	715,291	2030
2031	335,000	135,000	470,000	708,176	2031
2032	350,000	140,000	490,000	712,100	2032
2033	360,000	145,000	505,000	712,031	2033
2034	370,000	150,000	520,000	711,360	2034
2035	380,000	155,000	535,000	710,076	2035
2036	395,000	160,000	555,000	713,095	2036
2037	405,000	165,000	570,000	710,112	2037
2038	415,000	170,000	585,000	705,925	2038
2039	430,000	180,000	610,000	710,405	2039
2040	450,000	185,000	635,000	713,384	2040
2041	460,000	195,000	655,000	710,190	2041
2042	475,000	195,000	670,000	700,974	2042
2043	495,000	0	495,000	504,281	2043
	\$6,530,000	\$2,340,000	\$8,870,000	\$11,714,675	

NOTE: 46% OF GENERAL OBLIGATION DEBT PAYABLE FROM SPECIAL ASSESSMENTS WILL BE RETIRED WITHIN TEN YEARS.

WATONWAN COUNTY, MINNESOTA
DEBT ISSUED FOR RED ROCK RURAL WATER SYSTEM, MINNESOTA
GENERAL OBLIGATION DEBT
(As of August 2, 2026)

Purpose: G.O. Water
Revenue Crossover
Refunding Bonds,
Series 2016A

Dated: 06/01/16

Original Amount: \$1,155,000

Maturity: 1-Jan

Interest Rates: 1.75-2.30%

TOTAL

PRINCIPAL:

TOTAL

PRIN & INT:

2026	\$0	\$0	\$0	2026
2027	90,000	90,000	101,263	2027
2028	95,000	95,000	104,350	2028
2029	95,000	95,000	102,513	2029
2030	100,000	100,000	105,500	2030
2031	95,000	95,000	98,369	2031
2032	100,000	100,000	101,150	2032

\$575,000 \$575,000 \$613,143

(1) (2)

NOTE: 100% OF GENERAL OBLIGATION DEBT ISSUED ON BEHALF OF RRRWS WILL BE RETIRED WITHIN TEN YEARS.

- (1) These bonds are payable primarily from special assessments against all benefitted property as well as net revenues of the Red Rock Rural Water System and additionally secured by ad valorem taxes on all taxable property within the County and without
- (2) These bonds refunded, on January 1, 2019, the remaining maturities of the General Obligation Water Revenue Refunding Bonds, Series 2009.

Indirect Debt*

<u>Issuer</u>	<u>2025/2026 Tax Capacity Value⁽¹⁾</u>	<u>2025/2026 Tax Capacity Value in County⁽¹⁾</u>	<u>Percentage Applicable in County</u>	<u>Outstanding General Obligation Debt⁽²⁾</u>	<u>Taxpayers' Share of Debt</u>
City of Madelia	\$ 1,614,933	\$ 1,614,933	100.00%	\$ 2,638,000 ⁽³⁾	\$ 2,638,000
City of St. James	2,830,699	2,830,699	100.00	1,811,458 ⁽⁴⁾	1,811,458
ISD No. 458, Truman	9,422,130	2,841,078	30.15	12,470,000	3,759,705
ISD No. 836, Butterfield-Odin	5,332,412	4,768,413	89.42	8,136,000	7,275,211
ISD No. 837, Madelia	9,044,324	6,077,832	67.20	32,540,000	21,866,880
ISD No. 840, St. James	14,814,767	13,690,692	92.41	25,825,000	23,864,883
ISD No. 173, Mountain Lake	10,142,705	11,415	0.11	11,894,000	<u>13,083</u>
				<i>Total Indirect Debt:</i>	<u><u>\$ 61,229,220</u></u>

(Remainder of page intentionally left blank)

* Only those taxing jurisdictions with general obligation debt outstanding that is not payable from revenues are included. Debt figures do not include non-general obligation debt, short-term general obligation debt, general obligation debt payable from revenues, or general obligation tax/aid anticipation certificates of indebtedness.

(1) Tax Capacity Value is after tax increment deduction adjustments.

(2) As of August 2, 2026.

(3) The City of Madelia has \$8,088,000 of outstanding general obligation debt, of which \$5,450,000 has been excluded as it is payable primarily from utility revenues.

(4) The City of St. James has \$17,440,051 of outstanding general obligation debt, of which \$15,628,593 has been excluded as it is payable primarily from utility revenues.

General Obligation Debt

Bonds secured by special assessments (includes this issue)	\$ 8,870,000
Bonds secured by water revenues	575,000
Bonds secured by taxes	<u>655,000</u>
Subtotal	\$ 10,100,000
Less bonds secured by water revenues	(<u>575,000</u>)
<i>Direct General Obligation Debt</i>	9,525,000
Add taxpayers' share of indirect debt	<u>61,229,220</u>
<i>Direct and Indirect Debt</i>	<u>\$ 70,754,220</u>

Facts for Ratio Computations

2025/2026 Economic Market Value (real and personal property)	\$3,559,145,806
Population (2026 estimate)	11,460

Debt Ratios Excluding Revenue-Supported Debt

	<i>Direct <u>Debt</u></i>	<i>Indirect <u>Debt</u></i>	<i>Direct and <u>Indirect Debt</u></i>
To Economic Market Value	.27%	1.72%	1.99%
Per Capita	\$831	\$5,343	\$6,174

APPENDIX A

Legal Opinion

FRYBERGER

— LAW FIRM —

September 16, 2026

Watonwan County
710 Second Avenue South
St. James, MN 56081

[TBD]

RE: Watonwan County, Minnesota
\$2,340,000 General Obligation Ditch Bonds, Series 2026A

We have acted as Bond Counsel in connection with the authorization, issuance and delivery by Watonwan County, Minnesota (the “Issuer”), of the above-referenced obligation dated the date hereof (the “Bonds”). The Bonds are issued pursuant to Minnesota Statutes, Section 103E.635 and Chapter 475.

A. Scope of Examination. For the purpose of rendering this opinion letter, we have examined the following:

1. a resolution of the Issuer adopted on August 18, 2026 authorizing the issuance and delivery of the Bonds (the “Resolution”);
2. the Officers’ Certificate of the Issuer dated the date hereof setting forth and certifying as to certain matters, including but not limited to the use and investment of the proceeds of the Bonds (the “Tax Certificate”);
3. applicable law and certified copies of certain proceedings taken, and certain affidavits and certificates furnished by the Issuer and others with respect to the authorization, sale and issuance of the Bonds; and
4. such other documents as we consider necessary in order to render this opinion.

B. Reliance. As to questions of fact material to our opinion, we have relied upon certified proceedings, documents and certifications furnished to us by public officials and officers of the Issuer and others without undertaking to verify such facts by independent investigation. We have also relied, without independent investigation, upon representations and certifications made by the Issuer in the Tax Certificate and the representations and certifications

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September 16, 2026

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made by the Issuer, agents of the Issuer and others in connection with the issuance of the Bonds as to: (a) the nature, cost, use and useful economic life of the facilities financed by the Bonds, (b) the application to be made of the proceeds of the Bonds, (c) the investment of such proceeds and (d) other matters material to the tax-exempt status of the interest borne by the Bonds, including the anticipated sources of repayment of the Bonds.

C. Assumptions.

1. In rendering the opinions contained in Section D below, we have assumed: (a) the legal capacity for all purposes relevant hereto of all natural persons, (b) with respect to all parties to agreements or instruments relevant hereto other than the Issuer, that such parties had the requisite power and authority (corporate or otherwise) to execute, deliver and perform such agreements or instruments, (c) that such agreements or instruments are the valid, binding and enforceable obligations of each such party, other than the Issuer, (d) the authenticity of all documents submitted to us as originals and the authenticity of the originals, (e) the conformity to original documents of all documents submitted to us as certified or photostatic copies, (f) the genuineness of the signatures on all documents submitted to us, and (g) the accuracy of the facts and representations stated in all documents submitted to us.

2. In rendering the opinions contained in paragraphs 3 and 4 of Section D below, we have assumed that the proceeds of the Bonds will be applied in accordance with the provisions of the Resolution and the representations made by the Issuer in the Tax Certificate and that the Issuer will make or cause to be made any necessary calculations and pay to the United States any amounts required under Section 148 of the Internal Revenue Code of 1986, as amended (the "Code").

3. For the purpose of rendering the opinion set forth in paragraph 3 of Section D, below, we have also assumed compliance by the Issuer with requirements of the Code that must be satisfied subsequent to the issuance of the Bonds. The Issuer has covenanted to comply with each such requirement.

D. Opinions. Based upon such examination, assumptions and reliance, on the basis of federal and State of Minnesota (the "State") laws, regulations, rulings and decisions in effect on the date hereof, but excluding any pending legislation which may have a retroactive date prior to the date hereof, and subject to certain limitations set forth in Section E below, it is our opinion that:

1. The Bonds are valid and binding general obligation of the Issuer enforceable in accordance with its terms.

September 16, 2026

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2. All taxable property in the territory of the Issuer is subject to ad valorem taxation without limitation as to rate or amount to pay the principal of and interest on the Bonds.

3. The Bonds, as of their date of issuance, bears interest which is (a) not includable in gross income of the recipient for federal income tax purposes or in taxable net income of individuals, trusts and estates for State income tax purposes; (b) includable in taxable income of corporations and financial institutions for purposes of State franchise tax; and (c) not an item of tax preference which is included in alternative minimum taxable income for purposes of the federal alternative minimum tax imposed on individuals or the State alternative minimum tax imposed on individuals, trusts and estates; however, such interest on the Bonds may affect the federal alternative minimum tax imposed on certain corporations.

4. Based solely on factual representations by the Issuer, the Bonds have been designated by the Issuer as “qualified tax-exempt obligations” under and within the meaning of Section 265(b)(3)(b) of the Code.

E. Qualifications and Limitations. The opinions expressed in Section D above are subject to the following:

1. We express no opinion as to federal or state tax consequences arising from ownership of the Bonds other than as set forth in Section D hereof.

2. The rights of the owners and enforceability of the Bonds are subject to and may be limited by (a) state and federal laws, rulings, decisions and principles of equity affecting remedies, including (without limitation) concepts of materiality, reasonableness, good faith and fair dealing, and other similar doctrines affecting the enforceability of agreements generally (regardless of whether considered in a proceeding in equity or at law); (b) the effect of any applicable bankruptcy, moratorium, insolvency, reorganization, fraudulent conveyance or other similar laws affecting the enforcement of creditors’ or secured creditors’ rights or laws relating to creditors’ or secured creditors’ rights against public instrumentalities heretofore or hereafter enacted to the extent constitutionally applicable; (c) the exercise of judicial discretion in appropriate cases; and (d) federal and state securities laws and public policy relating thereto.

3. Failure by the Issuer to comply with applicable requirements of the Code could cause the interest on the Bonds to be includable in the gross income of the owners thereof for federal income taxation, either prospectively or retroactively to the date hereof.

4. Our opinions expressed in Section D above are limited to the law of the State and the federal law of the United States of America, and we assume no responsibility as

September 16, 2026

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to the applicability to this transaction, or the effect thereon, of the law of any other jurisdiction.

5. Except as expressly stated in this opinion, we express no opinion as to compliance with any federal securities laws or any state securities or Blue Sky laws.

6. This opinion is rendered as of the date set forth above and we express no opinion as to circumstances or events which may occur subsequent to such date.

7. The foregoing opinions are being furnished to you solely for your benefit and may not be relied upon by, nor may copies be delivered to, any other person without our prior written consent.

8. We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of any offering material relating to the Bonds, and we express no opinion relating thereto.

Respectfully submitted,

Fryberger, Buchanan, Smith & Frederick, P.A.

APPENDIX B

Continuing Disclosure Certificate

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by Watonwan County, Minnesota (the “Issuer”) in connection with the issuance of the \$2,340,000 General Obligation Ditch Bonds, Series 2026A, dated September 16, 2026 (the “Obligations”). The Obligations are being issued pursuant to a Resolution of the Issuer dated August 18, 2026 (the “Resolution”). The Issuer covenants and agrees as follows:

Section 1. (a) Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the holders and beneficial owners of the Obligations and in order to assist the Participating Underwriter in complying with the Rule (defined below). References in this Disclosure Certificate to holders of the Obligations shall include the beneficial owners of the Obligations. This Disclosure Certificate constitutes the written understanding under the Rule.

(b) Filing Requirements. Any filing under this Disclosure Certificate must be made solely by transmitting such filing to the MSRB (defined herein) through the Electronic Municipal Market Access (“EMMA”) System at www.emma.msrb.org in the format prescribed by the MSRB. All documents provided to the MSRB shall be accompanied by the identifying information prescribed by the MSRB.

Section 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” means any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Audited Financial Statements” means the Issuer’s annual financial statements, which are currently prepared in accordance with generally accepted accounting principles (GAAP) for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and which the Issuer intends to continue to prepare in substantially the same form.

“Code” means the Internal Revenue Code of 1986, as amended.

“Dissemination Agent” means such person from time to time designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

“Financial Obligation” means, with respect to the Issuer a: (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of one of the foregoing. The term “Financial Obligation” shall not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with this rule.

“IRS” means the Internal Revenue Service of the Department of the Treasury.

“Listed Events” means any of the events listed in Sections 5(a) and 5(b) of this Disclosure Certificate.

“MSRB” means the Municipal Securities Rulemaking Board, whose current address is 1300 I Street NW, Suite 1000, Washington, DC 20005.

“Official Statement” means the Official Statement, dated _____, 2026, delivered in connection with the original issuance and sale of the Obligations, together with any amendments thereto or supplements thereof.

“Participating Underwriter” means any of the original underwriter(s) of the Obligations required to comply with the Rule in connection with offering of the Obligations.

“Rule” means Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time. Reference is also made to SEC Release No. 34-83885 (File No. S7-01-17) for additional information relating to the Issuer’s compliance with this Certificate.

“SEC” means the Securities and Exchange Commission or any successor to its functions governing state and municipal securities.

Section 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent to, not later than 12 months after the end of the fiscal year (presently December 31), commencing with the fiscal year ended December 31, 2025, provide to the MSRB, filed in accordance with Section 1(b) of this Disclosure Certificate, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the Audited Financial Statements of the Issuer may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date; provided, however, unaudited financial information will be provided and the Audited Financial Statements will be submitted to the MSRB when and if available. The Issuer may provide the Annual Report by specific reference to documents previously provided to the MSRB or filed with the SEC; provided, however, that if the document so referenced is a final official statement within the meaning of the Rule, such final official statement must be available from the MSRB.

(b) Not later than 15 days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the Issuer shall provide the Annual Report to the Dissemination Agent (if the Issuer is not the Dissemination Agent).

(c) If the Issuer is unable or fails to provide an Annual Report by the date required in subsection (a), the Issuer shall send in a timely manner a notice of such fact to

the MSRB in the format prescribed by the MSRB, as described in Section 1(b) of this Disclosure Certificate.

Section 4. Content of Annual Reports. The Issuer's Annual Report shall contain or incorporate by reference the Audited Financial Statements and updates of the following sections of the Official Statement to the extent such financial information and operating data are not included in the Audited Financial Statements:

(a) Economic and Financial Information – “Valuations,” “Tax Capacity Rates,” and “Tax Levies and Collections”

(b) Summary of Debt and Debt Statistics

Section 5. Reporting of Significant Events.

(a) The Issuer shall give, or cause to be given notice of the occurrence of any of the following events with respect to the Obligations, in a timely manner not in excess of 10 business days after the occurrence of the event:

(1) principal and interest payment delinquencies;

(2) unscheduled draws on debt service reserves reflecting financial difficulties;

(3) unscheduled draws on credit enhancements reflecting financial difficulties;

(4) substitution of credit or liquidity providers, if any, or their failure to perform;

(5) adverse tax opinions or the issuance by the IRS of proposed or final determinations of taxability or of a Notice of Proposed Issue (IRS Form 5701-TEB);

(6) tender offers;

(7) defeasances;

(8) rating changes;

(9) bankruptcy, insolvency, receivership or similar event of the Issuer;
or

(10) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation, any of which reflect financial difficulties.

(b) The Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Obligations, *if material*, in a timely manner not in excess of 10 business days after the occurrence of the event:

(1) non-payment related defaults;

(2) unless described in (a)(5) above, other notices or determinations by the IRS with respect to the tax-exempt status of the Obligations, or other events affecting the tax-exempt status of the Obligations;

(3) modifications to rights of holders of the Obligations;

(4) bond calls;

(5) release, substitution or sale of property securing repayment of the Obligations;

(6) the consummation of a merger, consolidation or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;

(7) appointment of a successor or additional trustee or the change of name of a trustee; or

(8) incurrence of a Financial Obligation or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation, any of which affect security holders.

(c) For the purposes of the event identified in subsection (a)(9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan or reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer.

(d) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event under subsection (b), the Issuer shall as soon as possible determine if such event would constitute material information for holders of Obligations.

(e) Unless otherwise required by law, the Issuer shall submit the information in the format prescribed by the MSRB, as described in Section 1(b) of this Disclosure Certificate.

Section 6. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Obligations.

Section 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Issuer pursuant to this Disclosure Certificate. If at any time there is not any other designated Dissemination Agent, the Issuer shall be the Dissemination Agent.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Issuer may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived if such amendment or waiver is supported by an opinion of nationally recognized bond counsel to the effect that such amendment or waiver would not, in and of itself, cause the undertaking herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Certificate, the Issuer shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate, any holder or beneficial owner of the Obligations may take such action as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Issuer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful

misconduct. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Obligations.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Obligations, and shall create no rights in any other person or entity.

Section 13. Reserved Rights. The Issuer reserves the right to discontinue providing any information required under the Rule if a final determination should be made by a court of competent jurisdiction that the Rule is invalid or otherwise unlawful or, subject to the provisions of Section 8 hereof, to modify the undertaking under this Disclosure Certificate if the Issuer determines that such modification is required by the Rule or by a court of competent jurisdiction.

Dated as of September 16, 2026.

WATONWAN COUNTY

By _____
Chair

By _____
County Auditor

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APPENDIX C

County's Financial Statement

The following financial statements are excerpts from the annual financial report for the year ended December 31, 2024. The complete financial report for the year 2024 and the prior two years are available for inspection at the County Offices and the office of Northland Securities, Inc. The reader of this Official Statement should be aware that the complete financial report may have further data relating to the excerpts presented in the appendix which may provide additional explanation, interpretation or modification of the excerpts.



Independent Auditor's Report

Board of County Commissioners
Watonwan County
St. 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, 2024, 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, 2024, and the respective changes in financial position, and the respective budgetary comparison of the General Fund, the Road and Bridge Special Revenue Fund, and the Human Services Special Revenue Fund 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 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, 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 5, 2025, 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

September 5, 2025

/s/Chad Struss

Chad Struss, CPA
Deputy State Auditor

Management's Discussion and Analysis

Watonwan County St. James, Minnesota

Management's Discussion and Analysis December 31, 2024 (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, 2024. 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 2024 by \$81,656,101. Of this amount, \$5,168,296 (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 \$1,794,340 in 2024.
- At the close of 2024, Watonwan County's governmental funds reported combined ending fund balances of \$20,395,111, of which \$6,528,202 is unassigned and is available for spending at the County's discretion.
- At the close of 2024, unassigned fund balance for the General Fund was \$10,841,930, or 102.23 percent, of total General Fund expenditures.
- Watonwan County's total bonds payable decreased by \$280,000. 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 \$145,000 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.

Governmental funds 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.

Fiduciary funds 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 do not involve measurement of results of operations and 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 9, and Watonwan County's fiduciary fund financial statements are on Exhibits 10 and 11.

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-1) and schedules of the proportionate share of net pension liability and schedules of contributions (Exhibits A-2 to A-7). 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.

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 \$81,656,101 at the close of 2024. The largest portion of Watonwan County's net position (86.52 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.

Statement of Net Position

	Governmental Activities	
	2023	2024
Assets		
Current and other assets	\$ 30,644,098	\$ 32,905,919
Capital assets, net	70,319,209	73,475,701
Total Assets	\$ 100,963,307	\$ 106,381,620
Deferred Outflows of Resources	\$ 3,083,354	\$ 2,040,589
Liabilities		
Long-term liabilities outstanding	\$ 16,732,659	\$ 15,535,777
Other liabilities	3,081,328	5,389,772
Total Liabilities	\$ 19,813,987	\$ 20,925,549
Deferred Inflows of Resources	\$ 4,370,913	\$ 5,840,559
Net Position		
Net investment in capital assets	\$ 69,400,189	\$ 70,649,782
Restricted	5,047,741	5,838,023
Unrestricted	5,413,831	5,168,296
Total Net Position	\$ 79,861,761	\$ 81,656,101

The unrestricted net position amount of \$5,168,296 as of December 31, 2024, 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 2024.

Changes in Net Position

	Governmental Activities	
	2023	2024
Revenues		
Program revenues		
Charges for services	\$ 5,325,768	\$ 3,222,195
Operating grants and contributions	10,763,433	11,502,738
Capital grants and contributions	259,700	1,286,011
General revenues		
Property taxes	11,255,228	12,076,112
Other	2,472,222	2,713,286
Total Revenues	\$ 30,076,351	\$ 30,800,342
Expenses		
General government	\$ 4,860,540	\$ 5,453,344
Public safety	3,696,941	3,857,807
Highways and streets	6,553,825	7,849,818
Sanitation	330,432	374,717
Human services	5,889,097	6,309,098
Health	760,649	925,779
Culture and recreation	854,523	1,047,340
Conservation of natural resources	2,931,666	2,785,279
Economic development	141,074	138,991
Interest	236,225	263,829
Total Expenses	\$ 26,254,972	\$ 29,006,002
Change in Net Position	\$ 3,821,379	\$ 1,794,340
Net Position – January 1	76,040,382	79,861,761
Net Position – December 31	\$ 79,861,761	\$ 81,656,101

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 \$20,395,111. Of this amount, \$6,528,202 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 \$10,841,930, while the total fund balance was \$15,162,518. 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 102.23 percent of total General Fund expenditures for 2024, while total fund balance represents 142.96 percent of total General Fund expenditures. In

2024, the total fund balance in the General Fund increased by \$1,192,989, with unassigned fund balance increasing by \$693,717, restricted fund balance increasing by \$377,772, and nonspendable fund balance increasing by \$121,500.

In 2024, the Road and Bridge Special Revenue Fund showed excess expenditures over revenues of \$723,548, a decrease in inventories of \$73,752, and a transfer in from the General Fund of \$100,000 for a net decrease in fund balance of \$697,300. Revenues were under budget by \$7,417,724. The significant variance was in intergovernmental revenues of \$7,276,734. The City of Madelia was awarded State General Funds that flow through MnDOT’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. The project was delayed resulting in revenue being under budget. Expenditures were also under budget by \$6,907,467. The significant variance was maintenance and construction expenditures also due to this project delay.

In 2024, the Human Services Special Revenue Fund’s fund balance increased by \$543,813. Revenues were over budget by \$281,880. The most significant revenue variance was in intergovernmental revenues at \$207,739 over budget. Expenditures were also under budget by \$452,788. The most significant expenditure variance was social services expenditures at \$492,925 under budget. The variance was due to a considerable reduction in out-of-home placement costs.

In 2024, the County Ditch Special Revenue Fund’s fund balance decreased by \$1,823,181 to (\$2,989,135). Current improvement projects are Judicial Ditch 18, 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. Judicial Ditch 18 was finalized in 2025, so special assessment collection will begin in 2026.

General Fund Budgetary Highlights

There were variances in operational revenues and expenditures in the General Fund. Total revenues exceeded budget by \$1,338,593, or 13.06 percent. Intergovernmental revenues exceeded budget by \$457,677. The significant variance is revenue earned from the Public Land Survey System Grant of \$179,480; Statewide Local Housing Aid of \$87,129; Police State Aid of \$42,455 over budget; and Emergency Management Performance Grant of \$74,864 over budget. Total expenditures were over budget by \$19,174.

Capital Assets and Debt Administration

Capital Assets

The County’s investment in capital assets for its governmental activities as of December 31, 2024, amounts to \$73,475,701 (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 increase in the County’s investment in capital assets, net of depreciation and amortization, for the current fiscal year was \$3,156,492.

Governmental Capital Assets (Net of Depreciation and Amortization)

	2023	2024
Land	\$ 717,067	\$ 717,067
Construction in progress	380,701	355,516
Land improvements	2,055,727	1,998,137
Buildings	4,216,516	4,056,888
Machinery, furniture, and equipment	4,623,758	4,671,203
Infrastructure	58,325,440	61,627,934
Software subscriptions	-	48,956
Total	\$ 70,319,209	\$ 73,475,701

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 \$7,970,000, which is backed by the full faith and credit of the government. The County also had \$1,039,487 of Agriculture Best Management Loans outstanding.

Outstanding Debt

	Governmental Activities	
	2023	2024
General obligation bonds	\$ 8,250,000	\$ 7,970,000
Ag Best Management Loan Program	895,678	1,039,487

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 2024, 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 2.5 percent as of the end of 2024, slightly lower than the state-wide rate of 2.6 percent.
- The total tax capacity of the County had a slight decrease for 2024 due to an increase to the agricultural homestead first tier class rate.

At the end of 2024, Watonwan County set its 2025 revenue and expenditure budgets, budgeting revenues and expenditures of \$45,344,268 and \$45,749,324, 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, St. James, Minnesota 56081.

Basic Financial Statements

Government-Wide Financial Statements

**Watonwan County
St. James, Minnesota**

Exhibit 1

**Statement of Net Position
Governmental Activities
December 31, 2024**

Assets

Cash and pooled investments	\$ 25,935,932
Taxes receivable – delinquent	152,074
Special assessments receivable	
Delinquent	19,486
Noncurrent	3,025,773
Accounts receivable – net	214,134
Accrued interest receivable	211,771
Due from other governments	2,967,105
Inventories	379,644
Capital assets	
Non-depreciable	1,072,583
Depreciable and amortizable – net of accumulated depreciation and amortization	72,403,118
Total Assets	\$ 106,381,620

Deferred Outflows of Resources

Deferred other postemployment benefits outflows	\$ 19,775
Deferred pension outflows	2,020,814
Total Deferred Outflows of Resources	\$ 2,040,589

Liabilities

Accounts payable	\$ 365,853
Salaries payable	490,553
Contracts payable	2,357,471
Due to other governments	462,833
Accrued interest payable	112,739
Unearned revenue	1,600,323
Long-term liabilities	
Due within one year	1,286,260
Due in more than one year	9,711,525
Other postemployment benefits liability due within one year	14,302
Other postemployment benefits liability due in more than one year	385,245
Net pension liability	4,138,445
Total Liabilities	\$ 20,925,549

Deferred Inflows of Resources

Advance allotments	\$ 1,818,487
Deferred other postemployment benefits inflows	74,713
Deferred pension inflows	3,947,359
Total Deferred Inflows of Resources	\$ 5,840,559

**Watonwan County
St. James, Minnesota**

Exhibit 1
(Continued)

**Statement of Net Position
Governmental Activities
December 31, 2024**

Net Position

Net investment in capital assets	\$	70,649,782
Restricted for		
General government		819,411
Public safety		628,402
Highways and streets		2,747,053
Human services		112,907
Culture and recreation		525,068
Conservation of natural resources		647,134
Economic development		5,785
Debt service		227,039
Opioid remediation activities		125,224
Unrestricted		5,168,296
Total Net Position	\$	81,656,101

**Watonwan County
St. James, Minnesota**

Exhibit 2

**Statement of Activities
For the Year Ended December 31, 2024**

Functions/Programs			Program Revenues			Net (Expense)
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position	
Primary government						
Governmental activities						
General government	\$ 5,453,344	\$ 1,090,033	\$ 943,266	\$ -	\$ (3,420,045)	
Public safety	3,857,807	167,624	380,743	-	(3,309,440)	
Highways and streets	7,849,818	300,780	6,103,713	1,286,011	(159,314)	
Sanitation	374,717	181,250	86,753	-	(106,714)	
Human services	6,309,098	822,531	3,072,248	-	(2,414,319)	
Health	925,779	89,390	766,384	-	(70,005)	
Culture and recreation	1,047,340	10,463	12,308	-	(1,024,569)	
Conservation of natural resources	2,785,279	460,950	137,323	-	(2,187,006)	
Economic development	138,991	99,174	-	-	(39,817)	
Interest	263,829	-	-	-	(263,829)	
Total Governmental Activities	\$ 29,006,002	\$ 3,222,195	\$ 11,502,738	\$ 1,286,011	\$ (12,995,058)	
General Revenues						
Property taxes					\$ 12,076,112	
Mortgage registry and deed tax					11,523	
Wheelage tax					184,368	
Grants and contributions not restricted to specific programs					1,536,524	
Unrestricted investment earnings					980,871	
Total general revenues					\$ 14,789,398	
Change in net position					\$ 1,794,340	
Net Position – January 1					79,861,761	
Net Position – December 31					\$ 81,656,101	

Fund Financial Statements

Governmental Funds

**Watonwan County
St. James, Minnesota**

**Balance Sheet
Governmental Funds
December 31, 2024**

	<u>General</u>	<u>Road and Bridge</u>
<u>Assets</u>		
Cash and pooled investments	\$ 13,341,708	\$ 4,944,980
Taxes receivable – delinquent	83,758	23,193
Special assessments receivable		
Delinquent	3,996	-
Noncurrent	793,228	-
Accounts receivable – net	32,579	-
Accrued interest receivable	211,771	-
Due from other funds	184,178	11,579
Due from other governments	126,908	2,172,370
Advances to other funds	2,092,414	-
Inventories	-	379,644
Total Assets	\$ 16,870,540	\$ 7,531,766
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 41,519	\$ 81,575
Salaries payable	218,667	60,447
Contracts payable	-	2,250,257
Due to other funds	26,214	32,396
Due to other governments	214,891	8,061
Unearned revenue	350,287	95,049
Advances from other funds	-	-
Total Liabilities	\$ 851,578	\$ 2,527,785
Deferred Inflows of Resources		
Advance allotments	\$ -	\$ 1,818,487
Unavailable revenue	856,444	2,170,051
Total Deferred Inflows of Resources	\$ 856,444	\$ 3,988,538

Exhibit 3

Human Services	County Ditch	Nonmajor Governmental Funds	Total Governmental Funds
\$ 5,108,224	\$ 539,976	\$ 2,001,044	\$ 25,935,932
33,183	-	11,940	152,074
-	1,029	14,461	19,486
-	2,232,545	-	3,025,773
181,555	-	-	214,134
-	-	-	211,771
14,817	-	-	210,574
661,725	6,102	-	2,967,105
-	-	-	2,092,414
-	-	-	379,644
\$ 5,999,504	\$ 2,779,652	\$ 2,027,445	\$ 35,208,907
\$ 63,039	\$ 178,314	\$ 1,406	\$ 365,853
191,078	-	20,361	490,553
-	107,214	-	2,357,471
131,409	182	20,373	210,574
237,779	2,102	-	462,833
-	1,154,987	-	1,600,323
-	2,092,414	-	2,092,414
\$ 623,305	\$ 3,535,213	\$ 42,140	\$ 7,580,021
\$ -	\$ -	\$ -	\$ 1,818,487
135,381	2,233,574	19,838	5,415,288
\$ 135,381	\$ 2,233,574	\$ 19,838	\$ 7,233,775

**Watonwan County
St. James, Minnesota**

**Balance Sheet
Governmental Funds
December 31, 2024**

	<u>General</u>	<u>Road and Bridge</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u> (Continued)		
Fund Balances		
Nonspendable		
Inventories	\$ -	\$ 379,644
Advances to other funds	2,092,414	-
Restricted for		
Law library	46,976	-
Recorder's equipment	201,656	-
Technology fees	145,826	-
E-911	500,681	-
Carry permit administration	116,372	-
Sheriff's contingency	11,349	-
HRA special benefit levy	5,785	-
Invasive species	156,537	-
Individual Sewage Treatment System (ISTS) loan repayments	476,460	-
Donations – veterans' van	6,159	-
Capital projects	141,579	-
Transit system	244,536	-
Housing aid program	174,258	-
Highway projects	-	1,019,362
Opioid remediation	-	-
Medical assistance eligibility renewal	-	-
Local homeless prevention funds	-	-
Ditch maintenance and construction	-	-
Library operations from donations	-	-
Debt service	-	-
Committed for library operations	-	-
Assigned to		
Human services	-	-
Solid waste	-	-
Unassigned	10,841,930	(383,563)
Total Fund Balances	\$ 15,162,518	\$ 1,015,443
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 16,870,540	\$ 7,531,766

Exhibit 3
(Continued)

<u>Human Services</u>	<u>County Ditch</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 379,644
-	-	-	2,092,414
-	-	-	46,976
-	-	-	201,656
-	-	-	145,826
-	-	-	500,681
-	-	-	116,372
-	-	-	11,349
-	-	-	5,785
-	-	-	156,537
-	-	-	476,460
-	-	-	6,159
-	-	-	141,579
-	-	-	244,536
-	-	-	174,258
-	-	-	1,019,362
125,224	-	-	125,224
61,477	-	-	61,477
51,430	-	-	51,430
-	941,030	-	941,030
-	-	525,068	525,068
-	-	227,039	227,039
-	-	971,065	971,065
5,002,687	-	-	5,002,687
-	-	242,295	242,295
-	(3,930,165)	-	6,528,202
<u>\$ 5,240,818</u>	<u>\$ (2,989,135)</u>	<u>\$ 1,965,467</u>	<u>\$ 20,395,111</u>
<u>\$ 5,999,504</u>	<u>\$ 2,779,652</u>	<u>\$ 2,027,445</u>	<u>\$ 35,208,907</u>

**Watonwan County
St. James, Minnesota**

Exhibit 4

**Reconciliation of the Fund Balances of
Governmental Funds to the Statement of Net Position
December 31, 2024**

Fund balances – total governmental funds (Exhibit 3)	\$ 20,395,111
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 not financial resources and, therefore, are not reported in the governmental funds.	73,475,701
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.	5,415,288
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to other postemployment benefits not recognized in the governmental funds.	
Deferred outflows related to other postemployment benefits	\$ 19,775
Deferred inflows related to other postemployment benefits	<u>(74,713)</u>
	(54,938)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions not recognized in the governmental funds.	
Deferred outflows related to pensions	\$ 2,020,814
Deferred inflows related to pensions	<u>(3,947,359)</u>
	(1,926,545)
Governmental funds do not report a liability for accrued interest on long-term liabilities until due and payable.	(112,739)
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	\$ (7,970,000)
Premium on bonds	(208,056)
Loans payable	(1,039,487)
Software subscription liability	(49,534)
Other postemployment benefits liability	(399,547)
Net pension liability	(4,138,445)
Compensated absences	<u>(1,730,708)</u>
	<u>(15,535,777)</u>
Net Position of Governmental Activities (Exhibit 1)	\$ <u>81,656,101</u>

**Watonwan County
St. James, Minnesota**

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2024**

	<u>General</u>	<u>Road and Bridge</u>
Revenues		
Taxes	\$ 6,839,339	\$ 2,089,323
Special assessments	221,930	-
Licenses and permits	20,841	-
Intergovernmental	2,226,176	7,822,468
Settlements	-	-
Charges for services	919,981	251,065
Fines and forfeits	850	-
Gifts and contributions	2,691	-
Investment earnings	980,871	-
Miscellaneous	376,810	49,715
Total Revenues	\$ 11,589,489	\$ 10,212,571
Expenditures		
Current		
General government	\$ 5,398,590	\$ -
Public safety	3,638,063	-
Highways and streets	-	10,637,461
Sanitation	-	-
Human services	-	-
Health	-	-
Culture and recreation	103,145	-
Conservation of natural resources	1,061,304	-
Economic development	147,347	-
Intergovernmental		
Highways and streets	-	298,658
Capital outlay		
General government	105,932	-
Debt service		
Principal	149,907	-
Interest	1,570	-
Administrative charges	-	-
Total Expenditures	\$ 10,605,858	\$ 10,936,119
Excess of Revenues Over (Under) Expenditures	\$ 983,631	\$ (723,548)
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ 100,000
Transfers out	(133,892)	-
Proceeds from loan	269,816	-
Issuance of software subscriptions	73,434	-
Total Other Financing Sources (Uses)	\$ 209,358	\$ 100,000
Net Change in Fund Balances	\$ 1,192,989	\$ (623,548)
Fund Balances – January 1	13,969,529	1,712,743
Increase (decrease) in inventories	-	(73,752)
Fund Balances – December 31	\$ 15,162,518	\$ 1,015,443

Exhibit 5

Human Services	County Ditch	Nonmajor Governmental Funds	Total Governmental Funds
\$ 2,551,446	\$ -	\$ 895,926	\$ 12,376,034
-	235,461	169,102	626,493
-	-	-	20,841
4,118,661	-	181,967	14,349,272
96,806	-	-	96,806
592,225	-	17,894	1,781,165
-	-	2,287	3,137
-	-	2,530	5,221
-	57,758	-	1,038,629
320,878	-	68	747,471
\$ 7,680,016	\$ 293,219	\$ 1,269,774	\$ 31,045,069
\$ -	\$ -	\$ -	\$ 5,398,590
-	-	-	3,638,063
-	-	-	10,637,461
-	-	389,952	389,952
6,249,071	-	-	6,249,071
887,132	-	-	887,132
-	-	783,207	886,352
-	1,706,942	-	2,768,246
-	-	-	147,347
-	-	-	298,658
-	-	-	105,932
-	145,000	135,000	429,907
-	263,963	11,068	276,601
-	495	2,740	3,235
\$ 7,136,203	\$ 2,116,400	\$ 1,321,967	\$ 32,116,547
\$ 543,813	\$ (1,823,181)	\$ (52,193)	\$ (1,071,478)
\$ -	\$ -	\$ 33,892	\$ 133,892
-	-	-	(133,892)
-	-	-	269,816
-	-	-	73,434
\$ -	\$ -	\$ 33,892	\$ 343,250
\$ 543,813	\$ (1,823,181)	\$ (18,301)	\$ (728,228)
4,697,005	(1,165,954)	1,983,768	21,197,091
-	-	-	(73,752)
\$ 5,240,818	\$ (2,989,135)	\$ 1,965,467	\$ 20,395,111

**Watonwan County
St. James, Minnesota**

Exhibit 6

**Reconciliation of the Changes in Fund Balances of Governmental
Funds to the Change in Net Position of Governmental Activities
For the Year Ended December 31, 2024**

Net change in fund balances – total governmental funds (Exhibit 5)	\$	(728,228)
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Amounts reported for governmental activities in the statement of activities are different because:

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

Unavailable revenue – December 31	\$ 5,415,288	
Unavailable revenue – January 1	(5,819,838)	(404,550)

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	\$ 6,137,032	
Current year depreciation and amortization	(2,964,053)	
Net book value of assets sold or disposed	(16,487)	3,156,492

Issuing long-term debt (such as bonds or loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the 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	\$ (269,816)	
Repayment of debt principal	406,007	
Amortization of premiums on debt	11,798	147,989

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.

Software subscriptions issued	\$ (73,434)	
Principal payments on software subscriptions	23,900	(49,534)

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	\$ (73,752)	
Change in deferred other postemployment benefits outflows	(19,611)	
Change in deferred pension outflows	(1,023,154)	
Change in accrued interest payable	3,714	
Change in compensated absences	(663,353)	
Change in other postemployment benefits liability	(39,742)	
Change in net pension liability	1,801,522	
Change in deferred other postemployment benefits inflows	46,457	
Change in deferred pension inflows	(359,910)	(327,829)

Change in Net Position of Governmental Activities (Exhibit 2)	\$	<u>1,794,340</u>
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**Watonwan County
St. James, Minnesota**

Exhibit 7

**Budgetary Comparison Statement
General Fund
For the Year Ended December 31, 2024**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 6,814,012	\$ 6,814,012	\$ 6,839,339	\$ 25,327
Special assessments	125,000	125,000	221,930	96,930
Licenses and permits	14,650	14,650	20,841	6,191
Intergovernmental	1,768,499	1,768,499	2,226,176	457,677
Charges for services	939,172	939,172	919,981	(19,191)
Fines and forfeits	-	-	850	850
Gifts and contributions	500	500	2,691	2,191
Investment earnings	350,000	350,000	980,871	630,871
Miscellaneous	239,063	239,063	376,810	137,747
Total Revenues	\$ 10,250,896	\$ 10,250,896	\$ 11,589,489	\$ 1,338,593
Expenditures				
Current				
General government				
County commissioners	\$ 239,883	\$ 239,883	\$ 215,574	\$ 24,309
Court administrator	41,000	41,000	5,466	35,534
Law library	7,000	7,000	7,417	(417)
County auditor/treasurer	481,679	481,679	408,720	72,959
License center	206,317	206,317	218,771	(12,454)
Personnel	172,468	172,468	232,077	(59,609)
Central services	238,878	238,878	233,755	5,123
Elections	56,350	56,350	89,855	(33,505)
Information technology	648,909	648,909	606,326	42,583
County attorney	381,183	381,183	362,814	18,369
Attorney's contingent	7,500	7,500	-	7,500
County recorder	306,181	306,181	308,098	(1,917)
County assessor	572,102	572,102	481,463	90,639
Building maintenance	409,002	409,002	385,686	23,316
Veterans service	173,992	173,992	203,025	(29,033)
Motor pool	57,000	57,000	18,867	38,133
Public transit	678,005	678,005	618,051	59,954
Other general government	730,716	730,716	1,002,625	(271,909)
Total general government	\$ 5,408,165	\$ 5,408,165	\$ 5,398,590	\$ 9,575
Public safety				
County sheriff	\$ 2,209,622	\$ 2,209,622	\$ 2,215,478	\$ (5,856)
Sheriff's contingent	5,000	5,000	-	5,000
Jail	912,518	912,518	844,869	67,649
E-911 and radio maintenance	85,000	85,000	93,940	(8,940)
County coroner	35,000	35,000	22,536	12,464
Court services	318,155	318,155	314,180	3,975
Emergency management	142,202	142,202	147,060	(4,858)
Total public safety	\$ 3,707,497	\$ 3,707,497	\$ 3,638,063	\$ 69,434

**Watonwan County
St. James, Minnesota**

**Exhibit 7
(Continued)**

**Budgetary Comparison Statement
General Fund
For the Year Ended December 31, 2024**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Culture and recreation				
County parks	\$ 65,000	\$ 65,000	\$ 53,945	\$ 11,055
Historical society	49,200	49,200	49,200	-
Total culture and recreation	\$ 114,200	\$ 114,200	\$ 103,145	\$ 11,055
Conservation of natural resources				
Environmental services	\$ 569,407	\$ 569,407	\$ 561,917	\$ 7,490
County extension	130,667	130,667	129,702	965
Agricultural society/fair grounds	90,600	90,600	62,781	27,819
Soil and water conservation	105,000	105,000	210,000	(105,000)
Local water plan block grant	65,817	65,817	96,904	(31,087)
Total conservation of natural resources	\$ 961,491	\$ 961,491	\$ 1,061,304	\$ (99,813)
Economic development				
Employment and training	\$ 101,331	\$ 101,331	\$ 99,347	\$ 1,984
Economic development	48,000	48,000	48,000	-
Total economic development	\$ 149,331	\$ 149,331	\$ 147,347	\$ 1,984
Capital outlay				
General government	\$ 121,000	\$ 121,000	\$ 105,932	\$ 15,068
Debt service				
Principal	\$ 124,800	\$ 124,800	\$ 149,907	\$ (25,107)
Interest	200	200	1,570	(1,370)
Total debt service	\$ 125,000	\$ 125,000	\$ 151,477	\$ (26,477)
Total Expenditures	\$ 10,586,684	\$ 10,586,684	\$ 10,605,858	\$ (19,174)
Excess of Revenues Over (Under) Expenditures	\$ (335,788)	\$ (335,788)	\$ 983,631	\$ 1,319,419
Other Financing Sources (Uses)				
Transfers out	\$ -	\$ -	\$ (133,892)	\$ (133,892)
Proceeds from loan	140,000	140,000	269,816	129,816
Issuance of software subscriptions	-	-	73,434	73,434
Total Other Financing Sources (Uses)	\$ 140,000	\$ 140,000	\$ 209,358	\$ 69,358
Net Change in Fund Balance	\$ (195,788)	\$ (195,788)	\$ 1,192,989	\$ 1,388,777
Fund Balance – January 1	13,969,529	13,969,529	13,969,529	-
Fund Balance – December 31	\$ 13,773,741	\$ 13,773,741	\$ 15,162,518	\$ 1,388,777

**Watonwan County
St. James, Minnesota**

Exhibit 8

**Budgetary Comparison Statement
Road and Bridge Special Revenue Fund
For the Year Ended December 31, 2024**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,135,093	\$ 2,135,093	\$ 2,089,323	\$ (45,770)
Intergovernmental	15,099,202	15,099,202	7,822,468	(7,276,734)
Charges for services	241,000	241,000	251,065	10,065
Miscellaneous	155,000	155,000	49,715	(105,285)
Total Revenues	\$ 17,630,295	\$ 17,630,295	\$ 10,212,571	\$ (7,417,724)
Expenditures				
Current				
Highways and streets				
Administration	\$ 354,656	\$ 354,656	\$ 407,439	\$ (52,783)
Maintenance and construction	15,500,946	15,500,946	9,059,417	6,441,529
Equipment maintenance and shop	1,688,326	1,688,326	1,170,605	517,721
Other	1,000	1,000	-	1,000
Total highways and streets	\$ 17,544,928	\$ 17,544,928	\$ 10,637,461	\$ 6,907,467
Intergovernmental				
Highways and streets	275,000	275,000	298,658	(23,658)
Total Expenditures	\$ 17,819,928	\$ 17,819,928	\$ 10,936,119	\$ 6,883,809
Excess of Revenues Over (Under) Expenditures	\$ (189,633)	\$ (189,633)	\$ (723,548)	\$ (533,915)
Other Financing Sources (Uses)				
Transfers in	-	-	100,000	100,000
Net Change in Fund Balance	\$ (189,633)	\$ (189,633)	\$ (623,548)	\$ (433,915)
Fund Balance – January 1	1,712,743	1,712,743	1,712,743	-
Increase (decrease) in inventories	-	-	(73,752)	(73,752)
Fund Balance – December 31	\$ 1,523,110	\$ 1,523,110	\$ 1,015,443	\$ (507,667)

**Watonwan County
St. James, Minnesota**

Exhibit 9

**Budgetary Comparison Statement
Human Services Special Revenue Fund
For the Year Ended December 31, 2024**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,598,114	\$ 2,598,114	\$ 2,551,446	\$ (46,668)
Intergovernmental	3,910,922	3,910,922	4,118,661	207,739
Settlements	-	-	96,806	96,806
Charges for services	595,000	595,000	592,225	(2,775)
Miscellaneous	294,100	294,100	320,878	26,778
Total Revenues	\$ 7,398,136	\$ 7,398,136	\$ 7,680,016	\$ 281,880
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,438,777	\$ 1,438,777	\$ 1,478,914	\$ (40,137)
Social services	5,263,082	5,263,082	4,770,157	492,925
Total human services	\$ 6,701,859	\$ 6,701,859	\$ 6,249,071	\$ 452,788
Health				
Community health services	853,715	853,715	887,132	(33,417)
Total Expenditures	\$ 7,555,574	\$ 7,555,574	\$ 7,136,203	\$ 419,371
Net Change in Fund Balance	\$ (157,438)	\$ (157,438)	\$ 543,813	\$ 701,251
Fund Balance – January 1	4,697,005	4,697,005	4,697,005	-
Fund Balance – December 31	\$ 4,539,567	\$ 4,539,567	\$ 5,240,818	\$ 701,251

Fiduciary Funds

**Watonwan County
St. James, Minnesota**

Exhibit 10

**Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2024**

	<u>Social Welfare Private-Purpose Trust Fund</u>	<u>Custodial Funds</u>
<u>Assets</u>		
Cash and pooled investments	\$ 44,391	\$ 1,229,114
Due from other governments	-	28,119
Taxes receivable for other governments	-	294,987
Special assessments receivable for other governments	-	123,696
Accounts receivable	-	68,904
Accrued interest receivable	-	1,697
Total Assets	<u>\$ 44,391</u>	<u>\$ 1,746,517</u>
<u>Liabilities</u>		
Due to others	\$ -	\$ 1,036
Due to other governments	-	371,640
Total Liabilities	<u>\$ -</u>	<u>\$ 372,676</u>
<u>Net Position</u>		
Restricted for individuals, organizations, and other governments	<u>\$ 44,391</u>	<u>\$ 1,373,841</u>

**Watonwan County
St. James, Minnesota**

Exhibit 11

**Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended December 31, 2024**

	Social Welfare Private-Purpose Trust Fund	Custodial Funds
<u>Additions</u>		
Contributions from individuals	\$ 370,927	\$ 252,788
Interest earnings	-	1,774
Property tax collections for other governments	-	9,236,311
Assessment for others	-	17,703
Fees collected for the state	-	3,196,381
Payments from the state	-	312,904
Payments from other entities	-	111,288
Total Additions	\$ 370,927	\$ 13,129,149
<u>Deductions</u>		
Beneficiary payments to individuals	\$ 374,933	\$ -
Payments of property tax to other governments	-	9,033,819
Payments to the state	-	3,449,169
Loan repayments	-	17,703
Payments to other entities	-	542,247
Total Deductions	\$ 374,933	\$ 13,042,938
Change in Net Position	\$ (4,006)	\$ 86,211
Net Position – January 1	48,397	1,287,630
Net Position – December 31	\$ 44,391	\$ 1,373,841

Watonwan County St. James, Minnesota

Notes to the Financial Statements As of and for the Year Ended December 31, 2024

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, 2024. 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.

Watonwan County

St. James, Minnesota

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

Watonwan County St. James, Minnesota

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 2024 were \$980,871.

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 2019 through 2024 and noncurrent special assessments payable in 2025 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.

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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 or amortized using the straight-line method over the following estimated useful lives:

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
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.

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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 an other 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 reports advance allotments for state aid received by the County not yet appropriated by the State of Minnesota. These amounts arise under both the modified and the full accrual basis of accounting and are reported in both the governmental funds balance sheet and the statement of net position. 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 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 personal services.

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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.

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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.

Change in Accounting Principle

During the year ended December 31, 2024, the County adopted new accounting guidance by implementing the provisions of GASB Statement No. 101, *Compensated Absences*, which establishes new criteria for accounting and financial reporting for the compensated absences liability. The implementation of this statement resulted in changing the calculation of the compensated absences liability recorded in the long-term liabilities of the government-wide financial statements.

Note 2 – Stewardship, Compliance, and Accountability

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. Transfers of appropriations within a department and between departments require 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.

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Excess of Expenditures Over Budget

The funds shown below had expenditures in excess of budget for the year ended December 31, 2024.

Excess of Expenditures Over Budget

	Expenditures	Budget	Excess
General Fund	\$ 10,605,858	\$ 10,586,684	\$ 19,174
Solid Waste Special Revenue Fund	389,952	367,551	22,401
Debt Service Fund	148,808	148,558	250

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

Deficit Fund Equity – County Ditch Special Revenue Fund

The County Ditch Special Revenue Fund has a deficit fund balance of \$2,989,135. 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

23 ditches with positive fund balances	\$ 941,030
16 ditches with deficit fund balances	(3,930,165)
Total Fund Balance	<u>\$ (2,989,135)</u>

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, 2024

Governmental funds	
Cash and pooled investments	\$ 25,935,932
Fiduciary funds	
Cash and pooled investments	<u>1,273,505</u>
Total Cash and Investments	<u>\$ 27,209,437</u>

Watonwan County

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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, 2024, 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.

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As of December 31, 2024, all County investments, valued at \$3,022,094, were in the Minnesota Association of Governments Investing for Counties (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, 2024, 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.

Watonwan County St. James, Minnesota

Receivables

Receivables as of December 31, 2024, for the County are as follows:

Governmental Activities' Receivables as of December 31, 2024

	Receivable	Less: Allowance for Uncollectible Accounts	Net Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Taxes – delinquent	\$ 152,074	\$ -	\$ 152,074	\$ -
Special assessments – delinquent	19,486	-	19,486	-
Special assessments – noncurrent	3,025,773	-	3,025,773	2,719,274
Accounts	244,079	(29,945)	214,134	-
Accrued interest receivable	211,771	-	211,771	-
Due from other governments	2,967,105	-	2,967,105	-
Total Governmental Activities	<u>\$ 6,620,288</u>	<u>\$ (29,945)</u>	<u>\$ 6,590,343</u>	<u>\$ 2,719,274</u>

Watonwan County St. James, Minnesota

Capital Assets

Capital asset activity for the year ended December 31, 2024, was as follows:

Changes in Capital Assets for the Year Ended December 31, 2024

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 717,067	\$ -	\$ -	\$ 717,067
Construction in progress	380,701	259,200	(284,385)	355,516
Total capital assets not depreciated	\$ 1,097,768	\$ 259,200	\$ (284,385)	\$ 1,072,583
Capital assets depreciated and amortized				
Buildings	\$ 9,489,137	\$ 54,300	\$ -	\$ 9,543,437
Land improvements	2,439,860	-	-	2,439,860
Machinery, furniture, and equipment	10,356,724	896,634	(661,377)	10,591,981
Infrastructure	89,453,079	5,137,849	-	94,590,928
Software subscriptions	-	73,434	-	73,434
Total capital assets depreciated and amortized	\$ 111,738,800	\$ 6,162,217	\$ (661,377)	\$ 117,239,640
Less: accumulated depreciation and amortization for				
Buildings	\$ 5,272,621	\$ 213,928	\$ -	\$ 5,486,549
Land improvements	384,133	57,590	-	441,723
Machinery, furniture, and equipment	5,732,966	832,702	(644,890)	5,920,778
Infrastructure	31,127,639	1,835,355	-	32,962,994
Software subscriptions	-	24,478	-	24,478
Total accumulated depreciation and amortization	\$ 42,517,359	\$ 2,964,053	\$ (644,890)	\$ 44,836,522
Total capital assets depreciated and amortized, net	\$ 69,221,441	\$ 3,198,164	\$ (16,487)	\$ 72,403,118
Total Capital Assets, Net	\$ 70,319,209	\$ 3,457,364	\$ (300,872)	\$ 73,475,701

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

Depreciation and Amortization Expense Charged to Functions/Programs

General government	\$ 342,655
Public safety	236,841
Highways and streets, including depreciation of infrastructure assets	2,231,521
Sanitation	10,252
Human services	78,414
Culture and recreation	56,821
Conservation of natural resources	7,549
Total Depreciation and Amortization Expense	<u>\$ 2,964,053</u>

Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2024, is as follows:

Due To/From Other Funds

Due To/From Other Funds as of December 31, 2024

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	Road and Bridge Special Revenue Fund	\$ 32,396	Postage
	Human Services Special Revenue Fund	131,409	Reimbursement for services
	Solid Waste Special Revenue Fund	12,962	Reimbursement of salaries
	County Library Special Revenue Fund	7,411	Reimbursement of salaries
	Total due to General Fund	<u>\$ 184,178</u>	
Road and Bridge Special Revenue Fund	General Fund	\$ 11,397	Reimbursement for services and fuel
	County Ditch Special Revenue Fund	182	Reimbursement for services
Total due to Road and Bridge Special Revenue Fund		<u>\$ 11,579</u>	
Human Services Special Revenue Fund	General Fund	\$ 14,817	Reimbursement
Total Due To/From Other Funds		<u>\$ 210,574</u>	

The interfund receivables and payables are expected to be paid within one year of December 31, 2024.

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Advances From/To Other Funds

Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	County Ditch Special Revenue Fund	\$ 2,092,414

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, 2024, consisted of the following:

Transfers To/From Other Funds

Transfer In	Transfer Out	Amount	Purpose
Road and Bridge Special Revenue Fund	General Fund	\$ 100,000	Increase fund reserves
County Library Special Revenue Fund	General Fund	33,892	Interest distribution
Total Transfers To/From Other Funds		\$ 133,892	

Liabilities and Deferred Inflows of Resources

Long-Term Debt

Bonds

Bonds Payable as of December 31, 2024

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2024
G.O. Capital Improvement Crossover Refunding Bonds, Series 2012A	2026	\$50,000-\$55,000	1.55-2.60	\$ 625,000	\$ 110,000
G.O. Capital Improvement Plan Refunding Bonds, Series 2021A	2034	\$75,000-\$85,000	0.20-1.20	1,045,000	815,000
G.O. Ditch Bonds, Series 2022A	2043	\$145,000-\$495,000	3.00-5.00	7,190,000	7,045,000
Total				\$ 8,860,000	\$ 7,970,000
Plus: unamortized premium					208,056
Total General Obligation Bonds, Net					\$ 8,178,056

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.

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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, 2024

Type of Indebtedness	Final Maturity	Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2024
Watonwan Ag Best Management Loan Program	2035	\$7,561-\$68,666	-	\$ 1,549,890	\$ 1,039,487

Debt Service Requirements

Debt service requirements at December 31, 2024, were as follows:

Debt Service Requirements as of December 31, 2024

Year Ending December 31	General Obligation Bonds		Loans Payable	
	Principal	Interest	Principal	Interest
2025	\$ 385,000	\$ 263,407	\$ 120,321	\$ -
2026	400,000	248,703	131,543	-
2027	360,000	233,883	136,475	-
2028	375,000	218,948	130,016	-
2029	390,000	203,143	120,808	-
2030-2034	2,155,000	810,505	395,024	-
2035-2039	2,025,000	505,784	5,300	-
2040-2043	1,880,000	140,041	-	-
Total	\$ 7,970,000	\$ 2,624,414	\$ 1,039,487	\$ -

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, 2024

Year Ending December 31	Principal		Interest	
2025	\$	24,474	\$	997
2026		25,060		409
Total Governmental Activities Software Subscription Payments	\$	49,534	\$	1,406

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Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2024, was as follows:

Changes in Long-Term Liabilities for the Year Ended December 31, 2024

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
G.O. Capital Improvement Refunding Bonds, Series 2012A	\$ 165,000	\$ -	\$ (55,000)	\$ 110,000	\$ 55,000
G.O. Capital Improvement Plan Refunding Bonds, Series 2021A	895,000	-	(80,000)	815,000	80,000
G.O. Ditch Bonds, Series 2022A	7,190,000	-	(145,000)	7,045,000	250,000
Plus: unamortized premium on bonds	219,854	-	(11,798)	208,056	-
Total bonds payable	\$ 8,469,854	\$ -	\$ (291,798)	\$ 8,178,056	\$ 385,000
Loans payable	895,678	269,816	(126,007)	1,039,487	120,321
Compensated absences	1,067,355	663,353*	-	1,730,708	756,465
Software subscription liability	-	73,434	(23,900)	49,534	24,474
Total Long-Term Liabilities	\$ 10,432,887	\$ 1,006,603	\$ (441,705)	\$ 10,997,785	\$ 1,286,260

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

Unavailable Revenue

Unavailable revenue as of December 31, 2024, for the County's governmental funds are as follows:

Unavailable Revenue as of December 31, 2024

Taxes and special assessments, delinquent and noncurrent	\$ 3,115,090
Highway allotments that do not provide current financial resources	2,152,825
Charges for services, grants, and reimbursements	147,373
Total Governmental Funds	<u>\$ 5,415,288</u>

Contract Commitments

The County has one active contract commitment as of December 31, 2024. The open project is as follows:

Active Contract Commitments as of December 31, 2024

	Spent-to-Date	Remaining Commitment
Precision Farm Draining & Excavating JD 18	\$ 2,061,074	\$ 137,571

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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, 2023, actuarial valuation, the following employees were covered by the benefit terms:

Employees Covered by the OPEB Benefit Terms
As of the January 1, 2023, Actuarial Valuation

Inactive employees or beneficiaries currently receiving benefit payments	-
Active plan participants	<u>144</u>
Total	<u><u>144</u></u>

Total OPEB Liability

The County's total OPEB liability of \$399,547 was determined by an actuarial valuation as of January 1, 2023, which was rolled forward to a measurement date of January 1, 2024. The OPEB liability is liquidated through the General Fund and other governmental funds that have personal services.

The total OPEB liability in the fiscal year-end December 31, 2024, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

OPEB Actuarial Assumptions and Other Inputs

Inflation	2.50 percent
Salary increases	Graded by service years and contract group ranging from 10.25 percent for one year of service (11.75 percent for public safety) to 3.00 percent for 27 or more years of service
Health care cost trend	6.25 percent, grading to 5.00 percent over five years and then to 4.00 percent over the next 48 years

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The current year discount rate is 3.70 percent, which decreased from the prior year rate of 4.00 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 Pub-2010 Public Retirement Plans Headcount – Weighted Mortality tables (General, Safety) with MP-2020 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, 2024

	Total OPEB Liability
Balance at December 31, 2023	\$ 359,805
Changes for the year	
Service cost	\$ 49,993
Interest	15,736
Assumption changes	7,151
Benefit payments	(33,138)
Net change	\$ 39,742
Balance at December 31, 2024	\$ 399,547

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, 2024

	Discount Rate	Total OPEB Liability
1% Decrease	2.70%	\$ 431,297
Current	3.70%	399,547
1% Increase	4.70%	369,911

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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, 2024

	Health Care Trend Rate	Total OPEB Liability
1% Decrease	5.25% Decreasing to 4.00%	\$ 352,117
Current	6.25% Decreasing to 5.00%	399,547
1% Increase	7.25% Decreasing to 6.00%	455,682

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

For the year ended December 31, 2024, the County recognized OPEB expense of \$23,419. 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, 2024

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in actuarial assumptions	\$ 9,252	\$ 39,755
Difference between actual and expected results	-	34,958
Contributions made subsequent to the measurement date	10,523	-
Total	\$ 19,775	\$ 74,713

The \$10,523 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, 2025. 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, 2024

Year Ended December 31	OPEB Expense Amount
2025	\$ (14,472)
2026	(17,595)
2027	(17,589)
2028	(8,415)
2029	(8,409)
Thereafter	1,019

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Changes in Actuarial Assumptions

The following change in actuarial assumptions occurred in 2024:

- The discount rate was changed from 4.00 percent to 3.70 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

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percent and a maximum of 1.50 percent. The 2024 annual increase was 1.50 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.

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 2024 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.

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

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established and amended by the state legislature. Rates did not change from 2023.

Member and Employer Required Contribution Rates

	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	5.83%	8.75%

Employer Contributions for the Year Ended December 31, 2024

General Employees Plan	\$	603,578
Police and Fire Plan		146,179
Correctional Plan		38,903

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

[Pension Costs](#)

General Employees Plan

At December 31, 2024, the County reported a liability of \$3,349,940 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2024, 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, 2023, through June 30, 2024, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2024, the County's proportion was 0.0906 percent. It was 0.0876 percent measured as of June 30, 2023. The County recognized pension expense of \$174,249 for its proportionate share of the General Employees Plan's pension expense.

The State of Minnesota contributed \$170.1 million to the General Employees Plan in the plan fiscal year ended June 30, 2024. This contribution was a one-time direct state aid that does not meet the definition of a special funding situation. The County recognized \$154,128 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 General Employees Plan.

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 \$2,322 as grant revenue and pension expense for its proportionate share of the State of Minnesota's pension expense related to the special funding situation.

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General Employees Plan Employer's Share of the Net Pension Liability and the State's Related Liability As of December 31, 2024

The County's proportionate share of the net pension liability	\$ 3,349,940
State of Minnesota's proportionate share of the net pension liability associated with the County	<u>86,623</u>
Total	<u>\$ 3,436,563</u>

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, 2024

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 312,484	\$ -
Changes in actuarial assumptions	16,606	1,237,099
Difference between projected and actual investment earnings	-	962,006
Changes in proportion	126,410	180,646
Contributions paid to PERA subsequent to the measurement date	<u>307,909</u>	<u>-</u>
Total	<u>\$ 763,409</u>	<u>\$ 2,379,751</u>

The \$307,909 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, 2025. 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, 2024

Year Ended December 31	Pension Expense Amount
2025	\$ (1,103,231)
2026	(199,619)
2027	(364,648)
2028	(256,753)

Police and Fire Plan

At December 31, 2024, the County reported a liability of \$736,887 for its proportionate share of the Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2024, 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

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the measurement period for employer payroll paid dates from July 1, 2023, through June 30, 2024, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2024, the County's proportion was 0.0560 percent. It was 0.0562 percent measured as of June 30, 2023. The County recognized pension expense of \$141,737 for its proportionate share of the Police and Fire Plan's pension expense.

The State of Minnesota contributed \$19.4 million to the Police and Fire Plan in the plan fiscal year ended June 30, 2024. This contribution was a one-time direct state aid that does not meet the definition of a special funding situation. Additionally, the State of Minnesota contributed \$9 million of supplemental state aid to the Police and Fire Plan for the Plan's fiscal year ended June 30, 2024. Legislation 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 90 percent funded for three consecutive years, or July 1, 2048, whichever is earlier. This contribution also does not meet the definition of a special funding situation. The County recognized \$15,905 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.

Legislation also requires the State of Minnesota to pay direct state aid of \$9 million on October 1 each year until full funding is reached for three consecutive years, or July 1, 2048, whichever is earlier. This contribution meets the definition of a special funding situation. The County recognized an additional \$3,142 as grant revenue and pension expense for its proportionate share of the State of Minnesota's pension expense related to the special funding situation.

Police and Fire Plan Employer's Share of the Net Pension Liability and the State's Related Liability As of December 31, 2024

The County's proportionate share of the net pension liability	\$ 736,887
State of Minnesota's proportionate share of the net pension liability associated with the County	<u>28,090</u>
Total	<u>\$ 764,977</u>

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, 2024

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 282,674	\$ -
Changes in actuarial assumptions	760,155	1,088,576
Difference between projected and actual investment earnings	-	223,462
Changes in proportion	79,836	20,079
Contributions paid to PERA subsequent to the measurement date	<u>75,905</u>	<u>-</u>
Total	<u>\$ 1,198,570</u>	<u>\$ 1,332,117</u>

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The \$75,905 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, 2025. 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, 2024

Year Ended December 31	Pension Expense Amount
2025	\$ (28,766)
2026	173,067
2027	(97,769)
2028	(272,421)
2029	16,437

Correctional Plan

At December 31, 2024, the County reported a liability of \$51,618 for its proportionate share of the Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2024, 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, 2023, through June 30, 2024, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2024, the County's proportion was 0.1694 percent. It was 0.1570 percent measured as of June 30, 2023. The County recognized pension expense of \$69,588 for its proportionate share of the Correctional Plan's pension expense.

The State of Minnesota contributed \$5.3 million to the Correctional Plan in the plan fiscal year ended June 30, 2024. This contribution was a one-time direct state aid that does not meet the definition of a special funding situation. The County recognized \$8,902 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 Correctional Plan.

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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, 2024

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 35,514	\$ -
Changes in actuarial assumptions	-	161,892
Difference between projected and actual investment earnings	-	70,386
Changes in proportion	3,726	3,213
Contributions paid to PERA subsequent to the measurement date	19,595	-
Total	\$ 58,835	\$ 235,491

The \$19,595 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, 2025. 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, 2024

Year Ended December 31	Pension Expense Amount
2025	\$ (178,877)
2026	28,702
2027	(26,783)
2028	(19,293)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2024, was \$385,574.

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Actuarial Assumptions

The total pension liability in the June 30, 2024, 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, 2024

	General Employees Fund	Police and Fire Fund	Correctional Fund
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 1.25 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, 2024, valuations were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 27, 2019. The experience study for the Police and Fire Plan was dated July 14, 2020. The experience study for the Correctional Plan was dated July 10, 2020. 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 2024, which remains consistent with 2023. 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

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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 2024:

General Employees Plan

- 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.

Police and Fire Plan

- 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).

Correctional Plan

- 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,

Watonwan County St. James, Minnesota

2025.

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

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, 2024

	Proportionate Share of the					
	General Employees Plan		Police and Fire Plan		Correctional Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability (Asset)	Discount Rate	Net Pension Liability (Asset)
1% Decrease	6.00%	\$ 7,316,809	6.00%	\$ 1,741,408	6.00%	\$ 419,462
Current	7.00%	3,349,940	7.00%	736,887	7.00%	51,618
1% Increase	8.00%	86,829	8.00%	(88,035)	8.00%	(241,426)

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.

Watonwan County St. James, Minnesota

Total Contributions by Dollar Amount and Percentage of Covered Payroll Made by the Employer For the Year Ended December 31, 2024

	Employee	Employer
Contribution amount	\$ 6,962	\$ 6,962
Percentage of covered payroll	5.00%	5.00%

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 \$500,000 per claim in 2024 and \$1,000,000 per claim in 2025. 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.

Watonwan County St. James, Minnesota

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, 2025, 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, 2024, the outstanding principal balance for the issuance was \$660,000.

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, St. James, and St. 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 \$13,000 to the Task Force in 2024. 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 2024. At December 31, 2024, the outstanding PACE loans to be collected by the County are \$81,864.

Watonwan County St. James, Minnesota

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 \$2,500 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.

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Blue Earth County acts as the fiscal agent for the Board. During 2024, the 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 2024.

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 St. 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 2024, Watonwan County made contributions of \$51,422 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 personal, 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, the County paid \$3,150 to the GBERBA.

Watonwan County

St. James, Minnesota

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 \$15 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 \$103,918 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 \$2,160 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 2024.

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 (immunization registry) 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 2024, Watonwan County made payments of \$2,118 to Immtrack.

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Special Benefit Tax Levy

In 1993, the South Central Minnesota Multi-County Housing Authority issued \$20,315,000 of revenue bonds to construct housing units in Watonwan County and four surrounding counties. The Authority has since defaulted on these bonds. In 2000, the counties entered into a settlement agreement where each of the counties will approve a special benefit tax levy on behalf of the Authority from 2001 through 2024 to cover the operating deficits based on each county's proportionate share of housing units constructed. Watonwan County's proportionate share of the operating deficit for 2024 is \$163,402.

PROPOSAL FORM

TO: Watonwan County, Minnesota
C/O Northland Securities, Inc.
150 South 5th Street, Suite 3300
Minneapolis, Minnesota 55402
Phone: 612-851-5900
Email: PublicSale@northlandsecurities.com

Sale Date: August 17, 2026

For all or none of the \$2,340,000* General Obligation Ditch Bonds, Series 2026A, in accordance with the Notice of Sale, we will pay you \$ _____, (not less than \$2,307,240) plus accrued interest, if any, to date of delivery (estimated to be September 16, 2026) for fully registered Bonds bearing interest rates and maturing on February 1 as follows:

<u>Interest</u>			<u>Interest</u>			<u>Interest</u>		
<u>Year</u>	<u>Rate</u>	<u>Yield</u>	<u>Year</u>	<u>Rate</u>	<u>Yield</u>	<u>Year</u>	<u>Rate</u>	<u>Yield</u>
2028	____%	____%	2033	____%	____%	2038	____%	____%
2029	____%	____%	2034	____%	____%	2039	____%	____%
2030	____%	____%	2035	____%	____%	2040	____%	____%
2031	____%	____%	2036	____%	____%	2041	____%	____%
2032	____%	____%	2037	____%	____%	2042	____%	____%

True interest percentage: _____ % Net interest cost: \$ _____

Term Bond Option: Bonds maturing in the years:

_____ through _____
_____ through _____
_____ through _____
_____ through _____

To be accumulated into a Term Bond maturing in year:

_____.
_____.
_____.
_____.

This bid is a firm offer for the purchase of the Bonds identified in the Notice of Sale, on the terms set forth in the bid form and the Notice of Sale, and is not subject to any conditions, except as permitted by the Notice of Sale. By submitting this bid, we confirm that we have an established industry reputation for underwriting new issuances of municipal bonds.

As set forth in the Notice of Sale, this bid shall not be cancelled in the event that the competitive sale requirements are not satisfied. The City may determine to apply the Hold-the-Offering-Price Rule to the Bonds (such terms are used as described in the Notice of Sale).

We have received and reviewed the Preliminary Official Statement and have submitted our requests for additional information or corrections to the Official Statement. As Syndicate Manager, we agree to provide the County with the reoffering price of the Bonds within 24 hours of the bid acceptance.

A Good Faith Deposit in the amount as stated in the Notice of Sale in the form of a federal wire transfer payable to the order of the County will only be required from the apparent winning bidder, and must be received within two hours after the receipt of the bids. Award of the Bonds will be on the basis of True Interest Cost (TIC).

Account Members:

Account Manager: _____ By: _____

The foregoing proposal is hereby duly accepted by and on behalf of the Watonwan County, Minnesota at _____ AM on August 18, 2026.

Auditor

Board Chair

* The County reserves the right to increase or decrease the principal amount of the Bonds. Any such increase or decrease will be made in multiples of \$5,000 and may be made in any maturity. If any maturity is adjusted, the purchase price will also be adjusted to maintain the same gross spread.