

New Issue

S & P Global Rating Requested

In the opinion of Taft Stettinius & Hollister LLP, Bond Counsel, based on present federal and Minnesota laws, regulations, rulings and decisions, and assuming compliance with certain covenants, if the Bonds are issued as tax-exempt bonds, interest to be paid on the Bonds is excluded from gross income for federal income tax purposes and from taxable net income of individuals, estates, and trusts for Minnesota income tax purposes, and is not an item of tax preference for federal or Minnesota alternative minimum tax purposes; however, interest on the Bonds is taken into account in determining "annual adjusted financial statement income" for the purpose of computing the federal alternative minimum tax imposed on certain corporations for tax years beginning after December 31, 2022. Such interest is not included in taxable income for purposes of the Minnesota franchise tax on corporations and financial institutions. See "Taxability of Interest" herein.

**\$2,005,000**  
**City of Harmony, Minnesota**  
**General Obligation Improvement Bonds, Series 2024A**

**PURPOSE/AUTHORITY:** The \$2,005,000 General Obligation Improvement Bonds, Series 2024A (the "Bonds") are being issued by the City of Harmony, Minnesota (the "City" or the "Issuer") pursuant to Minnesota Statutes, Chapters 429 and 475 to finance the City's 2024 street improvement project (the "Project"). The Bonds are valid and binding general obligations of the City and are payable from ad valorem taxes. The City pledges tax levies and special assessments to make the semi-annual payments.

**BID OPEN & AWARD:** Tuesday, May 14, 2024; Open 11:00 A.M. CST; Award 7:00 P.M. CST.

**DATED DATE:** June 3, 2024

**MATURITY:** The Bonds will mature February 1 as follows:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2026	\$ 105,000	2031	\$ 125,000	2036	\$ 145,000
2027	110,000	2032	130,000	2037	150,000
2028	110,000	2033	130,000	2038	155,000
2029	115,000	2034	135,000	2039	165,000
2030	120,000	2035	140,000	2040	170,000

**INTEREST:** February 1, 2025, and each August 1 and February 1 thereafter.

**MATURITY AGREEMENT:** The City reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of \$5,000 each.

**CALL DATE:** February 1, 2033

**MINIMUM BID:** \$1,980,940.00 (98.8%)

**TAX STATUS:** Tax-exempt; bank-qualified

**GOOD FAITH DEPOSIT:** \$40,100 payable to the City on the sale date

**CLOSING/ DELIVERY DATE:** On or about June 3, 2024

The Bonds are offered, subject to prior sale, withdrawal or modification, when, as and if issued and subject to receipt of an approving legal opinion of Taft Stettinius & Hollister LLP, Bond Counsel, Minneapolis, Minnesota. This Preliminary Official Statement will be further supplemented by an addendum specifying the offering prices, interest rates, aggregate principal amount, principal amount per maturity, anticipated delivery date and underwriter, together with any other information required by law, and, as supplemented, shall constitute a "Final Official Statement" of the Issuer with respect to the Bonds, as defined in S.E.C. Rule 15c2-12.

The information contained in this Preliminary Official Statement is deemed by the City to be final as of the date hereof; however the pricing and underwriting information is subject to completion or amendment. Under no circumstances shall this POS constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

## **COMPLIANCE WITH S.E.C. RULE 15C-12**

Municipal obligations (issued in an aggregate amount over \$1,000,000) are subject to General Rules and Regulations, Securities Exchange Act of 1934, Rule 15c2-12 Municipal Securities Disclosure.

## **PRELIMINARY OFFICIAL STATEMENT**

This Preliminary Official Statement was prepared for the Issuer for dissemination to potential customers. The primary purpose of the Preliminary Official Statement is to disclose information regarding the Bonds to prospective underwriters in the interest of receiving competitive bids in accordance with the sale notice contained herein. Unless an addendum is received prior to the sale, this document shall be deemed the "Near Final Official Statement."

## **REVIEW PERIOD**

This Preliminary Official Statement has been distributed to members of the legislative body and other public officials of the Issuer as well as to prospective bidders for an objective review of its disclosure. Comments or omissions or inaccuracies must be submitted to David Drown Associates, Inc. (the "Municipal Advisor") at least two business days prior to the sale. Requests for additional information or corrections in the Preliminary Official Statement received on or before this date will not be considered a qualification of a bid received from an underwriter. If there are changes, corrections or additions to the Preliminary Official Statement, interested bidders will be informed by an addendum at least one business day prior to the sale.

## **FINAL OFFICIAL STATEMENT**

Upon award of sale of the Bonds, the legislative body will authorize the preparation of an addendum to the Preliminary Official Statement that includes the offering prices, interest rates, aggregate principal amount, principal amount per maturity, anticipated delivery date and other information required by law and the identity of the Syndicate Manager and Syndicate Members. This addendum, together with any previous addendum of corrections or additions to the Preliminary Official Statement shall be deemed the complete Final Official Statement. Copies of the Final Official Statement will be delivered to the underwriter (Syndicate Manager) within seven business days following the bid acceptance.

## **REPRESENTATIONS**

No dealer, broker, salesperson or other person has been authorized by the Issuer to give any information or to make any representations, other than those contained in the Preliminary Official Statement. This Preliminary Official Statement does not constitute any offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information, estimates and expressions of opinion herein are subject to change without notice and neither the delivery of this Preliminary Official Statement nor any sale made hereunder, shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof. This Preliminary Official Statement is submitted in connection with the sale of the securities referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

This Preliminary Official Statement and any addenda thereto was prepared relying on information of the Issuer and other sources and, while believed to be reliable, is not guaranteed as to completeness or accuracy.

Bond Counsel has not participated in the preparation of this Preliminary Official Statement and is not expressing any opinion as to the completeness or accuracy of the information contained therein.

Compensation of the Municipal Advisor, payable entirely by the Issuer, is contingent upon the sale of the issue.

## Table of Contents

<b>INTRODUCTORY SUMMARY OF THE PRELIMINARY OFFICIAL STATEMENT .....</b>	<b>5</b>
<b>TERMS OF OFFERING .....</b>	<b>7</b>
<b>OFFICIAL STATEMENT .....</b>	<b>12</b>
Limited Continuing Disclosure .....	12
Authority and Purpose .....	12
Sources and Uses .....	12
Payment and Security .....	13
Optional Redemption .....	13
Rating .....	13
Taxability of Interest .....	13
Other Federal Tax Considerations .....	14
COVID-19 .....	14
Details of Certain Terms .....	15
Original Issue Discount .....	15
Original Issue Premium .....	15
Term Bond Option .....	16
Bank-qualified Tax-Exempt Obligations .....	16
Book Entry System .....	16
Litigation .....	17
Future Financing .....	17
Legality .....	18
Municipal Advisor .....	18
Certification .....	18
<b>VALUATIONS – COUNTY AUDITOR .....</b>	<b>19</b>
<b>TRENDS IN VALUATIONS .....</b>	<b>19</b>
<b>CASH AND INVESTMENTS .....</b>	<b>19</b>
<b>CITY INDEBTEDNESS .....</b>	<b>20</b>
Legal Debt Limit and Margin .....	20
General Obligation Debt Supported by Tax Levies .....	20
General Obligation Debt Supported by Special Assessments .....	20
General Obligation Debt Supported by Tax Increment .....	20
General Obligation Debt Supported by Revenues .....	20
Summary of Direct Debt (Gross) .....	21
Overlapping Debt .....	21
Debt Ratios .....	21
Annual Debt Service Payments .....	22
<b>GENERAL INFORMATION .....</b>	<b>23</b>
Organization .....	23
City Services .....	23
Employee Pensions .....	23
Census Data .....	24
Employment Data .....	24
Major Employers .....	24
Commercial/Industrial Development .....	25
Building Permits .....	25
Financial Services .....	25
Healthcare .....	25
Education .....	25
Transportation .....	26
Utilities .....	26
Communications .....	26
Appendix A: .....	Fillmore County Auditor’s Certificate
Appendix B: .....	Proposed Form of Legal Opinion
Appendix C: .....	Proposed Form of (Limited) Continuing Disclosure
Appendix D: .....	Summary of Tax Levies, Payment Provisions & Valuations
Appendix E: .....	2022 Audited Financial Statement

## CITY OF HARMONY, MINNESOTA

### City of Harmony City Council

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Steve Donney	Mayor	12/31/2024
Michael Himlie	Council Member	12/31/2026
Jesse Grabau	Council Member	12/31/2024
Domingo Kingsley	Council Member	12/31/2024
Kyle Scheevel	Council Member	12/31/2026

### Administration

Samantha Grabau	City Clerk	Appointed
-----------------	------------	-----------

### Bond Counsel

Taft Stettinius & Hollister LLP  
Minneapolis, MN

### Municipal Advisor

David Drown Associates, Inc.  
Minneapolis, MN

## INTRODUCTORY SUMMARY OF THE PRELIMINARY OFFICIAL STATEMENT

*The following information is furnished solely to provide limited introductory information regarding the \$2,005,000 General Obligation Improvement Bonds, Series 2024A, of City of Harmony, Minnesota and does not purport to be comprehensive. All such information is qualified in its entirety by reference to the detailed descriptions appearing in this Preliminary Official Statement, including the appendices hereto.*

Issuer:	City of Harmony, Minnesota					
Sale Date & Time:	Tuesday, May 14, 2024, 11:00 A.M. Central					
Award Date & Time:	Tuesday, May 14, 2024; 7:00 P.M. Central					
Dated Date:	June 3, 2024					
Interest Payments:	February 1, 2025, and each August 1 and February 1 thereafter to registered owners of the Bonds appearing of record in the bond register on the fifteenth day (whether or not a business day) of the month prior (the "Record Date").					
Principal Payments:	February 1 in the years and amounts as follows:					
	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
	2026	\$ 105,000	2031	\$ 125,000	2036	\$ 145,000
	2027	110,000	2032	130,000	2037	150,000
	2028	110,000	2033	130,000	2038	155,000
	2029	115,000	2034	135,000	2039	165,000
	2030	120,000	2035	140,000	2040	170,000
Rating:	The City <i>has</i> requested a rating from S & P Global Rating.					
Maturity Adjustment:	The City reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of \$5,000 each.					
Continuing Disclosure:	Limited continuing disclosure					
Security:	The City pledges tax levies and special assessments to make the semi-annual payments.					
Purpose:	Proceeds will finance the City's 2024 street improvements project.					
Authority:	Minnesota Statutes, Chapters 429 and 475					
Optional Redemption:	Bonds are callable on February 1, 2033					
Tax Status:	Tax-exempt, bank-qualified					
Legal Opinion:	Taft Stettinius & Hollister LLP, Minneapolis, Minnesota					
Municipal Advisor:	David Drown Associates, Inc., Minneapolis, Minnesota					
Closing/Delivery:	On or about June 3, 2024					

*Questions regarding the Bonds or the Preliminary Official Statement can be directed to, and additional copies of the Preliminary Official Statement and the City's audited financial reports can be obtained from the City's Municipal Advisor David Drown Associates, Inc., 5029 Upton Avenue South, Minneapolis, MN 55410 (612-920-3320).*

***THIS BALANCE OF THIS PAGE LEFT BLANK INTENTIONALLY***

## TERMS OF OFFERING

**City of Harmony, Minnesota**

**\$2,005,000**

**General Obligation Improvement Bonds, Series 2024A**

**(BOOK ENTRY ONLY)**

### TERMS OF PROPOSAL

Proposals for the Bonds will be received on Tuesday, May 14, 2024 at 11:00 A.M. Central Time, at the offices of David Drown Associates, Inc., 5029 Upton Avenue South, Minneapolis, Minnesota, after which time they will be opened and tabulated. Consideration for award of the Bonds will be by the City Council of the City of Harmony (the "City") at 7:00 P.M., Central Time, on that same date.

### SUBMISSION OF PROPOSALS

Proposals must be submitted in a sealed envelope or by fax (612) 605-2375 to David Drown Associates, Inc. Signed Proposals, without final price or coupons, must be submitted to David Drown Associates, Inc. prior to the time of sale. The bidder shall be responsible for submitting to David Drown Associates, Inc. the final Proposal price and coupons, by telephone (612) 920-3320 or fax (612) 605-2375 for inclusion in the submitted Proposal. David Drown Associates, Inc. will assume no liability for the inability of the bidder to reach David Drown Associates, Inc. prior to the time of sale specified above.

Notice is hereby given that electronic proposals will be received via PARITY<sup>®</sup>, in the manner described below, until 11:00 A.M., local time on May 14, 2024. Bids must be submitted electronically via PARITY<sup>®</sup> pursuant to this Notice until 11:00 A.M., local time, but no bid will be received after the time for receiving bids specified above. To the extent any instructions or directions set forth in PARITY<sup>®</sup> conflict with this Notice, the terms of this Notice shall control. For further information about PARITY<sup>®</sup>, potential bidders must contact David Drown Associates, Inc. or PARITY<sup>®</sup> at (212) 806-8304.

Neither the City of Harmony nor David Drown Associates, Inc. assumes any liability if there is a malfunction of PARITY. All bidders are advised that each Proposal shall be deemed to constitute a contract between the bidder and the City to purchase the Bonds regardless of the manner of the Proposal submitted.

### DETAILS OF THE BONDS

The Bonds will be dated June 3, 2024, as the date of original issue, and will bear interest payable on February 1 and August 1 of each year, commencing February 1, 2025. Interest will be computed on the basis of a 360-day year of twelve 30-day months. The Bonds will mature February 1 in the years and amounts as follows:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2026	\$ 105,000	2034	\$ 135,000
2027	110,000	2035	140,000
2028	110,000	2036	145,000
2029	115,000	2037	150,000
2030	120,000	2038	155,000
2031	125,000	2039	165,000
2032	130,000	2040	170,000
2033	130,000		

## **TERM BOND OPTION**

Bids for the bonds must contain a maturity schedule providing for a combination of serial bonds and 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 to the date of redemption. In order to designate term bonds, the bid must specify as provided on the Proposal Form.

## **BOOK ENTRY SYSTEM**

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

## **REGISTRAR**

The City will name Northland Trust Services, Inc., Minneapolis, MN, as registrar for the Bonds. Northland Trust Services, Inc. shall be subject to applicable SEC regulations. The City will pay for the services of the registrar.

## **OPTIONAL REDEMPTION**

The City may elect on February 1, 2033 and on any day thereafter, to prepay Bonds due on or after February 1, 2034. Redemption may be in whole or in part and if in part at the option of the City and in such manner as the City shall determine. If less than all Bonds of a maturity are called for redemption, the City will notify DTC of the particular amount of such maturity to be prepaid. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interests in such maturity to be redeemed. All prepayments shall be at a price of par plus accrued interest.

## **SECURITY AND PURPOSE**

The Bonds will be general obligations of the City for which the City will pledge its full faith and credit and power to levy direct general ad valorem taxes. The City will pledge tax levies and special assessments to make the semi-annual payments. The proceeds will finance the City's 2024 street improvements project.

## **TYPE OF PROPOSALS**

Proposals shall be for not less than \$1,980,940.00 (98.80%) and accrued interest on the total principal amount of the Bonds. The apparent low-bidder as notified by David Drown Associates, Inc. shall wire, to a designated account, a good faith amount of \$40,100 by 3:00 p.m. on the date of sale. If the good faith wire transfer is not in process prior to the award, the City shall retain the right to reject the bid. In the event the purchaser fails to comply with the accepted proposal, said amount will be retained by the City. No proposal can be withdrawn or amended after the time set for receiving proposals unless the meeting of the City scheduled for award of the Bonds is adjourned, recessed, or continued to another date without award of the Bonds having been made. Rates shall be in integral multiples of 5/100 or 1/8 of 1%. Rates must be in ascending order. Bonds of the same maturity shall bear a single rate from the date of the Bonds to the date of maturity. No conditional proposals will be accepted.



## AWARD

The Bonds will be awarded on the basis of the lowest interest rate to be determined on a net interest cost (NIC) basis. The City's computation of the interest rate of each proposal, in accordance with customary practice, will be controlling. The City will reserve the right to waive non-substantive informalities of any proposal or of matters relating to the receipt of proposals and award of the Bonds, reject all proposals without cause, and reject any proposal, which the City determines to have failed to comply with the terms herein.

## MATURITY ADJUSTMENTS

The City reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of \$5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per \$1,000.

## ISSUE PRICE DETERMINATION

In order to provide the City with information necessary for compliance with Section 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations promulgated thereunder (collectively, the "Code"), the Purchaser will be required to assist the City in establishing the issue price of the Bonds and shall complete, execute, and deliver to the City prior to the closing date, a written certification in a form acceptable to the Purchaser, the City, and Bond Counsel (the "Issue Price Certificate") containing the following for each maturity of the Bonds (and, if different interest rates apply within a maturity, to each separate CUSIP number within that maturity): (i) the interest rate; (ii) the reasonably expected initial offering price to the "public" (as said term is defined in Treasury Regulation Section 1.148-1(f) (the "Regulation")) or the sale price; and (iii) pricing wires or equivalent communications supporting such offering or sale price. However, such Issue Price Certificate must indicate that the Purchaser has purchased the Bonds for its own account in a capacity other than as an underwriter or wholesaler, and currently has no intent to reoffer the Bonds for sale to the public. Any action to be taken or documentation to be received by the City pursuant hereto must be taken or received on behalf of the City by David Drown Associates, Inc.

The City intends that the sale of the Bonds pursuant to this Terms of Offering shall constitute a "competitive sale" as defined in the Regulation based on the following:

- i. the City shall cause this Terms of Offering to be disseminated to potential bidders in a manner that is reasonably designed to reach potential bidders;
- ii. all bidders shall have an equal opportunity to submit a bid;
- iii. the City reasonably expects that it will receive bids from at least three bidders that have established industry reputations for underwriting municipal bonds such as the Bonds; and
- iv. the City anticipates awarding the sale of the Bonds to the bidder who provides a proposal with the lowest net interest cost, as set forth in this Terms of Offering (See "AWARD" herein).

Any bid submitted pursuant to this Terms of Offering shall be considered a firm offer for the purchase of the Bonds, as specified in the proposal. The Purchaser shall constitute an "underwriter" as said term is defined in the Regulation. By submitting its proposal, the Purchaser confirms that it shall require any agreement among underwriters, a selling group agreement, or other agreement to which it is a party relating to the initial sale of the Bonds, to include provisions requiring compliance with the provisions of the Code and the Regulation regarding the initial sale of the Bonds.

If all requirements of a "competitive sale" are not satisfied, the City shall advise the Purchaser of such fact prior to the time of award of the sale of the Bonds to the Purchaser. **In such event, any proposal submitted will not be subject to cancellation or withdrawal.** Within twenty-four (24) hours of the notice of award of the sale of the Bonds, the Purchaser shall advise the City and David Drown Associates, Inc. if a "substantial amount" (as defined in the Regulation) of any maturity of the Bonds (and, if different interest rates apply within a maturity, to each separate CUSIP number within that maturity) has been sold to the public and the price at which such substantial amount was sold. The City will treat such sale price as the "issue price" for such maturity, applied on a maturity-by-maturity basis. The City will not require the Purchaser to comply with that portion of the Regulation commonly

described as the “hold-the-offering-price” requirement for the remaining maturities, but the Purchaser may elect such option. If the Purchaser exercises such option, the City will apply the initial offering price to the public provided in the proposal as the issue price for such maturities. If the Purchaser does not exercise that option, it shall thereafter promptly provide the City and David Drown Associates, Inc. the prices at which a substantial amount of such maturities are sold to the public; provided such determination shall be made and the City and David Drown Associates, Inc. notified of such prices not later than three (3) business days prior to the closing date.

### **BOND INSURANCE AT PURCHASER'S OPTION**

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

### **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 will constitute cause for failure or refusal by the purchaser to accept delivery of the Bonds. The purchaser shall pay the CUSIP Service Bureau charge for the assignment of CUSIP identification numbers.

### **SETTLEMENT**

Within 40 days following the date of their award, the Bonds will be delivered without cost to the purchaser at a place mutually satisfactory to the City and the purchaser. Delivery will be subject to receipt by the purchaser of an approving legal opinion of bond counsel, and of customary closing papers, including a no-litigation certificate. On the date of settlement payment for the Bonds shall be made in federal, or equivalent, funds which shall be received at the offices of the City or its designee not later than 12:00 Noon, Central Time. Except as compliance with the terms of payment for the Bonds shall have been made impossible by action of the City, or its agents, the purchaser shall be liable to the City for any loss suffered by the City by reason of the purchaser's non-compliance with said terms for payment.

### **LIMITED CONTINUING DISCLOSURE**

In order to assist the Underwriter (Syndicate Manager) in complying with the provisions of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange act of 1934 the City will enter into an undertaking for the benefit of the holders of the Bonds. A description of the details and terms of the undertaking is set forth in Appendix C of the Preliminary Official Statement.

### **OFFICIAL STATEMENT**

The City has authorized the preparation of an Official Statement containing pertinent information relative to the Bonds and said Official Statement will serve as a nearly final Official Statement within the meaning of Rule 15c2-12 of the Securities and Exchange Commission. For copies of the Official Statement or for any additional information prior to sale, any prospective purchaser is referred to the Municipal Advisor to the City, David Drown Associates, Inc., 5029 Upton Avenue South, Minneapolis, Minnesota 55410, and telephone (612) 920-3320.

The Official Statement, when further supplemented by an addendum or addenda specifying the maturity dates, principal amounts and interest rates of the Bonds, together with any other information required by law, shall constitute a "Final Official Statement" of the City with respect to the Bonds, as that term is defined in Rule 15c2-12. By awarding the Bonds to any underwriter or underwriting syndicate submitting a proposal therefor, the City agrees that, no more than seven business days after the date of such award, it shall provide without cost to the senior

managing underwriter of the syndicate to which the Bonds are awarded 5 copies of the Official Statement and the addendum or addenda described above. The City designates the senior managing underwriter of the syndicate to which the Bonds are awarded as its agent for purposes of distributing copies of the Final Official Statement to each Participating Underwriter. Any underwriter delivering a proposal with respect to the Bonds agrees thereby that if its proposal is accepted by the City (i) it shall accept such designation and (ii) it shall enter into a contractual relationship with all Participating Underwriters of the Bonds for purposes of assuring the receipt by each such Participating Underwriter of the Final Official Statement.

Dated: 9 April, 2024

BY ORDER OF THE CITY COUNCIL

/s/ Samantha Grabau  
City Clerk

***THE BALANCE OF THIS PAGE LEFT BLANK INTENTIONALLY***

# OFFICIAL STATEMENT

## CITY OF HARMONY, MINNESOTA

### \$2,005,000 General Obligation Improvement Bonds, Series 2024A

#### INTRODUCTION

This Preliminary Official Statement provides information relating to the issuance of \$2,005,000 General Obligation Improvement Bonds, Series 2024A (the “Bonds”) by City of Harmony, Minnesota (the “City”). This Preliminary Official Statement has been executed on behalf of the City and may be distributed in connection with the sale of Bonds authorized therein.

Inquiries may be made to David Drown Associates, Inc., 5029 Upton Avenue South, Minneapolis, MN 55410 or by telephoning (612) 920-3320. Information can also be obtained from Ms. Samantha Grabau, City Clerk, City of Harmony, P.O. Box 488, Harmony, MN 55939-0488 or by telephoning (507) 886-8122.

#### Limited Continuing Disclosure

In order to comply with the provisions of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 (the "Rule") the City will enter into an undertaking (the "Undertaking") for the benefit of the holders of the Bonds. Through the Undertaking, the City covenants and agrees to provide certain annual financial information about the City and to provide notice of the occurrence of certain material events. This information shall be provided according to the time parameters described in the Undertaking and to the information repositories and the Municipal Securities Rulemaking Board as required by the Rule. The specific provisions of the Undertaking are set forth in the Continuing Disclosure Certificate (the "Certificate") in substantially the form attached hereto as Appendix C. The Certificate will be executed and delivered by the City at the time the Bonds are delivered. The City is the only "obligated person" with respect to the Bonds within the meaning of the Rule.

The City has had no bond issues subject to the Rule for the last five (5) years. The City is aware of the Limited Continuing Disclosure requirements associated with this Issue.

#### Authority and Purpose

The Bonds are being issued pursuant to Minnesota Statutes, Chapter 429 and 475 for the purpose of financing the City’s 2024 street improvements project.

#### Sources and Uses

<u>Sources</u>		<u>Uses</u>	
Par Amount of the Bonds	\$ 2,005,000	Project Costs	\$ 1,888,856
Construction Fund Earnings	<u>3,756</u>	Underwriter’s Discount (1.20%)	24,060
		Capitalized Interest	46,440
		Issuance & Legal	<u>49,400</u>
Totals	\$ 2,008,756	Total	\$ 2,008,756

## Payment and Security

The Bonds are valid and binding general obligations of the City and are payable from ad valorem taxes. The full faith and credit of the City is also pledged to their payment. In the event of any deficiency in the Debt Service Account established for this Issue, the City has validly obligated itself to levy additional ad valorem taxes upon all of the taxable property within the City, without limitation of amount. The City pledges tax levies and special assessments to make the semi-annual payments.

## Optional Redemption

The City may elect on February 1, 2033 and on any day thereafter, to prepay Bonds due on or after February 1, 2034. Redemption may be in whole or in part and if in part at the option of the City and in such manner as the City shall determine. If less than all Bonds of a maturity are called for redemption, the City will notify DTC of the particular amount of such maturity to be prepaid. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interests in such maturity to be redeemed. Redemption will be made by giving 30 days' notice by registered mail, to the registered owner of the Bond. All prepayments shall be at a price of par plus accrued interest to the date of call.

## Rating

The City *has* requested a rating on this issue from S & P Global Ratings, Inc. Such a rating, when received, will reflect only the view of the rating agency and any explanation of the significance of such rating may only be obtained from S & P Global Ratings, Inc. There is no assurance that such rating, if and when received, will continue for any period of time or that it will not be revised or withdrawn. Any revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

## Taxability of Interest

At closing, Taft Stettinius & Hollister LLP, Bond Counsel, will render an opinion based upon present federal and State of Minnesota laws (which excludes any pending legislation which may have a retroactive effect), regulations, ruling and decisions, to the following effect:

1. **Gross Income:** the Bonds, as of their date of issuance, bear interest which is not includable in gross income of the recipient for federal income tax purposes or in taxable net income of individuals, trust and estates for Minnesota income tax purposes, but such interest is includable in taxable income of corporations and financial institutions for purposes of Minnesota franchise tax.
2. **Alternative Minimum Tax:** interest on the Bonds is not an item of tax preference which is included in alternative minimum taxable income for purposes of the federal alternative minimum tax applicable to individuals or the Minnesota alternative minimum tax imposed on individuals, trusts and estates; however, interest on the Bonds is taken into account in determining "annual adjusted financial statement income" for the purpose of computing the federal alternative minimum tax imposed on certain corporations for tax years beginning after December 31, 2022.
3. **Compliance:** the above opinions are subject to the condition that the Issuer complies with all applicable federal tax requirements that must be satisfied subsequent to the issuance of the Bonds. FAILURE TO COMPLY WITH CERTAIN OF SUCH REQUIREMENTS MAY CAUSE THE INCLUSION OF INTEREST ON THE BONDS IN FEDERAL GROSS INCOME AND IN MINNESOTA TAXABLE NET INCOME RETROACTIVE TO THE DATE OF ISSUANCE OF THE BONDS.

No opinion will be expressed by Bond Counsel regarding other federal or state tax consequences arising with respect to the Bonds. See the form of opinion in Appendix B.

## Other Federal Tax Considerations

Property and Casualty Insurance Companies Property and casualty insurance companies are required by federal tax law for taxable years beginning after January 31, 1986, to reduce the amount of their loss reserve deduction by 15% of the amount of tax-exempt interest received or accrued during the taxable year on certain obligations acquired after August 7, 1986, including interest on the Bonds.

Foreign Insurance Companies Foreign companies carrying on an insurance business in the United States are subject to a federal tax on income which is effectively connected with their conduct of any trade or business in the United States. Such income includes tax-exempt interest.

Branch Profits Tax Foreign corporations are subject to a federal "branch profits tax" equal to 30% of the "dividend equivalent amount" for the taxable year. The "dividend equivalent amount" is the foreign corporation's "effectively connected earnings and profits", including tax-exempt municipal bond interest.

Passive Investment Income of S Corporations Passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Internal Revenue Code of 1986, as amended, for S corporations that have Subchapter C earnings and profits at the close of the taxable year if more than 25% of the gross receipts of such S corporations is passive investment income.

Financial Institutions For federal income tax purposes, financial institutions are unable to deduct any portion of the interest expense allocable to the ownership of certain tax-exempt obligations acquired after August 7, 1986, including the Bonds but for their designation as qualified tax-exempt obligations. See "Qualified Tax-Exempt Obligations" below.

Social Security and Railroad Retirement Benefits Certain recipients of social security benefits and railroad retirement benefits are required to include a portion of such benefits within gross income by reason of receipt of interest on tax-exempt obligations, including the Bonds.

Exclusion Not Constitutionally Required The United States Supreme Court ruled in 1988 that the exclusion from gross income of interest on state and local bonds is not required by the United States constitution. The Constitution of the State of Minnesota likewise does not require the exclusion from gross income or taxable net income of interest on bonds of Minnesota issuers. Hence, future federal and/or state laws could cause the inclusion of interest on bonds, including the Bonds, in gross income or taxable net income, or could otherwise cause such interest to be taxed or to be included in the calculation of other income which is taxed.

General The above is not a comprehensive list of all federal or state tax consequences which may arise from the receipt or accrual of interest on the Bonds. The receipt or accrual 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 of income or deductions. Bond Counsel expresses no opinion regarding any such consequences. All prospective purchasers of the Bonds are advised to consult their own tax advisors as to the tax consequences of, or tax considerations for, purchasing or holding the Bonds.

## COVID-19

In late 2019 a novel strain of coronavirus emerged. COVID-19, as it is known, was declared a worldwide pandemic on March 11, 2020 by the World Health Organization. The response of the United States government, state governments and local governments has been to implement social distancing orders in order to limit the spread of COVID-19.

On March 13, 2020, the Governor of the State of Minnesota (the "Governor") signed Emergency Executive Order 20-01, declaring a peacetime emergency due to the pandemic. This Executive Order was extended on April 13, 2020 and again on May 13, 2020. The Executive Order put in place and extended the stay-at-home order to continue the closing of bars, restaurants and other public gathering places and businesses. This is the "Stay Safe Order".

On April 23, 2020, the Governor signed Executive Order 20-41 directing the Distance Learning Period for Minnesota school students to be extended through the end of the 2019/20 school year. On April 30, the Governor signed Executive Order 20-48 which extended and modified the Stay Safe Order through May 17, 2020.

Effective May 18, Executive Order 20-55 encourages Minnesotans to stay close to home but allows gatherings of friends and family of 10 people or less, if proper social distancing measures—like staying six feet apart and wearing a mask—are taken. The order also further opens retail stores and other Main Street businesses if they have a preparedness plan and operate at 50 percent occupancy.

Executive Order 20-74 was signed on June 5, 2020 and outlines the guidelines for continuing to safely reopen Minnesota’s economy and ensuring safe non-work activities during the COVID-19 emergency. Effective as of June 10, 2020 the guidelines continue to lift restrictions that were identified in prior Executive Orders.

Executive Order 20-81 was signed on July 22, 2020. This Order requires people to wear a face covering in certain settings across Minnesota to prevent the spread of COVID-19. This EO is effective July 25, 2020 and rescinds paragraph 3 of Emergency EO 20-74 which recommended the wearing of face coverings and masks.

On December 8, 2020, Executive Order 20-96 was signed by the Minnesota governor. This EO outlines statewide regulations for social gatherings, celebrations and receptions, as well as entertainment/food/beverage venues. On January 13, 2021, the Minnesota governor signed EO 21-04. This EO extends the Peacetime Emergency within the State of Minnesota through February 12, 2021.

The full impact of COVID-19 cannot be predicted by the City/County and they make no representations as to the impact on future financial positions and operations.

### **Details of Certain Terms**

So long as the Book-Entry Only System is used, payments from Cede & Co., as the Record 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 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 month prior to the interest payment date (the “Record Date”).

### **Original Issue Discount**

Original Issue Discount Bonds (“OID Bonds”) may be sold at initial public offering prices which are less than the principal amounts payable at maturity. For each maturity of OID Bonds, original issue discount is the excess of the stated redemption price at maturity of such Bonds over the initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of such Bonds are sold. The appropriate portion of such original issue discount allocable to the original and each subsequent holder will be treated as interest and excluded from gross income for federal income tax purposes and will increase a holders’ tax basis in such Bonds for purposes of determining gain or loss upon sale, exchange, redemption, or payment at maturity. Owners of such Bonds should consult their own tax advisors with respect to the computation and determination of the portion of original issue discount which will be treated as interest and added to a holder’s tax basis during the period such Bonds are held.

### **Original Issue Premium**

Original Issue Premium Bonds (“Premium Bonds”) may be sold at initial public offering prices which are greater than the principal amounts payable at maturity. Bondholders who acquire Premium Bonds should consult their tax advisors concerning the calculation of bond premium and the timing and rate of premium amortization, as well as the federal, state and local tax consequences of owning and selling Bonds acquired at a premium.

## Term Bond Option

Bids for the bonds may contain a maturity schedule providing for a combination of serial bonds and term bonds; provided that no serial bond may mature on or after the first mandatory sinking fund redemption date of any term bond. 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 to the date of redemption. In order to designate term bonds, the bid must specify as provided on the Proposal Form.

## Bank-qualified Tax-Exempt Obligations

The City will designate the Bonds as “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the federal 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. “Qualified tax-exempt obligations” are treated as acquired by the financial institution before August 8, 1986. Interest allocable to such obligations remains subject to the 20% disallowance contained in prior law.

## Book Entry System

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee). One fully-registered certificate will be issued for each maturity of the Obligations, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York State Banking Law, a “banking organization” within the meaning of the New York State Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York State Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-sale 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, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust and Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and members of the National Securities Clearing Corporations, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporations (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchanges, Inc., the American Stock Exchanges LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as 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”). The Rules applicable to DTC and its Direct and Indirect Participants are on files with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.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 Bond (“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, but Beneficial Owners are 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 interest in the Bonds, except in the event that use of the book entry system for the Bonds is discontinued or as an option upon the transfer of an entire maturity.



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 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 effect 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 Obligations 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. Beneficial Owners of the Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

Redemption notices for the Obligations shall be sent to Cede & Co. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issue or Registrar 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).

Principal and interest 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 Issuer or Agent on the 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 securities 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 (nor its nominee), the Registrar, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or other such nominee as may be requested by an authorized representative of DTC) is the responsibility of the Registrar, Issuer, 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.

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

The Issuer may decide to discontinue use of the system of book entry transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered. The information in this section concerning DTC and DTC's book entry-system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

## Litigation

The City is not aware of any threatened or pending litigation affecting the validity of the Bonds or the City's ability to meet its financial obligations.

## Future Financing

The City anticipates a bond issue of approximately \$1.4 million for a wastewater project later this year.

## Legality

The Bonds are subject to approval as to certain matters by Taft Stettinius & Hollister LLP of Minneapolis, Minnesota, as Bond Counsel. Bond Counsel has neither been engaged nor undertaken to prepare, opine on, examine or independently verify the accuracy of any portion of this Official Statement, including the financial, statistical or operational statements or data contained in this Official Statement and risks associated with the purchase of the Bonds, except for statements under “Taxability of Interest” herein that summarize certain provisions of the Internal Revenue Code of 1986, as amended, the Bonds and any opinion rendered by Bond Counsel. Bond Counsel has prepared the form of legal opinion attached hereto as “Appendix B – PROPOSED FORM OF LEGAL OPINION,” and a legal opinion in substantially the form set out in Appendix B herein will be delivered at closing.

By expressing its opinion, Bond Counsel is expressing its professional judgment and does not become an insurer or guarantor of the result indicated by that expression of professional judgment or of the transaction or the future performance of the parties to the transaction. Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the applicability of any such state and local taxes.

## Municipal Advisor

The City has retained David Drown Associates, Inc., Minneapolis, Minnesota, as Municipal Advisor (the “Municipal Advisor”) in connection with the issuance of the Bonds. In preparing the Preliminary Official Statement, the Municipal Advisor has relied upon governmental officials and other sources that have access to relevant information contained in the Preliminary Official Statement. 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 City to compile, review, examine or audit any information in the Preliminary Official Statement in accordance with accounting standards. The Municipal Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

## Certification

The City has authorized the distribution of this Preliminary Official Statement for use in connection with the initial sale of the Bonds. As of the date of the settlement of the Bonds, the Purchaser(s) will be furnished with a certificate signed by the appropriate officers of the City. The certificate will state that as of the date of the Preliminary Official Statement, it did not and does not as of the date of the certificate contain any untrue statement of 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 BALANCE OF THIS PAGE LEFT BLANK INTENTIONALLY***

## VALUATIONS – COUNTY AUDITOR

---

For full valuation, top ten taxpayers, tax rate, tax levy/collections information, please see the full Fillmore County Auditor’s Certificate for taxes payable in 2024 found under Appendix A.

## TRENDS IN VALUATIONS

---

### Trends in Valuations

<u>Year</u>	<u>Economic Market Value</u>	<u>Estimated Market Value</u>	<u>Taxable Market Value</u>	<u>Adjusted Net Tax Capacity</u>
2023/24	Not available	\$ 104,323,800	\$ 95,338,590	\$ 1,057,159
2022/23	\$ 118,873,825	102,779,400	94,156,900	1,006,712
2021/22	84,727,131	87,658,300	78,297,400	883,702
2020/21	84,977,800	76,715,000	67,343,500	771,002
2019/20	78,560,966	75,734,300	66,182,000	781,394
2018/19	73,756,400	68,774,000	59,286,000	683,819
2017/18	66,558,414	68,067,300	58,572,200	654,446

## CASH AND INVESTMENTS

*(as of April 4, 2024)*

<u>Fund</u>	<u>Cash/Investments</u>
General	\$ 1,093,863
Special	682,842
Debt Service	71,541
Capital	422,439
Enterprise	<u>1,531,228</u>
Total	\$ 3,801,913

## CITY INDEBTEDNESS

(as of 04/01/2024)

### Legal Debt Limit and Margin

Legal Debt Limit (3% of Estimated Market Value)	\$ 3,129,714
Less: Outstanding Debt Subject to Limit	0
 Legal Debt Margin as of 04/01/2024	 \$ 3,129,714

### General Obligation Debt Supported by Tax Levies

<u>Date of Issue</u>	<u>Original Amount</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
01/14/2013	\$ 313,000	Tax Abatement Refunding	10/01/2024	\$ <u>16,000</u>
Total				\$ 16,000

### General Obligation Debt Supported by Special Assessments

<u>Date of Issue</u>	<u>Original Amount</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
06/03/2024	\$ 2,005,000	Improvements, This Issue	02/01/2040	\$ 2,005,000
04/21/2021	660,000	Improvements Rfdg Portion 2021C	02/01/2031	389,000
06/01/2020	2,098,000	Improvements	02/01/2031	<u>1,511,000</u>
Total				\$ 3,905,000

### General Obligation Debt Supported by Tax Increment

<u>Date of Issue</u>	<u>Original Amount</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
11/01/2021	\$ 84,083	Taxable TIF	11/01/2031	\$ 75,675
11/01/2021	247,000	Taxable TIF	02/01/2032	<u>222,000</u>
Total				\$ 297,675

### General Obligation Debt Supported by Revenues

<u>Date of Issue</u>	<u>Original Amount</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
04/21/2021	\$ 77,000	Water Rfdg Portion 2021C	02/01/2031	\$ 45,000
11/10/2015	833,356	Water Revenue Note	08/20/2035	<u>537,000</u>
Total				\$ 582,000

### Summary of Direct Debt (Gross)

	<u>Gross Debt</u>	<u>Less: Debt Funds</u>	<u>Net Direct Debt</u>
GO Debt Supported by Tax Levies	\$ 16,000	\$ -	\$ 16,000
GO Debt Supported by Assessments	3,905,000	71,541	3,833,459
GO Debt Supported by Tax Increment	297,675	-	297,675
GO Debt Supported by Revenues	<u>582,000</u>	<u>-</u>	<u>582,000</u>
Total	\$ 4,800,675	\$ 71,541	\$ 4,729,134

### Overlapping Debt

<u>Taxing Unit</u>	<u>2023/24 Tax Capacity</u>	<u>% in City</u>	<u>Total G.O. Debt</u>	<u>City Share</u>
Fillmore County	\$ 48,244,817	2.19%	\$ 6,650,000	\$ 145,717
ISD #2198	11,990,839	8.82%	4,010,000	<u>353,537</u>
Total				\$ 499,255

\* Includes all general obligation debt through December 31, 2023

### Debt Ratios

	<u>Net G.O. Debt</u>	<u>Debt/Economic Market Value \$ 118,873,825</u>	<u>Debt per Capita 1,043</u>
Net Direct G.O. Debt*	\$ 4,147,134	3.49%	\$ 3,976
Net Direct and Overlapping GO Debt	4,646,389	3.91%	4,455

\* Excludes all GO debt supported by revenues.

**THE BALANCE OF THIS PAGE LEFT BLANK INTENTIONALLY**

**Annual Debt Service Payments**

Year	GO Debt Supported by Tax Levies			GO Debt Supported by Special Assessments		
	Principal	Payment	% Retired	Principal	Payment	% Retired
2024	\$ 16,000	\$ 16,176	100%	\$ -	\$ 17,261	0%
2025	-	-		299,000	412,481	8%
2026	-	-		408,000	503,212	18%
2027	-	-		420,000	506,372	29%
2028	-	-		425,000	502,343	40%
2029	-	-		335,000	403,792	48%
2030	-	-		344,000	404,645	57%
2031	-	-		354,000	406,215	66%
2032	-	-		130,000	175,775	70%
2033	-	-		130,000	171,420	73%
2034	-	-		135,000	171,915	76%
2035	-	-		140,000	172,135	80%
2036	-	-		145,000	172,076	84%
2037	-	-		150,000	171,690	87%
2038	-	-		155,000	170,971	91%
2039	-	-		165,000	174,848	96%
2040	-	-		170,000	173,315	100%
	\$ 16,000	\$ 16,176		\$ 3,905,000	\$ 4,710,464	

Year	GO Debt Supported by Tax Increments			GO Debt Supported by Revenues		
	Principal	Payment	% Retired	Principal	Payment	% Retired
2024	\$ -	\$ 2,490	0%	\$ 42,000	\$ 44,978	7%
2025	26,000	30,746	9%	55,000	60,457	17%
2026	26,000	30,278	17%	54,000	58,878	26%
2027	27,000	30,801	27%	55,000	59,305	35%
2028	27,000	30,315	36%	55,000	58,722	45%
2029	28,000	30,820	45%	44,000	47,210	52%
2030	29,000	31,307	55%	45,000	47,770	60%
2031	104,675	105,968	90%	45,000	47,320	68%
2032	30,000	30,270	100%	46,000	47,870	76%
2033	-	-		46,000	47,410	84%
2034	-	-		47,000	47,950	92%
2035	-	-		48,000	48,480	100%
	\$ 297,675	\$ 322,993		\$ 582,000	\$ 616,348	

## GENERAL INFORMATION

The City of Harmony is situated in Fillmore County, located in the southeastern portion of Minnesota. The City lies approximately 45 miles south of the City of Rochester and 125 miles south of the Twin Cities. Primary highway access to the City is provided by U.S. Highway 52 (which runs through the City) and U.S. Highway 63. Minnesota Highway 16 is approximately 20 miles outside the City. Interstate 90 is located within 40 miles of the City.

### Organization

The City was organized in 1896 as a Statutory City (Plan A) and currently operates under the Mayor-Council form of government. The City Council is composed of a mayor and four Council members. The Mayor is elected at large and serves a four-year term. Four Council members are elected at large to serve overlapping four-year terms. The present Council is comprised of the following members:

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Steve Donney	Mayor	12/31/2024
Michael Himlie	Council Member	12/31/2026
Jesse Grabau	Council Member	12/31/2024
Domingo Kingsley	Council Member	12/31/2024
Kyle Scheevel	Council Member	12/31/2026

The City Clerk, Samantha Grabau, is appointed by the City Council. The City currently employs six (6) full-time and three (3) part-time persons, which includes administration, the library and public works departments. Police services are provided by the Fillmore County Sheriff's Office. The City does have a volunteer fire department. Firefighters have access to a 2006 pumper tanker, 2012 pumper tanker, 2016 grass rig, 2020 rescue truck, and a 2020 can-am.

The City has four (4) neighborhood parks. North Park has a basketball court, restrooms, tennis court, and a playground with a shelter. Trailhead Park features a splash pad with public restrooms and pavilion, bike trail access and playground equipment. Selvig Park features a gazebo, playground and public restrooms. Cardinal Park has a pavilion and playground.

### City Services

The City's municipal water service has three (3) wells with a pumping capacity of 750 gallons per minute. The average demand is 110,000 gallons per day with a peak demand of 210,000 gallons per day. The elevated storage capacity is 100,000 gallons. There are approximately 627 connections to the municipal water system.

The City has a mechanical wastewater system with a treatment capacity of 194,000 gallons per day. The average demand is 70,000 gallons per day with a peak demand of 600,000 gallons per day. There are approximately 627 connections to the sanitary sewer system.

### Employee Pensions

The City participates in cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

General Employees Retirement Plan All full-time and certain part-time employees of the City are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan and are covered by Social Security. The General Employees Fund contribution for the year ending December 31, 2022 was \$27,354.

## Census Data

### Population Trends

	<u>Population</u>
2000 U.S. Census	1,080
2010 U.S. Census	1,020
2020 U.S. Census	1,043

Source: U.S. Census Bureau

### Income and Housing Statistics

	<u>City of Harmony</u>	<u>Fillmore County</u>	<u>State of Minnesota</u>
2022 per Capita Income	\$ 40,224	\$ 35,645	\$ 45,021
2022 Median Household Income	64,300	73,234	82,338
Percent Living in Poverty	11.4%	8.7%	9.6%

Median Value of Owner-Occupied Housing \$ 167,400 \$ 196,200 \$ 314,600

Source: U.S. Census Bureau (2022 American Community Survey 1-Year Estimates)

The City has 560 single family homes and 3 multi-family homes. Three (3) of the single-family homes were constructed during the past year.

Source: City Records

## Employment Data

	<u>Labor Force Fillmore County</u>	<u>Unemployment Rate Fillmore County</u>	<u>Statewide</u>
February, 2024	11,746	4.1%	3.6%
February, 2023	11,585	4.4%	3.4%

Source: MN Department of Employment and Economic Development

## Major Employers

<u>Employer</u>	<u>Product/Service</u>	<u>Approximate # of Employees</u>
Fillmore Central Schools	Education	150
Gunderson Care Center	Healthcare	70
Harmony Enterprises, Inc.	Special Industry Machinery	50
Bruening Construction	Highway/Street Construction	50
Hammel Equipment	Agricultural Equipment	20
Harmony Agri-Services	Wholesaler	20
Harmony IGA	Grocery Store	20
City of Harmony	City Government	12
Ethanol Products, LLC	Repair Shop	10
Dairyland Power	Wholesaler	5

Source: City Records



## Commercial/Industrial Development

In the past three (3) years, the City has seen the following commercial/industrial development in excess of \$25,000.

<u>Name of Business</u>	<u>Product/Service</u>	<u>Type of Building</u>	<u>(Estimated) Cost of Project</u>
Dairyland Power	Electric Wholesaler	Steel Construction	\$ 2,000,000

The city has a 40-acre industrial park that is served by sewer and water and is approximately 25% developed.

Source: City Records

## Building Permits

<u>Year</u>	<u>Comm./Ind.</u>	<u>Number of Permits</u>			<u>Total Value of Permits</u>
		<u>Residential</u>	<u>Other</u>		
2024*	1	3	-	\$ 415,000	
2023	-	11	-	1,572,750	
2022	-	5	-	16,000	
2021	4	7	-	2,610,700	
2020	2	4	-	770,000	

\* As of April 8, 2024

Source: City Records

## Financial Services

First Southeast Bank has two (2) offices in Harmony. They reported deposits of \$103,039,000 as of June 30, 2023.

Source: FDIC on-line "Summary of Deposits"

## Healthcare

Gunderson Harmony Clinic offers medical care to residents from Harmony and the surrounding areas. Gunderson Harmony Care center is a 43 bed nursing home located in the City. Harmony Healthcare is an assisted living facility/ senior living community. Harmony Health Services provides home care services. There are also two (2) nursing homes in nearby Preston, MN (approximately 10 miles). The nearest hospital is Regional Health Services of Howard County (Cresco, IA) approximately 13 miles from the City. They are also only approximately 40 miles from the Mayo Clinic, located in Rochester, MN.

Source: [www.city-data.com](http://www.city-data.com); [www.gundersonhealth.org](http://www.gundersonhealth.org); [www.harmonyhealthllc.com](http://www.harmonyhealthllc.com); [www.healthgrades.com/hospital-directory/mn](http://www.healthgrades.com/hospital-directory/mn)

## Education

Fillmore Central Public School District serves students in Harmony, Preston, and the surrounding area. The elementary school (grades K-6) is located in Preston (approximately 10 miles away); and the high school (grades 7-12) is located in Harmony. They also offer an alternate learning program to help students that falter during their 9<sup>th</sup> – 12<sup>th</sup> grades years.

Luther College, Decorah IA, is the closest four-year college (approximately 20 miles); Northeast Iowa Community College, Calmar IA, is the closest community college (approximately 28 miles); and Winona State University, Winona MN, is the closest public university (approximately 39 miles).

Source: [www.city-data.com](http://www.city-data.com) and [www.fillmorecentral.k12.mn.us](http://www.fillmorecentral.k12.mn.us)

## Transportation

The City lies approximately 45 miles south of the City of Rochester and 125 miles south of the Twin Cities. Primary highway access to the City is provided by U.S. Highway 52 (which runs through the City) and U.S. Highway 63. Minnesota Highway 16 is approximately 20 miles outside the City. Interstate 90 is located within 40 miles of the City.

Source: [www.mapquest.com](http://www.mapquest.com)

## Utilities

The City of Harmony has its own electric utility and is provided natural gas by People's Natural Gas.

Source: *City Records*

## Communications

The City of Harmony is provided local telephone service by Harmony Telephone. The City also has local Internet access and teleconferencing available. The City's official newspaper is the Fillmore County Journal which is published each Monday. The City has an on-line presence with a web address of: [www.harmony.mn.us](http://www.harmony.mn.us).

Source: *City Records*

---

## **APPENDIX A**

### **COUNTY AUDITOR'S CERTIFICATE**

The following pages contain a copy of the Fillmore County Auditor's Certificate for taxes payable in 2024.

**CERTIFICATE AS TO TAXES AND TAXABLE  
PROPERTY IN HARMONY CITY**

**(Herein called the "TAXING DISTRICT")**

I hereby certify that the TAXING DISTRICT is situated wholly in this County and that:

**1. CURRENT VALUATION** - The taxable market values and net tax capacities of all taxable property in the TAXING DISTRICT in this county as assessed in 2023 for the purpose of computing the rates of taxes collectible in 2024 are as follows:

Property Type	Estimated Market value	Taxable Market value	Net Tax Capacity
<b>Real Estate:</b>			
Residential Homestead (Class 1a, 1b) .....	69,437,100	60,802,990	607,530
Agricultural (Class 1b, 1d, 2a, 2b, 2c) .....	2,634,900	2,624,300	22,365
Commerical & Industrial (Class 3a, 3b, 4c(3)i, 4c(3)ii, 5(1)):			
Public Utility .....			
Railroad Operating Property .....			
All Other Commerical-Industrial .....	17,690,100	17,690,100	309,287
Residential Non-Homestead (Class 4a,4b(1-4),4bb,4c(2-5,6-9),4d) .....	13,798,700	13,115,200	138,052
Seasonal Recreational-Residential (Class 1c, 4c1, 4c5, 4c(10) 4c(12)) ...	17,300	17,300	216
Other (Class 5(2)) .....			
<b>Total Real Estate</b> .....	<b>103,578,100</b>	<b>94,249,890</b>	<b>1,077,450</b>
<b>Total Personal Property</b> .....	<b>745,700</b>	<b>1,088,700</b>	<b>21,774</b>
<b>Total Real and Personal Property</b> .....	<b>104,323,800</b>	<b>95,338,590</b>	<b>1,099,224</b>
 Subtract: Tax Increment Captured Tax Capacity .....			42,065
10% Tax Capacity of 200KV Powerlines built after 7/1/74 .....			0
Fiscal Disparity Contribution Value .....			
 Local Tax Rate Determination Value .....			1,057,159
Add: Fiscal Disparity Distribution Value .....			0
 Local Adjusted Taxable Value .....			1,057,159
 <b>Total Manufactured Home</b> .....			

**Homestead Exclusions**

Real Estate	Personal Property	Manufactured Home
8,194,710	0	0

**2. VALUATION HISTORY** (Real & Personal Property)

Pay Year	EMV/ Taxable Market Value	Total Tax Capacity	Tax Increment Captured	10% Power Lines	Fiscal Disparity Contribution	Local Taxable Value	Fiscal Disparity Distribution	Homestead Exclusions/ Adjusted TCAP
2023	102,779,400							8,413,400
	94,156,900	1,047,785	41,073		N/A	1,006,712	N/A	1,006,712
2022	87,658,300							9,156,700
	78,297,400	896,738	13,036		N/A	883,702	N/A	883,702
2021	76,715,000							9,604,600
	67,343,500	783,048	12,046		N/A	771,002	N/A	771,002
2020	75,734,300							9,474,400
	66,182,000	781,394	0		N/A	781,394	N/A	781,394
2019	68,774,000							9,499,200
	59,286,000	694,414	10,595		N/A	683,819	N/A	683,819
2018	68,067,300							9,535,500
	58,572,200	675,653	21,207		N/A	654,446	N/A	654,446

**3. TEN LARGEST TAXPAYING PARCELS** - A list of the largest taxpaying parcels in the TAXING DISTRICT in this county is enclosed if requested.

**4. TAXING AUTHORITY AND RATE HISTORY** - The TAXING DISTRICT has the power to tax property situated in the following County or Counties: FILLMORE, MN

The following governmental units within this county also have the power to levy taxes in the TAXING DISTRICT:

Government Unit	Tax Rate History (Levy Year/Collection Year)									
	2019/20		2020/21		2021/22		2022/23		2023/24	
	Tax Cap	Mkt Val	Tax Cap	Mkt Val	Tax Cap	Mkt Val	Tax Cap	Mkt Val	Tax Cap	Mkt Val
<b>***COUNTY***</b>										
COUNTY	31.317000	0.000000	32.734000	0.000000	32.066000	0.000000	28.427377	0.000000	26.689301	0.000000
7 - COUNTY LIBRARY	0.834000	0.000000	0.877000	0.000000	0.866000	0.000000	0.770159	0.000000	0.676075	0.000000
<b>Total Rate</b>	<b>32.151000</b>	<b>0.000000</b>	<b>33.611000</b>	<b>0.000000</b>	<b>32.932000</b>	<b>0.000000</b>	<b>29.197536</b>	<b>0.000000</b>	<b>27.365376</b>	<b>0.000000</b>
<b>**MUNICIPALITY**</b>										
HARMONY CITY	96.923000	0.000000	99.018000	0.000000	89.728000	0.000000	79.370654	0.000000	83.506643	0.000000
<b>***SCHOOL***</b>										
SCHOOL DISTRICT 2198	10.734000	0.163840	12.365000	0.199190	11.171000	0.169190	6.834507	0.170455	7.896549	0.175680

5. **BONDED INDEBTEDNESS** - The TAXING DISTRICT and all governmental units listed in section 4 having bonded debt, have such debt as shown below. Values shown are adjusted net tax capacities which have been adjusted for Fiscal Disparity Contribution and Distribution, Tax Increment Captured Tax Capacity, and Powerlines.

Government Unit	Taxable Net Tax Capacity of Entire Govt. Unit in County	Taxable Net Tax Capacity of Portion in TAXING DIST. in County	Bonded Debt as of 12/31/2023	2023/24 Debt Fund Tax Rate
****COUNTY****				
COUNTY	48,244,817	1,057,159	6,650,000	1.0847
**MUNICIPALITY**				
HARMONY CITY	1,057,159	1,057,159	3,116,266	16.108
****SCHOOL****				
SCHOOL DISTRICT 2198	11,990,389	1,057,159	4,000,000	4.3522

6. TAX LEVIES AND COLLECTION FOR YEAR: 2024

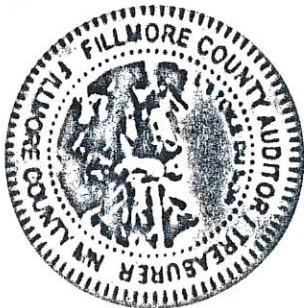
Levy/Coll Year	2019/20	2020/21	2021/22	2022/23	2023/24
Gross Levy	0.00	0.00	0.00	0.00	0.00
Cross County Levy	0.00	0.00	0.00	0.00	0.00
Net Gross Levy	0.00	0.00	0.00	0.00	0.00
Market Levy	0.00	0.00	0.00	0.00	0.00
Property Credits/Aids	0.00	0.00	0.00	0.00	0.00
Net Tax Levy	0.00	0.00	0.00	0.00	918,528.92
Adjustments During Coll Year	0.00	0.00	0.00	0.00	0.00
Adjusted Tax Levy	0.00	0.00	0.00	0.00	918,528.92
Current Year Collections	0.00	0.00	0.00	-820,919.80	0.00
Year End Delinquency	0.00	0.00	0.00	-820,919.80	918,528.92
Delinquent Adjustments as of 03/12/24	0.00	0.00	0.00	0.00	0.00
Delinquent Collections as of 03/12/24	-1,357.89	-1,605.26	-5,083.32	-7,678.42	0.00
Amount of Delinquent as of 03/12/24	-1,357.89	-1,605.26	-5,083.32	-828,598.22	918,528.92

If there are any questions regarding the completed certificate, please contact

Contact Person(s): Heather Broadwater

Telephone: 507-765-2468

WITNESS My hand and official seal this 10<sup>TH</sup> day of April, 2024.



(SEAL)

Heather Broadwater  
COUNTY AUDITOR



04/10/2024  
 12:24 PM  
 108120  
 ASMT Year 2023

**FILLMORE, MN**  
**Top 10 Taxpayers List - Rank by Original Charges**  
**DETAIL/SUMMARY REPORT**  
**For HARMONY CITY**

PAGE: 1  
 TX126MN

Rank	TaxPayer/ Parcel Number	City TIF Town	Schl Dist	Estimated Market Value	Taxable Market Value	Net Tax Capacity	Net Tax Property Payable Classification
1	DAIRYLAND POWER COOP						
	P 150000004	0500	2198	0	14,200	284	444.00
	R 150620000	Y 0500	2198	2,148,800	2,148,800	42,976	67,116.00
<b>Total for DAIRYLAND POWER COOP</b>				2,148,800	2,163,000	43,260	67,560.00
2	CROP PRODUCTION SERVICES, INC						
	R 150005030	0500	2198	1,620,700	1,620,700	31,664	48,856.00
	R 150005040	0500	2198	342,700	342,700	3,427	4,046.42
<b>Total for CROP PRODUCTION SERVICES, INC</b>				1,963,400	1,963,400	35,091	52,902.42
3	AMERITUS PROPERTY FUND HARMONY LLC						
	R 150010020	0500	2198	2,231,200	2,231,200	27,890	36,856.00
<b>Total for AMERITUS PROPERTY FUND HARMONY LLC</b>				2,231,200	2,231,200	27,890	36,856.00
4	MINNESOTA ENERGY RESOURCES						
	P 150000001	0500	2198	0	181,600	3,632	5,672.08
	P 150000001	0500	2198	745,700	745,700	14,914	23,291.92
<b>Total for MINNESOTA ENERGY RESOURCES</b>				745,700	927,300	18,546	28,964.00
5	HARMONY ENTERPRISES INC						
	R 150013010	0500	2198	982,200	982,200	18,894	28,914.00
<b>Total for HARMONY ENTERPRISES INC</b>				982,200	982,200	18,894	28,914.00
6	HARMONY AGRI SERVICES INC						
	R 150005000	0500	2198	237,400	237,400	4,748	7,416.00
	R 150094000	0500	2198	7,300	7,300	110	142.00
	R 150106030	0500	2198	715,500	715,500	13,560	20,584.00
	R 150106040	0500	2198	9,900	9,900	198	310.00
	R 150328000	0500	2198	500	500	10	16.00
	R 150329000	0500	2198	3,000	3,000	60	94.00
	R 150330000	0500	2198	300	300	6	10.00
	R 150387000	0500	2198	4,200	4,200	84	132.00
<b>Total for HARMONY AGRI SERVICES INC</b>				978,100	978,100	18,776	28,704.00
7	HARMONY STATE BANK						
	R 150122000	0500	2198	759,500	759,500	14,440	21,958.00

04/10/2024  
 12:24 PM  
 108120  
 ASMT Year 2023

**FILLMORE, MN**  
**Top 10 Taxpayers List - Rank by Original Charges**  
**DETAIL/SUMMARY REPORT**  
**For HARMONY CITY**

PAGE: 2  
 TX126MN

TaxPayer/ Rank Parcel Number	City TIF Town	Schl Dist	Estimated Market Value	Taxable Market Value	Net Tax Capacity	Net Tax Property Payable Classification
<b>Total for HARMONY STATE BANK</b>			759,500	759,500	14,440	21,958.00
8	ROGER J TORGERSON					
R 150009070	0500	2198	398,700	397,300	3,973	5,392.00
R 150010010	0500	2198	142,700	142,700	1,427	1,936.00
R 150568000	0500	2198	277,500	277,500	4,800	6,902.00
<b>Total for ROGER J TORGERSON</b>			818,900	817,500	10,200	14,230.00
9	MINNOWA CONSTRUCTION INC					
R 150512000	0500	2198	18,800	18,800	376	588.00
R 150513000	0500	2198	20,400	20,400	405	630.00
R 150514000	0500	2198	149,300	149,300	2,240	2,908.00
R 150520000	0500	2198	344,900	344,900	6,148	9,008.00
R 150521000	0500	2198	32,700	32,700	654	1,022.00
<b>Total for MINNOWA CONSTRUCTION INC</b>			566,100	566,100	9,823	14,156.00
10	HERSHLAND PROPERTIES LLC					
R 150013020	0500	2198	160,600	160,600	2,462	3,252.00
R 150013030	0500	2198	101,300	101,300	1,520	1,972.00
R 150014020	0500	2198	319,300	319,300	5,636	8,208.00
<b>Total for HERSHLAND PROPERTIES LLC</b>			581,200	581,200	9,618	13,432.00
<b>Total:</b>			11,775,100	11,969,500	206,538	307,676.42

[Appendix B to Official Statement]

PROPOSED FORM OF LEGAL OPINION

\$2,005,000  
GENERAL OBLIGATION IMPROVEMENT BONDS, SERIES 2024A  
CITY OF HARMONY  
FILLMORE COUNTY  
MINNESOTA

We have acted as bond counsel in connection with the issuance by the City of Harmony, Fillmore County, Minnesota (the "Issuer"), of its \$2,005,000 General Obligation Improvement Bonds, Series 2024A, bearing a date of original issue of June 3, 2024 (the "Bonds"). We have examined the law and such certified proceedings and other documents as we deem necessary to render this opinion.

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

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Based upon such examinations, and assuming the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such documents, and the accuracy of the statements of fact contained in such documents, and based upon present Minnesota and federal laws (which excludes any pending legislation which may have a retroactive effect on or before the date hereof), regulations, rulings and decisions, it is our opinion that:

(1) The proceedings show lawful authority for the issuance of the Bonds according to their terms under the Constitution and laws of the State of Minnesota now in force.

(2) The Bonds are valid and binding general obligations of the Issuer, and all of the taxable property within the Issuer's jurisdiction is subject to the levy of an ad valorem tax to pay the same without limitation as to rate or amount; provided that the enforceability (but not the validity) of the Bonds and the pledge of taxes for the payment of the principal and interest thereon is subject to the exercise of judicial discretion in accordance with general principles of equity, to the constitutional powers of the United States of America and to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted.

(3) At the time of the issuance and delivery of the Bonds to the original purchaser, the interest on the Bonds is excluded from gross income for United States income tax purposes and is excluded, to the same extent, from both gross income and taxable net income for State of Minnesota income tax purposes (other than Minnesota franchise taxes measured by income and imposed on corporations and financial institutions), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or the Minnesota alternative minimum tax applicable to individuals, estates or trusts; however, interest on the Bonds is taken into account in determining "annual adjusted financial statement income" for the purpose of computing the federal alternative minimum tax imposed on certain corporations for tax years beginning after December 31, 2022. The opinions set forth in the preceding sentence are subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes and from both gross income and taxable net income for State of Minnesota income tax purposes. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income and taxable net income retroactive to the date of issuance of the Bonds.

We express no opinion regarding other state or federal tax consequences caused by the receipt or accrual of interest on the Bonds or arising with respect to ownership of the Bonds.

This opinion is given as of the date hereof, and we assume no obligation to update, revise, or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur and be retroactive.

TAFT STETTINIUS & HOLLISTER LLP

[Appendix C to Official Statement]

PROPOSED FORM OF CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the "Disclosure Undertaking") is executed and delivered by the City of Harmony, Minnesota (the "Issuer"), in connection with the issuance of its \$2,005,000 General Obligation Improvement Bonds, Series 2024A (the "Bonds"). The Bonds are being issued pursuant to a Resolution adopted on May 14, 2024 (the "Resolution"). Pursuant to the Resolution and this Disclosure Undertaking, the Issuer covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Undertaking. This Disclosure Undertaking is being executed and delivered by the Issuer for the benefit of the Owners and in order to assist the Participating Underwriters in complying with SEC Rule 15c2-12(b)(5).

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

"Annual Report" shall mean any annual financial information provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Undertaking.

"Audited Financial Statements" shall mean the financial statements of the Issuer audited annually by an independent certified public accounting firm, prepared pursuant to generally accepted accounting principles promulgated by the Financial Accounting Standards Board, modified by governmental accounting standards promulgated by the Government Accounting Standards Board.

"Dissemination Agent" shall mean such party from time to time designated in writing by the Issuer to act as information dissemination agent and which has filed with the Issuer a written acceptance of such designation.

"Financial Obligation" shall mean a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). This term shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

"Fiscal Year" shall be the fiscal year of the Issuer.

"Governing Body" shall, with respect to the Bonds, have the meaning given that term in Minnesota Statutes, Section 475.51, Subdivision 9.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Occurrence(s)" shall mean any of the events listed in Section 4 of this Disclosure Undertaking.

"Official Statement" shall be the Official Statement dated \_\_\_\_\_, 2024, prepared in connection with the Bonds.

"Owners" shall mean the registered holders and, if not the same, the beneficial owners of any Bonds.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Resolution" shall mean the resolution or resolutions adopted by the Governing Body of the Issuer providing for, and authorizing the issuance of, the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time or interpreted by the Securities and Exchange Commission.

### SECTION 3. Provision of Annual Reports.

A. Beginning in connection with the Fiscal Year ending on December 31, 2023, the Issuer shall, or shall cause the Dissemination Agent to provide, at least annually to the MSRB, by filing at [www.emma.msrb.org](http://www.emma.msrb.org), together with such identifying information as prescribed by the MSRB, its Audited Financial Statements for the most recent Fiscal Year, which is the only financial information or operating data which is customarily prepared by the Issuer and publicly available, by not later than December 31, 2024, and by December 31 of each year thereafter.

B. If the Issuer is unable to provide to the MSRB its Audited Financial Statements by the date required in subsection A, the Issuer shall send a notice of such delay and estimated date of delivery to the MSRB.

SECTION 4. Reporting of Significant Events. This Section 4 shall govern the giving of notices of the occurrence of any of the following events with respect to the Bonds:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) Modifications to rights of security holders, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Bonds, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership or similar event of the Issuer;
- (13) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, 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, if material;
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material;
  - (15) Incurrence of a Financial Obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders, if material; and,
  - (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties.

Whenever an event listed above has occurred, the Issuer shall promptly, which may not be in excess of the ten (10) business days after the Occurrence, file a notice of such Occurrence with the MSRB, by filing at [www.emma.msrb.org](http://www.emma.msrb.org), together with such identifying information as prescribed by the MSRB.

SECTION 5. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Undertaking shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds.

SECTION 6. 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 Undertaking, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Undertaking, the Issuer may amend this Disclosure Undertaking, and any provision of this Disclosure Undertaking may be waived, if (a) a change in law or change in the ordinary business or operation of the Issuer has occurred, (b) such amendment or waiver would not, in and of itself, cause the undertakings 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, and (c) such amendment or waiver is supported by an opinion of counsel expert in federal securities laws to the effect that such amendment or waiver would not materially impair the interests of Owners.

SECTION 8. Additional Information. Nothing in this Disclosure Undertaking shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or including any other information in any Annual Report or notice of an Occurrence, in addition to that which is required by this Disclosure Undertaking. If the Issuer chooses to include any information in any Annual Report or notice of an Occurrence in addition to that which is specifically required by this Disclosure Undertaking, the Issuer shall have no obligation under this Disclosure Undertaking to update such information or include it in any future Annual Report or notice of an Occurrence.

SECTION 9. Default. In the event of a failure of the Issuer to provide information required by this Disclosure Undertaking, any Owner may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Issuer to comply with its obligations to provide information under this Disclosure Undertaking. A default under this Disclosure Undertaking shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Undertaking in the event of any failure of the Issuer to comply with this Disclosure Undertaking shall be an action to compel performance.

SECTION 10. Beneficiaries. This Disclosure Undertaking shall inure solely to the benefit of the Issuer, the Participating Underwriters and Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 11. 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 7 hereof, to modify the undertaking under this Disclosure Undertaking if the Issuer determines that such modification is required by the Rule or by a court of competent jurisdiction.

Dated: June 3, 2024.

CITY OF HARMONY, MINNESOTA

By \_\_\_\_\_  
Its Mayor

By \_\_\_\_\_  
Its City Clerk



## Appendix D Summary of Tax Levies, Payment Provisions & Valuations

Following is a summary of certain statutory provisions relative to tax levy procedures, tax payment and credit procedures, and the mechanics of real property valuation. The summary does not purport to be inclusive of all such provisions or of the specific provisions discussed and is qualified by reference to the complete text of applicable statutes, rules and regulations of the State of Minnesota.

### Property Valuations (Chapter 273, Minnesota Statutes)

Assessor's Estimated Market Value. Each parcel of real property subject to taxation must, by statute, be appraised at least once every five years as of January 2 of the year of appraisal. With certain exceptions, all property is valued at its market value, which is the value the assessor determines to be the price the property to be worth, and which is referred to as the "Estimated Market Value." The 2013 Minnesota Legislature established the Estimated Market Value as the value used to calculate a municipality's legal debt limit.

Economic Market Value. The Economic Market Value is the value of locally assessed real property (Assessor's Estimated Market Value) divided by the sales ratio as provided by the State of Minnesota Department of Revenue plus the estimated market value of personal property, utilities, railroad, and minerals.

Taxable Market Value. The Taxable Market Value is the value that Net Tax Capacity is based on, after all reductions, limitations, exemptions and deferrals.

Net Tax Capacity. The Net Tax Capacity is the value upon which net taxes are levied, extended and collected. The Net Tax Capacity is computed by applying the class rate percentages specific to each type of property classification against the Taxable Market Value. Class rate percentages vary depending on the type of property as shown on the last page of this Appendix. The formulas and class rates for converting Taxable Market Value to Net Tax Capacity represent a basic element of the State's property tax relief system and are subject to annual revisions by the State Legislature. Property taxes are the sum of the amounts determined by (i) multiplying the Net Tax Capacity by the tax capacity rate and multiplying the referendum market value by the market value rate.

Market Value Homestead Exclusion. In 2011, the Market Value Homestead Exclusion Program (MVHE) was implemented to offset the elimination of the Market Value Homestead Credit Program that provided relief to certain homesteads. The MVHE reduces the taxable market value of a homestead with an Assessor's Estimated Market Value up to \$413,800 in an attempt to result in a property tax similar to the effective property tax prior to the elimination of the homestead credit. The MVHE applies to property classified as Class 1a or 1b and Class 2a and causes a decrease in the Issuer's aggregate Taxable Market Value, even if the Assessor's Estimated Market Value on the same properties did not decline.

### Property Tax Payments and Delinquencies

(Chapters 275, 276, 277, 279 – 282 and 549, Minnesota Statutes)

Ad valorem property taxes levied by local governments in Minnesota are extended and collected by the various counties within the State. Each taxing jurisdiction is required to certify the annual tax levy to the county auditor within five (5) working days after December 20 of the year preceding the collection year. A listing of property taxes due is prepared by the county auditor and turned over to the county treasurer on or before the first business day in March.

The county treasurer is responsible for collecting all property taxes within the county. Real estate and personal property tax statements are mailed out by March 31. One-half (1/2) of the taxes on real property is due on or before May 15. The remainder is due on or before October 15. Real property taxes not paid by their due date are assessed a penalty on homestead property of 2% until May 31 and increased to 4% on June 1. The penalty on non-homestead property is assessed at a rate of 4% until May 31 and increased

to 8% on June 1. Thereafter, an additional 1% penalty shall accrue each month through October 1 of the collection year for unpaid real property taxes. In the case of the second installment of real property taxes due October 15, a penalty of 2% on homestead property and 4% on non-homestead property is assessed. The penalty for homestead property increases to 6% on November 1 and again to 8% on December 1. The penalty for non-homestead property increases to 8% on November 1 and again to 12% on December 1. Personal property taxes remaining unpaid on May 16 are deemed to be delinquent and a penalty of 8% attaches to the unpaid tax. However, personal property that is owned by a tax-exempt entity, but is treated as taxable by virtue of a lease agreement, is subject to the same delinquent property tax penalties as real property.

On the first business day of January of the year following collection all delinquencies are subject to an additional 2% penalty, and those delinquencies outstanding as of February 15 are filed for a tax lien judgment with the district court. By March 20 the county auditor files a publication of legal action and a mailing of notice of action to delinquent parties. Those property interests not responding to this notice have judgment entered for the amount of the delinquency and associated penalties. The amount of the judgment is subject to a variable interest determined annually by the Department of Revenue, and equal to the adjusted prime rate charged by banks but in no event is the rate less than 10% or more than 14%.

Property owners subject to a tax lien judgment generally have three years (3) to redeem the property. After expiration of the redemption period, unredeemed properties are declared tax forfeit with title held in trust by the State of Minnesota for the respective taxing districts. The county auditor, or equivalent thereof, then sells those properties not claimed for a public purpose at auction. The net proceeds of the sale are first dedicated to the satisfaction of outstanding special assessments on the parcel, with any remaining balance in most cases being divided on the following basis: county - 40%; town or city - 20%; and school district - 40%.

### **Property Tax Credits** **(Chapter 273, Minnesota Statutes)**

In addition to adjusting the taxable value for various property types, primary elements of Minnesota's property tax relief system are: property tax levy reduction aids; the homestead credit refund and the renter's property tax refund, which relate property taxes to income and provide relief on a sliding income scale; and targeted tax relief, which is aimed primarily at easing the effect of significant tax increases. The homestead credit refund, the renter's property tax refund, and targeted credits are reimbursed to the taxpayer upon application by the taxpayer. Property tax levy reduction aid includes educational aids, local governmental aid, equalization aid, county program aid and disparity reduction aid.

### **Debt Limitations**

All Minnesota municipalities (counties, cities, towns and school districts) are subject to statutory "net debt" limitations under the provisions of Minnesota Statutes, Section 475.53. Net debt is defined as the amount remaining after deducting from gross debt the amount of current revenues that are applicable within the current fiscal year to the payment of any debt and the aggregate of the principal of the following:

1. Obligations issued for improvements that are payable wholly or partially from the proceeds of special assessments levied upon benefited property.
2. Warrants or orders having no definite or fixed maturity.
3. Obligations payable wholly from the income from revenue producing conveniences.
4. Obligations issued to create or maintain a permanent improvement revolving fund.
5. Obligations issued for the acquisition and betterment of public waterworks systems, and public lighting, heating or power systems, and any combination thereof, or for any other public convenience from which revenue is or may be derived.

6. Certain debt service loans and capital loans made to school districts.
7. Certain obligations to repay loans.
8. Obligations specifically excluded under the provisions of law authorizing their issuance.
9. Certain obligations to pay pension fund liabilities.
10. Debt service funds for the payment of principal and interest on obligations other than those described above.
11. Obligations issued to pay judgments against the municipality.
12. All other obligations which Minnesota Statutes specifically indicate are not to be included in the computation of the net debt of the municipality.

### **Levies for General Obligation Debt**

***(Sections 475.61 and 475.74, Minnesota Statutes)***

Any municipality that issues general obligation debt must, at the time of issuance, certify levies to the county auditor of the county(ies) within which the municipality is situated. Such levies shall be in an amount that if collected in full will, together with estimates of other revenues pledged for payment of the obligations, produce at least five percent in excess of the amount needed to pay principal and interest when due. Notwithstanding any other limitations upon the ability of a taxing unit to levy taxes, its ability to levy taxes for a deficiency in prior levies for payment of general obligation indebtedness is without limitation as to rate or amount.

### **Metropolitan Revenue Distribution**

***(Chapter 473F, Minnesota Statutes)*** (*"Fiscal Disparities Law"*)

The Charles R. Weaver Metropolitan Revenue Distribution Act, more commonly known as "Fiscal Disparities," was first implemented for taxes payable in 1975. Forty percent of the increase in commercial-industrial (including public utility and railroad) net tax capacity valuation since 1971 in each assessment district in the Minneapolis/St. Paul seven-county metropolitan area (Anoka, Carver, Dakota, excluding the City of Northfield, Hennepin, Ramsey, Scott, excluding the City of New Prague, and Washington Counties) is contributed to an area-wide tax base. A distribution index, based on the factors of population and real property market value per capita, is employed in determining what proportion of the net tax capacity value in the area-wide tax base shall be distributed back to each assessment district.

**Minnesota Property Class Rate Schedule**  
(current through taxes payable 2022)

<b>Property Type</b>	<b>Taxes Payable Year</b>				
	<b><u>2018</u></b>	<b><u>2019</u></b>	<b><u>2020</u></b>	<b><u>2021</u></b>	<b><u>2022</u></b>
<b>Residential Homestead (1a)</b>					
Up to \$500,000	1.00%	1.00%	1.00%	1.00%	1.00%
Over \$500,000	1.25%	1.25%	1.25%	1.25%	1.25%
<b>Residential Non-homestead</b>					
Single Unit (4bb1)					
Up to \$500,000	1.00%	1.00%	1.00%	1.00%	1.00%
Over \$500,000	1.25%	1.25%	1.25%	1.25%	1.25%
1-3 unit and undeveloped land (4b1)	1.25%	1.25%	1.25%	1.25%	1.25%
<b>Market Rate Apartments</b>					
Regular (4a)					
Low-Income (4d)	1.25%	1.25%	1.25%	1.25%	1.25%
Up to \$115, 000 <sup>4</sup>	0.75%	0.75%	0.75%	0.75%	0.75%
Over \$115, 000 <sup>4</sup>	0.25%	0.25%	0.25%	0.25%	0.25%
<b>Commercial/Industrial/Public Utility (3a)</b>					
Up to \$150,000	1.50% <sup>1</sup>	1.50% <sup>1</sup>	1.50% <sup>1</sup>	1.50% <sup>1</sup>	1.50% <sup>1</sup>
Over \$150,000	2.00% <sup>1</sup>	2.00% <sup>1</sup>	2.00% <sup>1</sup>	2.00% <sup>1</sup>	2.00% <sup>1</sup>
Electric Generation Machinery	2.00%	2.00%	2.00%	2.00%	2.00%
<b>Commercial Seasonal Residential</b>					
Homestead Resorts (1c)					
Up to \$600,000	0.50%	0.50%	0.50%	0.50%	0.50%
\$600,000 - \$2,300,000	1.00%	1.00%	1.00%	1.00%	1.00%
Over \$2,300,000	1.25% <sup>1</sup>	1.25% <sup>1</sup>	1.25% <sup>1</sup>	1.25% <sup>1</sup>	1.25% <sup>1</sup>
Seasonal Resorts (4c)					
Up to \$500,000	1.00% <sup>1</sup>	1.00% <sup>1</sup>	1.00% <sup>1</sup>	1.00% <sup>1</sup>	1.00% <sup>1</sup>
Over \$500,000	1.25% <sup>1</sup>	1.25% <sup>1</sup>	1.25% <sup>1</sup>	1.25% <sup>1</sup>	1.25% <sup>1</sup>
<b>Non-Commercial (4c12)</b>					
Up to \$500,000	1.00% <sup>1 2</sup>	1.00% <sup>1 2</sup>	1.00% <sup>1 2</sup>	1.00% <sup>1 2</sup>	1.00% <sup>1 2</sup>
Over \$500,000	1.25% <sup>1 2</sup>	1.25% <sup>1 2</sup>	1.25% <sup>1 2</sup>	1.25% <sup>1 2</sup>	1.25% <sup>1 2</sup>
<b>Disabled Homestead (1b)</b>					
Up to \$50,000	0.45%	0.45%	0.45%	0.45%	0.45%
<b>Agricultural Land &amp; Buildings</b>					
Homestead (2a)					
Up to \$500,000	1.00%	1.00%	1.00%	1.00%	1.00%
Over \$500,000	1.25%	1.25%	1.25%	1.25%	1.25%
Remainder of Farm					
Up to \$2,050,000 <sup>4</sup>	0.50% <sup>2</sup>	0.50% <sup>2</sup>	0.50% <sup>2</sup>	0.50% <sup>2</sup>	0.50% <sup>2</sup>
Over \$2,050,000 <sup>4</sup>	1.00% <sup>2</sup>	1.00% <sup>2</sup>	1.00% <sup>2</sup>	1.00% <sup>2</sup>	1.00% <sup>2</sup>
Non-homestead (2b)	1.00% <sup>2</sup>	1.00% <sup>2</sup>	1.00% <sup>2</sup>	1.00% <sup>2</sup>	1.00% <sup>2</sup>

<sup>1</sup> Subject to the State General Property Tax.

<sup>2</sup> Exempt from referendum market value tax.

For purposes of the State general property tax only, the net tax capacity of non-commercial class 4c(1) seasonal residential recreational property has the following class rate structure: First \$76,000 – 0.40%; \$76,000 to \$500,000 – 1.00%; and over \$500,000 – 1.25%. In addition to the State tax base exemptions referenced by property classification, airport property exempt from city and school district property taxes under M.S. 473.625 is exempt from the State general property tax (MSP International Airport and Holman Field in St. Paul are exempt under this provision).

## **APPENDIX E**

### **FINANCIAL STATEMENT**

The City's financial statements are audited annually. The following pages contain a copy of the 2022 Audited Financial Statement. Copies of audits are available upon request from David Drown Associates, Inc.

Abdo Solutions, the City's independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein any procedures on the financial statements addressed in that report. Abdo Solutions also has not performed any procedures relating to this offering document.



# Annual Financial Report

City of Harmony  
Harmony, Minnesota

For the year ended December 31, 2022



*Edina Office*

5201 Eden Avenue, Ste 250  
Edina, MN 55436  
P 952.835.9090

*Mankato Office*

100 Warren Street, Ste 600  
Mankato, MN 56001  
P 507.625.2727

*Scottsdale Office*

14500 N Northsight Blvd, Ste 233  
Scottsdale, AZ 85260  
P 480.864.5579

THIS PAGE IS LEFT  
BLANK INTENTIONALLY

City of Harmony, Minnesota  
 Annual Financial Report  
 Table of Contents  
 For the Year Ended December 31, 2022

	Page No.
<b>Introductory Section</b>	
Elected and Appointed Officials	9
<b>Financial Section</b>	
Independent Auditor's Report	13
Management's Discussion and Analysis	17
<b>Basic Financial Statements</b>	
Government-wide Financial Statements	
Statement of Net Position	31
Statement of Activities	32
Fund Financial Statements	
Governmental Funds	
Balance Sheet	36
Reconciliation of the Balance Sheet to the Statement of Net Position	39
Statement of Revenues, Expenditures and Changes in Fund Balances	40
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	43
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General, Ambulance and Economic Development Funds	44
Proprietary Funds	
Statement of Net Position	46
Statement of Revenues, Expenses and Changes in Fund Net Position	47
Statement of Cash Flows	48
Fiduciary Fund	
Statement of Fiduciary Net Position	49
Statement of Changes in Fiduciary Net Position	50
Notes to the Financial Statements	51
<b>Required Supplementary Information</b>	
Schedule of Employer's Share of Public Employees Retirement Association Net Pension Liability - General Employees Retirement Fund	76
Schedule of Employer's Public Employees Retirement Association Contributions - General Employees Retirement Fund	76
Notes to the Required Supplementary Information - General Employees Retirement Fund	77
<b>Combining and Individual Fund Financial Statements and Schedules</b>	
Nonmajor Governmental Funds	
Combining Balance Sheet	80
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	82
Nonmajor Proprietary Funds	
Statement of Net Position	84
Statement of Revenues, Expenses, and Changes in Net Position	85
Statement of Cash Flows	86
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	
Fire Fund	87
Revolving Loan Fund	89



THIS PAGE IS LEFT  
BLANK INTENTIONALLY

City of Harmony, Minnesota  
Annual Financial Report  
Table of Contents (Continued)  
For the Year Ended December 31, 2022

	<u>Page No.</u>
<b>Combining and Individual Fund Financial Statements and Schedules (Continued)</b>	
General Fund	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	90
Debt Service Funds	
Combining Balance Sheet	94
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	95
Summary Financial Report	
Revenues and Expenditures for General Operations	96
<b>Other Required Reports</b>	
Independent Auditor's Report on Minnesota Legal Compliance	99
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	100
Schedule of Findings and Responses	102

THIS PAGE IS LEFT  
BLANK INTENTIONALLY

INTRODUCTORY SECTION

CITY OF HARMONY  
HARMONY, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2022

THIS PAGE IS LEFT  
BLANK INTENTIONALLY

City of Harmony, Minnesota  
Elected and Appointed Officials  
For the Year Ended December 31, 2022

**ELECTED**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steve Donney	Mayor	12/31/22
Domingo Kingsley	Council	12/31/24
Kyle Scheevel	Council	12/31/22
Steve Sagen	Council	12/31/22
Jesse Grabau	Council	12/31/24

**APPOINTED**

Devin Swanberg	Administrator	Resigned 11/25/2022
Sam Grabau	Finance Clerk	

THIS PAGE IS LEFT  
BLANK INTENTIONALLY

FINANCIAL SECTION  
CITY OF HARMONY  
HARMONY, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2022



THIS PAGE IS LEFT  
BLANK INTENTIONALLY

## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Harmony, Minnesota, Minnesota

### Report on the Financial Statements

#### Opinions

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Harmony, Minnesota, Minnesota (the City), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

#### Basis for Qualified Opinion

The City has not adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions, for the Volunteer Firefighters' Relief Association, in the governmental activities, and, accordingly, has not shown activity related to this standard. Accounting principles generally accepted in the United States of America require that pension balances be shown, which would report deferred outflows of resources, deferred inflows of resources and liabilities or assets, while changing the net position in the applicable statements.

#### Qualified Opinion

In our opinion, except for the possible effects of the matter described in the "Basis for Qualified Opinion", the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the City as of December 31, 2022, and the results of its operations for the year ended in conformity with accounting principles generally accepted in the United States of America.

#### Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2022, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General, Ambulance and Economic Development fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 City'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 Responsibility**

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 generally accepted auditing standards 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 generally accepted auditing standards 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 17 and the schedule of Employer's Share of the Net Pension Liability, the schedule of Employer's Contributions, the related note disclosures starting on page 76 be presented to supplement the basic financial statements. Such information, 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 opinion on the financial statements that collectively comprise the City's basic financial statements. The accompanying combining and individual fund financial statements and schedules 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 related 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 accompanying combining and individual fund financial statements and schedules are 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 in the annual 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 statement 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 May 10, 2023, on our consideration of the City'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 the City'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 the City's internal control over financial reporting and compliance.



**Abdo**  
Mankato, Minnesota  
May 10, 2023



THIS PAGE IS LEFT  
BLANK INTENTIONALLY

## Management's Discussion and Analysis

As management of the City of Harmony, Minnesota, Minnesota, (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2022.

### Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$13,139,465 (net position). Of this amount \$3,631,203 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- As of the close in the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,133,628, a decrease of \$118,855 in comparison with the prior year mainly to the spend down of reserves related to splash pad and bathroom capital projects. Approximately 24.5 percent of the total amount, \$768,206, constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is not available for new spending because it is either 1) nonspendable (\$115,725) 2) restricted (\$741,535), 3) committed (\$866,863), or 4) assigned (\$641,299).
- At the end of the current fiscal year, unassigned fund balance for the General fund was \$828,514, or 137.8 percent of total General fund expenditures.
- The City's total debt decreased by \$406,000, or 11.3 percent during the current fiscal year due to regularly schedule principal payments.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of combining and individual fund financial statements and schedules that further explains and supports the information in the financial statements. Figure 1 shows how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included a section with combining and individual fund financial statements and schedules that provide details about nonmajor governmental funds, which are added together and presented in single columns in the basic financial statements.

**Figure 1  
Required Components of the  
City's Annual Financial Report**

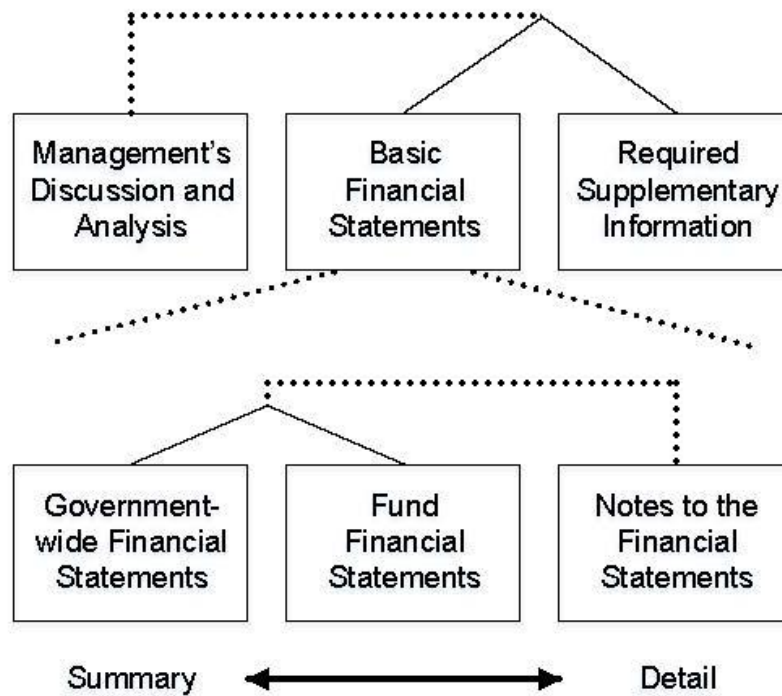


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

**Figure 2**  
**Major Features of the Government-wide and Fund Financial Statements**

	<b>Fund Financial Statements</b>		
	<b>Government-wide Statements</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>
Scope	Entire City government (except fiduciary funds) and the City’s component units	The activities of the City that are not proprietary or fiduciary, such as police, fire and parks	Activities the City operates similar to private businesses, such as the water and sewer system
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures, and Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Revenues, Expenses and Changes in Fund Net Position</li> <li>• Statement of Cash Flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of deferred outflows/inflows of resources information	All deferred outflows/inflows of resources, regardless of when cash is received or paid.	Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included	All deferred outflows/inflows of resources, regardless of when cash is received or paid
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

**Government-wide Financial Statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City’s finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City’s assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City’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 only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).



Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, streets and highway, culture and recreation, economic development and miscellaneous. The business-type activities of the City include water utility, sewer utility, refuse and recycling, electric and storm water.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate Economic Development Authority (EDA) for which the City is financially accountable. The EDA, although legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found starting on page 31 of this report.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

**Governmental Funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-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 a government's near-term financing requirements.

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

The City maintains 19 individual governmental funds, five of which are Debt Service funds which are considered one fund for reporting purposes. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, the Ambulance fund, the Economic Development Authority, the Capital Projects fund and the Debt Service funds all of which are considered to be major funds. Data from the other nonmajor governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements or schedules* elsewhere in this report.

The City adopts an annual appropriated budget for its General fund, the Revolving Loan fund, the Fire fund, the Ambulance fund and the Economic Development Authority fund. Budgetary comparison statements have been provided for these funds to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found starting on page 36 of this report.

**Proprietary Funds.** The City maintains five types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water utility, sewer utility, refuse and recycling operations, electric utility and storm water utility.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each of the enterprise funds of which the Water, Sewer, and Electric funds are considered to be major funds of the City.

The basic proprietary fund financial statements can be found starting on page 46 of this report.

**Fiduciary Funds.** The fiduciary fund financial statements can be found starting on page 49 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 51 of this report.

**Required Supplementary Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Harmony share of net pension liabilities for defined benefits plans and schedules of contributions. Required supplementary information can be found starting on page 76 of this report.

### Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the City, assets exceeded liabilities by \$13,139,563 at the close of the most recent fiscal year.

A large portion of the City’s net position (64.7 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### City of Harmony, Minnesota’s Summary of Net Position

	Governmental Activities			Business-type Activities		
	2022	2021	Increase (Decrease)	2022	2021	Increase (Decrease)
Current and Other Assets	\$ 3,931,994	\$ 4,092,181	\$ (160,187)	\$ 1,688,268	\$ 1,393,729	\$ 294,539
Capital Assets	5,648,809	5,949,238	(300,429)	6,004,807	5,850,639	154,168
Total Assets	<u>9,580,803</u>	<u>10,041,419</u>	<u>(460,616)</u>	<u>7,693,075</u>	<u>7,244,368</u>	<u>448,707</u>
Deferred Outflows of Resources	74,311	89,356	(15,045)	41,459	45,023	(3,564)
Long-term Liabilities Outstanding	3,030,716	3,244,664	(213,948)	914,693	947,209	(32,516)
Other Liabilities	251,839	183,593	68,246	39,806	60,041	(20,235)
Total Liabilities	<u>3,282,555</u>	<u>3,428,257</u>	<u>(145,702)</u>	<u>954,499</u>	<u>1,007,250</u>	<u>(52,751)</u>
Deferred Inflows of Resources	8,428	131,955	(123,527)	4,701	66,486	(61,785)
Net Investment in Capital Assets	3,257,009	3,263,238	(6,229)	5,233,607	4,983,639	249,968
Restricted	1,017,646	1,327,878	(310,232)	-	-	-
Unrestricted	<u>2,089,476</u>	<u>1,979,447</u>	<u>110,029</u>	<u>1,541,727</u>	<u>1,232,016</u>	<u>309,711</u>
Total Net Position	<u>\$ 6,364,131</u>	<u>\$ 6,570,563</u>	<u>\$ (206,432)</u>	<u>\$ 6,775,334</u>	<u>\$ 6,215,655</u>	<u>\$ 559,679</u>

An additional portion of the City’s net assets (7.7 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (27.6 percent) may be used to meet the City’s ongoing obligations to citizens and creditors.

The City’s net position increased by \$353,247 during the current fiscal year. The majority of this increase is attributable to an increase in charges for services and operating grants for the governmental activities along with GASB 68 pension related activity.

**Governmental Activities.** Governmental activities decreased the City's net position by \$206,432. Key elements of this decrease are as follows:

### City of Harmony, Minnesota's Changes in Net Position

	Governmental Activities			Business-type Activities		
	2022	2021	Increase (Decrease)	2022	2021	Increase (Decrease)
<b>Revenues</b>						
<b>Program Revenues</b>						
Charges for services	\$ 447,549	\$ 336,575	\$ 110,974	\$ 1,816,925	\$ 1,676,360	\$ 140,565
Operating grants and contributions	143,062	99,487	43,575	12,338	10,027	2,311
Capital grants and contributions	60,352	504,412	(444,060)	2,052	2,155	(103)
<b>General revenues</b>						
Property taxes/tax increments	820,325	789,652	30,673	-	-	-
Other taxes	3,375	7,075	(3,700)	-	-	-
Grants and contributions not restricted to specific programs	356,684	355,776	908	-	-	-
Unrestricted investment earnings	16,714	7,979	8,735	11,116	3,651	7,465
Gain on sale of fixed assets	31,530	9,253	22,277	69	-	69
<b>Total Revenues</b>	<b>1,879,591</b>	<b>2,110,209</b>	<b>(230,618)</b>	<b>1,842,500</b>	<b>1,692,193</b>	<b>150,307</b>
<b>Expenses</b>						
General government	377,288	301,364	75,924	-	-	-
Public safety	526,231	483,798	42,433	-	-	-
Streets and highways	317,539	268,105	49,434	-	-	-
Culture and recreation	259,687	212,177	47,510	-	-	-
Economic development	163,272	123,531	39,741	-	-	-
Miscellaneous	8,720	2,414	6,306	-	-	-
Interest on long-term debt	50,175	78,697	(28,522)	-	-	-
Water utility	-	-	-	187,853	198,580	(10,727)
Sewer utility	-	-	-	396,210	371,360	24,850
Electric utility	-	-	-	948,481	894,095	54,386
Refuse and recycling	-	-	-	99,656	67,139	32,517
Storm water	-	-	-	33,732	34,153	(421)
<b>Total Expenses</b>	<b>1,702,912</b>	<b>1,470,086</b>	<b>232,826</b>	<b>1,665,932</b>	<b>1,565,327</b>	<b>100,605</b>
<b>Increase (Decrease) in Net Assets Before Transfers and Contributions</b>						
	176,679	640,123	(463,444)	176,568	126,866	49,702
<b>Capital Contributions</b>	(482,052)	(21,486)	(460,566)	482,052	21,486	460,566
<b>Transfers</b>	98,941	136,500	(37,559)	(98,941)	(136,500)	37,559
<b>Change in Net Position</b>	<b>(206,432)</b>	<b>755,137</b>	<b>(961,569)</b>	<b>559,679</b>	<b>11,852</b>	<b>547,827</b>
<b>Net Position - January 1</b>	<b>6,570,563</b>	<b>5,815,426</b>	<b>755,137</b>	<b>6,215,655</b>	<b>6,203,803</b>	<b>11,852</b>
<b>Net Position - December 31</b>	<b>\$ 6,364,131</b>	<b>\$ 6,570,563</b>	<b>\$ (206,432)</b>	<b>\$ 6,775,334</b>	<b>\$ 6,215,655</b>	<b>\$ 559,679</b>

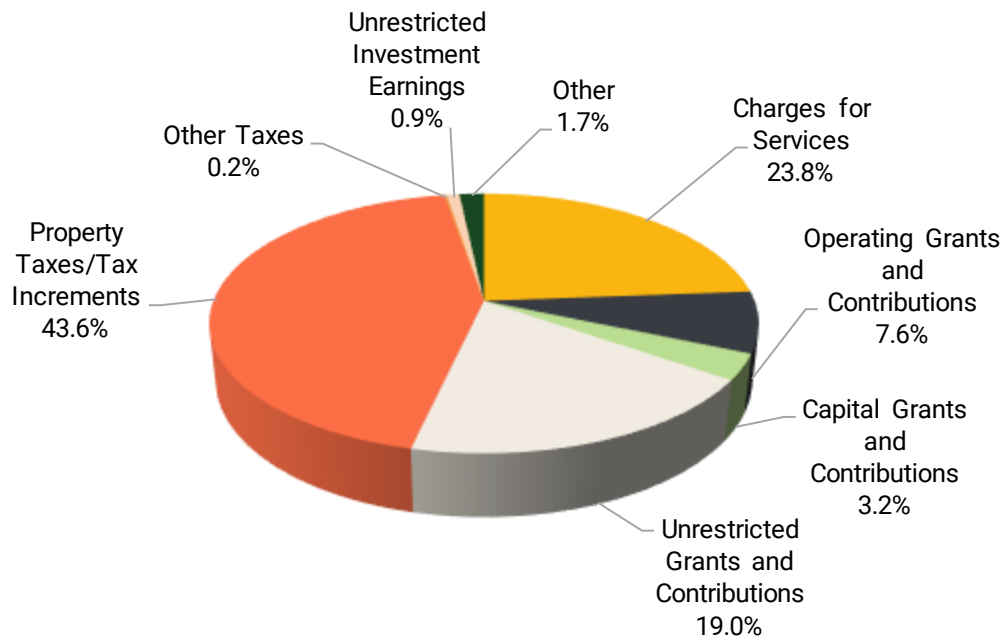
Property tax levies increased 3.7 percent during the year.

The following graph depicts various governmental activities and shows the revenue and expenses directly related to those activities.

### Expenses and Program Revenues - Governmental Activities

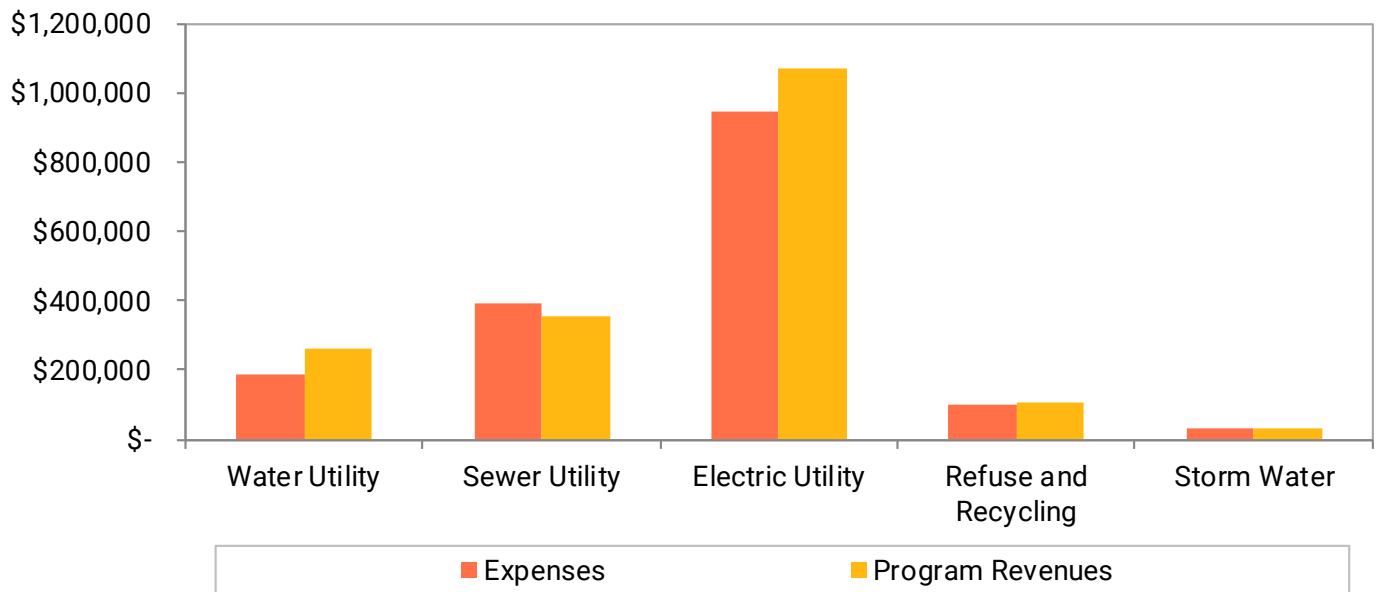


### Revenues by Source - Governmental Activities

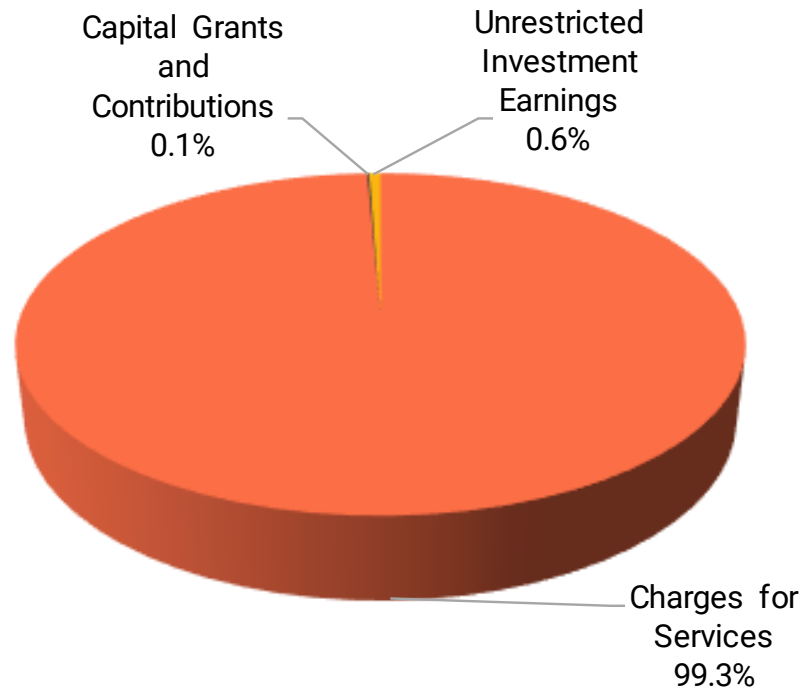


**Business-type Activities.** Business-type activities increased the City's net position by \$559,679.

### Expenses and Program Revenues - Business-type Activities



### Revenues by Source - Business-type Activities



## Financial Analysis of the City's Funds

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

**Governmental Funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the City'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 close in the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,133,628, a decrease of \$118,855 in comparison with the prior year mainly to the spend down of reserves related to splash pad and bathroom capital projects. Approximately 24.5 percent of the total amount, \$768,206, constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is not available for new spending because it is either 1) nonspendable (\$115,725) 2) restricted (\$741,535), 3) committed (\$866,863), or 4) assigned (\$641,299).

The General fund is the chief operating fund of the City. At the end of the current year, the fund balance of the General fund was \$855,181, \$828,514 of which was unassigned. As a measure of the General fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 142.3 percent of fund expenditures.

The fund balance of the City's General fund increased by \$52,953 during the current fiscal year. The key factor in this increase was mainly related to unanticipated refunds and other miscellaneous revenues which are conservatively budgeted combined with less than expected street and highway maintenance expenditures.

*The Ambulance fund* has a total fund balance of \$217,718, of which \$1,737 is nonspendable and the remainder assigned for ambulance services. The net increase in fund balance during the current year in this fund was \$64,723. This was mostly due to an increase in ambulance rates during the year which increased charges for services revenue.

*The Economic Development Authority fund* has a total fund balance of \$202,877. The net increase in fund balance during the current year in this fund was \$33,795 mainly due a transfer in of \$15,000 from various enterprise funds.

*The Debt Service fund* has a total fund balance of \$638,784. The net decrease in fund balance during the current year was \$51,438 mainly due to the anticipated spend down of available fund balance and the closing of a fund upon maturity of the bonded debt.

*The Capital Projects fund* has a total fund balance of \$646,005, of which is \$22,000 is restricted and \$624,005 is committed for future capital outlay. The net decrease in fund balance during the current year in this fund was \$86,860 mainly due to the completion of the Trailhead Park shelter and bathroom and splash pad projects.

**Proprietary Funds.** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the enterprise funds at the end of the year amounted to \$1,541,727. The total growth in net position for the funds was \$559,679 mainly due to the transfer of capital and assessment assets from the governmental funds upon completion of the Dairyland TIF project and the maturity of the 2014A bond. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

## General Fund Budgetary Highlights

The City's General fund budget was not amended during the year. Revenues exceeded expectations by \$40,638 from a combination of other miscellaneous contributions and refunds and reimbursements. Expenditures were under budget by \$13,779 in 2022 mainly due to less than anticipated operating expenditures in the streets and highway and police departments. The General fund budgeted for an increase in reserves by \$4,634.

## Capital Asset and Debt Administration

**Capital Assets.** The City's investment in capital assets for its governmental and business type activities as of December 31, 2022, amounts to \$11,653,616 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges. The total decrease in the City's investment in capital assets for the current fiscal year was 1.2 percent (a 5.0 percent decrease for governmental activities and a 2.6 percent increase for business-type activities).

Major capital asset event during the current fiscal year included the following:

- Completion of the Dairyland TIF project totaling \$611,856 of which \$428,658 was contributed to enterprise funds.
- Completion of the splash pad project totaling \$188,366 with current year costs totaling \$150,451.
- Completion of the Trailhead Park project with current year costs totaling \$192,557.
- The purchase of a new plow truck for \$91,589.

Additional information on the City's capital assets can be found in Note 3C starting on pages 63 of this report.

### City of Harmony, Minnesota's Capital Assets (Net of Depreciation)

	Governmental Activities			Business-type Activities		
	2022	2021	Increase (Decrease)	2022	2021	Increase (Decrease)
Land	\$ 420,168	\$ 424,743	\$ (4,575)	\$ 36,415	\$ 36,415	\$ -
Construction in Progress	-	562,217	(562,217)	-	-	-
Buildings and Improvements	1,010,887	487,912	522,975	840,960	919,338	(78,378)
Systems and Infrastructure	2,776,222	2,950,862	(174,640)	3,800,787	3,508,388	292,399
Equipment and Machinery	501,376	592,831	(91,455)	1,326,645	1,386,498	(59,853)
Vehicles	940,156	930,673	9,483	-	-	-
<b>Total</b>	<b><u>\$ 5,648,809</u></b>	<b><u>\$ 5,949,238</u></b>	<b><u>\$ (300,429)</u></b>	<b><u>\$ 6,004,807</u></b>	<b><u>\$ 5,850,639</u></b>	<b><u>\$ 154,168</u></b>

**Long-term Debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$3,601,000, all of which consist of G.O. Improvement bonds, G.O. Tax Abatement bonds and G.O. Revenue bonds. While all of the City's bonds have revenue streams, they are all backed by the full faith and credit of the City.

### City of Harmony, Minnesota's Outstanding Debt

	Governmental Activities			Business-type Activities		
	2022	2021	Increase (Decrease)	2022	2021	Increase (Decrease)
G.O. Improvement Bonds	\$ 2,391,800	\$ 2,686,000	\$ (294,200)	\$ -	\$ -	\$ -
G.O. Tax Abatement Bonds	32,000	48,000	(16,000)	-	-	-
G.O. Revenue Bonds	-	-	-	771,200	867,000	(95,800)
<b>Total</b>	<u>\$ 2,423,800</u>	<u>\$ 2,734,000</u>	<u>\$ (310,200)</u>	<u>\$ 771,200</u>	<u>\$ 867,000</u>	<u>\$ (95,800)</u>

The City's total debt decreased by \$406,000, or 7.6 percent during the current fiscal year due to regularly scheduled debt service payments. The City currently has no general obligation debt subject to Minnesota debt limits.

Additional information on the City's long-term debt can be found in Note 3E starting on page 66 of this report.

#### Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Fillmore County is currently 3.9 percent, which is an increase from a rate of 3.4 percent a year ago. This compares unfavorably to the State's average unemployment rate of 3.1 percent and to the national average rate of 3.6 percent.
- Property valuations within the City remain strong.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the City's budget for the 2023 fiscal year.

The City of Harmony has a housing incentive program that pledges future taxes from newly build home(s) to the owner. Several homes have been constructed utilizing the program over the past few years.

The City of Harmony will be updating its future capital improvement plan which will assist in planning for financing future street and utility projects and other needs.

#### Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Administrator/Clerk/Treasurer, City of Harmony, Minnesota, P.O. Box 488, Harmony, MN 55939.



THIS PAGE IS LEFT  
BLANK INTENTIONALLY

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF HARMONY  
HARMONY, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2022

THIS PAGE IS LEFT  
BLANK INTENTIONALLY

City of Harmony, Minnesota  
Statement of Net Position  
December 31, 2022

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and temporary investments	\$ 2,901,690	\$ 1,329,260	\$ 4,230,950
Receivables			
Interest	5,798	-	5,798
Delinquent taxes	16,565	-	16,565
Accounts, net of allowances	80,773	158,961	239,734
Special assessments	546,984	119,328	666,312
Loans	374,098	-	374,098
Intergovernmental	4,935	-	4,935
Internal balances	(34,574)	34,574	-
Inventories	-	28,134	28,134
Prepaid items	35,725	18,011	53,736
Capital assets			
Nondepreciable land and construction in progress	420,168	36,415	456,583
Depreciable assets (net of accumulated depreciation)	5,228,641	5,968,392	11,197,033
Total Assets	9,580,803	7,693,075	17,273,878
<b>Deferred Outflows of Resources</b>			
Deferred pension resources	74,311	41,459	115,770
<b>Liabilities and Net Position</b>			
<b>Liabilities</b>			
Accounts payable	48,449	7,710	56,159
Deposits payable	-	13,484	13,484
Due to other governments	64,979	13,985	78,964
Accrued interest payable	17,022	3,115	20,137
Accrued salaries payable	13,528	1,512	15,040
Unearned revenue	107,861	-	107,861
Noncurrent liabilities			
Due within one year			
Long-term liabilities	320,900	102,333	423,233
Due in more than one year			
Long-term liabilities	2,465,800	676,214	3,142,014
Net pension liability	244,016	136,146	380,162
Total Liabilities	3,282,555	954,499	4,237,054
<b>Deferred Inflows of Resources</b>			
Deferred pension resources	8,428	4,701	13,129
<b>Net Position</b>			
Net investment in capital assets	3,257,009	5,233,607	8,490,616
Restricted			
Economic development	80,751	-	80,751
Future capital	22,000	-	22,000
Debt service	914,895	-	914,895
Unrestricted	2,089,476	1,541,727	3,631,203
Total Net Position	\$ 6,364,131	\$ 6,775,334	\$ 13,139,465

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

City of Harmony, Minnesota  
Statement of Activities  
For the Year Ended December 31, 2022

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities</b>				
General government	\$ 377,288	\$ 61,010	\$ 3,020	\$ 22,559
Public safety	526,231	344,700	30,383	22,000
Streets and highways	317,539	2,094	-	15,793
Culture and recreation	259,687	9,322	109,659	-
Economic development	163,272	30,423	-	-
Miscellaneous	8,720	-	-	-
Interest and other costs	50,175	-	-	-
Total Governmental Activities	<u>1,702,912</u>	<u>447,549</u>	<u>143,062</u>	<u>60,352</u>
<b>Business-type Activities</b>				
Water utility	187,853	261,626	-	1,642
Sewer utility	396,210	354,798	2,638	410
Electric utility	948,481	1,061,947	9,700	-
Refuse and recycling	99,656	104,855	-	-
Storm water	33,732	33,699	-	-
Total Business-type Activities	<u>1,665,932</u>	<u>1,816,925</u>	<u>12,338</u>	<u>2,052</u>
<b>Total</b>	<u>\$ 3,368,844</u>	<u>\$ 2,264,474</u>	<u>\$ 155,400</u>	<u>\$ 62,404</u>

General Revenues

- Property taxes, levied for general purposes
- Property taxes, levied for specific purposes
- Property taxes, levied for debt service
- Tax increments
- Franchise taxes
- Grants and contributions not restricted to specific programs
- Unrestricted investment earnings
- Gain on sale of capital assets

Transfers

Capital Contributions

Total General Revenues, Transfers and Contributions

Change in Net Position

Net Position, January 1

Net Position, December 31

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

Net (Expense) Revenue and  
Changes in Net Position

---

Governmental Activities	Business-type Activities	Total
\$ (290,699) (129,148) (299,652) (140,706) (132,849) (8,720) (50,175) <hr style="border: 0.5px solid black;"/> (1,051,949)	          \$ 75,415 (38,364) 123,166 5,199 (33) <hr style="border: 0.5px solid black;"/> 165,383 <hr style="border: 0.5px solid black;"/> 165,383	\$ (290,699) (129,148) (299,652) (140,706) (132,849) (8,720) (50,175) <hr style="border: 0.5px solid black;"/> (1,051,949)
(1,051,949)	165,383	(886,566)
278,984 355,408 169,195 16,738 3,375 356,684 16,714 31,530 98,941 (482,052) <hr style="border: 0.5px solid black;"/> 845,517	- - - - - - 11,116 69 (98,941) 482,052 <hr style="border: 0.5px solid black;"/> 394,296	278,984 355,408 169,195 16,738 3,375 356,684 27,830 31,599 - - <hr style="border: 0.5px solid black;"/> 1,239,813
(206,432)	559,679	353,247
6,570,563	6,215,655	12,786,218
\$ 6,364,131	\$ 6,775,334	\$ 13,139,465

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

THIS PAGE IS LEFT  
BLANK INTENTIONALLY

FUND FINANCIAL STATEMENTS

CITY OF HARMONY  
HARMONY, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2022



City of Harmony, Minnesota  
Balance Sheet  
Governmental Funds  
December 31, 2022

	<b>101</b>	<b>223</b>	<b>620</b>	<b>300's</b>
	General	Ambulance	Economic Development Authority	Debt Service
<b>Assets</b>				
Cash and temporary investments	\$ 1,036,709	\$ 161,816	\$ 43,155	\$ 654,198
Receivables				
Interest	5,798	-	-	-
Delinquent taxes	13,130	-	-	3,435
Accounts, net of allowances	6,482	58,091	12,000	-
Special assessments	-	-	225,286	321,698
Loans	-	-	80,000	-
Intergovernmental	3,923	-	213	329
Advances to other funds	-	-	70,095	-
Prepaid items	26,667	1,737	32	-
	<u>\$ 1,092,709</u>	<u>\$ 221,644</u>	<u>\$ 430,781</u>	<u>\$ 979,660</u>
<b>Liabilities</b>				
Accounts payable	\$ 41,311	\$ 2,672	\$ 2,468	\$ -
Due to other governments	64,386	-	-	-
Accrued salaries payable	10,840	1,254	150	-
Advances from other funds	-	-	-	15,743
Unearned revenue	107,861	-	-	-
Total Liabilities	<u>224,398</u>	<u>3,926</u>	<u>2,618</u>	<u>15,743</u>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue				
Property taxes	13,130	-	-	3,435
Special assessments	-	-	225,286	321,698
Total Deferred Inflows of Resources	<u>13,130</u>	<u>-</u>	<u>225,286</u>	<u>325,133</u>
<b>Fund Balances</b>				
Nonspendable				
Prepaid items	26,667	1,737	32	-
Economic development loans	-	-	80,000	-
Restricted				
Economic development	-	-	-	-
Fire capital	-	-	-	-
Debt service	-	-	-	638,784
Committed				
Capital outlay	-	-	-	-
Loans	-	-	-	-
Assigned				
Economic development	-	-	122,845	-
Park and recreation	-	-	-	-
Public safety	-	215,981	-	-
Unassigned	828,514	-	-	-
Total Fund Balances	<u>855,181</u>	<u>217,718</u>	<u>202,877</u>	<u>638,784</u>
	<u>\$ 1,092,709</u>	<u>\$ 221,644</u>	<u>\$ 430,781</u>	<u>\$ 979,660</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances				

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

<b>401</b>		
<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total</u>
\$ 646,005	\$ 359,807	\$ 2,901,690
-	-	5,798
-	-	16,565
-	4,200	80,773
-	-	546,984
-	294,098	374,098
-	470	4,935
-	5,956	76,051
-	7,289	35,725
<u>\$ 646,005</u>	<u>\$ 671,820</u>	<u>\$ 4,042,619</u>
\$ -	\$ 1,998	\$ 48,449
-	593	64,979
-	1,284	13,528
-	94,882	110,625
-	-	107,861
<u>-</u>	<u>98,757</u>	<u>345,442</u>
-	-	16,565
-	-	546,984
<u>-</u>	<u>-</u>	<u>563,549</u>
-	7,289	35,725
-	-	80,000
-	80,751	80,751
22,000	-	22,000
-	-	638,784
624,005	-	624,005
-	242,858	242,858
-	137,752	260,597
-	102,511	102,511
-	62,210	278,191
-	(60,308)	768,206
<u>646,005</u>	<u>573,063</u>	<u>3,133,628</u>
<u>\$ 646,005</u>	<u>\$ 671,820</u>	<u>\$ 4,042,619</u>

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

THIS PAGE IS LEFT  
BLANK INTENTIONALLY

City of Harmony, Minnesota  
 Reconciliation of the Balance Sheet  
 to the Statement of Net Position  
 Governmental Funds  
 December 31, 2022

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

Total Fund Balances - Governmental Funds	\$ 3,133,628
Net capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds.	5,648,809
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of	
Compensated absences	(40,225)
Bonds payable	(2,746,475)
Pension liability	(244,016)
Long-term assets are not available to pay current-period expenditures and, therefore, are reported as unavailable revenue in the funds.	
Delinquent property taxes receivable	16,565
Special assessments receivable	546,984
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	74,311
Deferred inflows of pension resources	(8,428)
Governmental funds do not report a liability for accrued interest until due and payable.	(17,022)
Total Net Position - Governmental Activities	\$ 6,364,131

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

City of Harmony, Minnesota  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2022

	101	223	620	300's
	General	Ambulance	Economic Development Authority	Debt Service
Revenues				
Taxes	\$ 280,215	\$ -	\$ 112,713	\$ 167,968
Special assessments	40	-	287	83,291
Licenses and permits	6,808	-	-	-
Intergovernmental	375,485	31,006	-	-
Fines and forfeits	592	-	-	-
Charges for services	4,364	268,578	-	-
Investment earnings	726	1,471	637	4,849
Miscellaneous	65,385	728	12,350	-
Total Revenues	<u>733,615</u>	<u>301,783</u>	<u>125,987</u>	<u>256,108</u>
Expenditures				
Current				
General government	191,921	-	-	-
Government buildings	143,450	-	-	-
Public safety	124,586	210,072	-	-
Streets and highways	83,919	-	-	-
Culture and recreation	21,810	-	-	-
Economic development	5,171	-	113,992	-
Miscellaneous	8,720	-	-	-
Capital outlay				
General government	4,659	-	-	-
Public safety	-	1,988	-	-
Streets and highways	11,800	-	-	-
Culture and recreation	-	-	-	-
Economic development	5,028	-	-	-
Debt service				
Principal	-	-	-	318,608
Interest and other costs	-	-	-	54,379
Total Expenditures	<u>601,064</u>	<u>212,060</u>	<u>113,992</u>	<u>372,987</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>132,551</u>	<u>89,723</u>	<u>11,995</u>	<u>(116,879)</u>
Other Financing Sources (Uses)				
Sale of capital assets	-	-	6,800	-
Transfers in	10,000	-	15,000	103,000
Transfers out	(89,598)	(25,000)	-	(37,559)
Total Other Financing Sources (Uses)	<u>(79,598)</u>	<u>(25,000)</u>	<u>21,800</u>	<u>65,441</u>
Net Change in Fund Balances	52,953	64,723	33,795	(51,438)
Fund Balances, January 1	<u>802,228</u>	<u>152,995</u>	<u>169,082</u>	<u>690,222</u>
Fund Balances, December 31	<u>\$ 855,181</u>	<u>\$ 217,718</u>	<u>\$ 202,877</u>	<u>\$ 638,784</u>

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

<b>401</b>		
<b>Capital Projects</b>	<b>Other Governmental Funds</b>	<b>Total</b>
\$ -	\$ 259,433	\$ 820,329
-	-	83,618
-	-	6,808
67,500	33,619	507,610
-	121	713
-	54,730	327,672
5,695	3,336	16,714
44,559	21,170	144,192
<u>117,754</u>	<u>372,409</u>	<u>1,907,656</u>
-	-	191,921
-	-	143,450
-	64,500	399,158
-	-	83,919
-	200,259	222,069
-	38,564	157,727
-	-	8,720
147,847	-	152,506
-	5,912	7,900
135,316	-	147,116
81,451	119,607	201,058
-	87,554	92,582
-	-	318,608
-	239	54,618
<u>364,614</u>	<u>516,635</u>	<u>2,181,352</u>
<u>(246,860)</u>	<u>(144,226)</u>	<u>(273,696)</u>
45,000	4,100	55,900
153,000	39,098	320,098
<u>(38,000)</u>	<u>(31,000)</u>	<u>(221,157)</u>
<u>160,000</u>	<u>12,198</u>	<u>154,841</u>
(86,860)	(132,028)	(118,855)
<u>732,865</u>	<u>705,091</u>	<u>3,252,483</u>
<u>\$ 646,005</u>	<u>\$ 573,063</u>	<u>\$ 3,133,628</u>

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

THIS PAGE IS LEFT  
BLANK INTENTIONALLY

City of Harmony, Minnesota  
Reconciliation of the Statement of  
Revenues, Expenditures and Changes in Fund Balances  
to the Statement of Activities  
Governmental Funds  
For the Year Ended December 31, 2022

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

Net Change in Fund Balances - Governmental Funds	\$ (118,855)
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense.</p>	
Capital outlay	570,598
Depreciation expense	(417,999)
Contribution of capital assets to enterprise funds	(428,658)
<p>The net effect of various miscellaneous transactions involving capital assets.</p>	
Book value of disposal of capital assets	(24,370)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of 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 in the statement of activities.</p>	
Principal repayments	318,608
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>	
	4,443
<p>Long-term pension activity is not reported in governmental funds.</p>	
Negative pension expense	(5,968)
Direct aid contributions	1,060
<p>Delinquent property taxes receivable will be collected this year, but is not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.</p>	
	6,871
<p>Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.</p>	
Special assessments	(67,498)
Contribution of special assessments to enterprise funds	(53,394)
<p>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.</p>	
Compensated absences	8,730
Change in Net Position - Governmental Activities	\$ (206,432)

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



City of Harmony, Minnesota  
 General, Ambulance and Economic Development Authority Funds  
 Statement of Revenues, Expenditures and Changes in Fund Balances -  
 Budget and Actual  
 For the Year Ended December 31, 2022

	General			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 290,000	\$ 290,000	\$ 280,215	\$ (9,785)
Special assessments	-	-	40	40
Licenses and permits	8,500	8,500	6,808	(1,692)
Intergovernmental	371,192	371,192	375,485	4,293
Charges for services	8,160	8,160	4,364	(3,796)
Fines and forfeits	875	875	592	(283)
Investment earnings	4,000	4,000	726	(3,274)
Miscellaneous	10,250	10,250	65,385	55,135
Total Revenues	<u>692,977</u>	<u>692,977</u>	<u>733,615</u>	<u>40,638</u>
Expenditures				
Current				
General government	127,761	127,761	191,921	(64,160)
Government buildings	145,440	145,440	143,450	1,990
Public safety	153,105	153,105	124,586	28,519
Streets and highways	152,437	152,437	83,919	68,518
Culture and recreation	6,500	6,500	21,810	(15,310)
Economic development	5,500	5,500	5,171	329
Miscellaneous	7,600	7,600	8,720	(1,120)
Capital outlay				
General government	1,500	1,500	4,659	(3,159)
Public safety	-	-	-	-
Streets and highways	12,500	12,500	11,800	700
Economic development	2,500	2,500	5,028	(2,528)
Total Expenditures	<u>614,843</u>	<u>614,843</u>	<u>601,064</u>	<u>13,779</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>78,134</u>	<u>78,134</u>	<u>132,551</u>	<u>54,417</u>
Other Financing Sources (Uses)				
Sale of capital assets	-	-	-	-
Transfers in	10,000	10,000	10,000	-
Transfers out	(83,500)	(83,500)	(89,598)	(6,098)
Total Other Financing Sources (Uses)	<u>(73,500)</u>	<u>(73,500)</u>	<u>(79,598)</u>	<u>(6,098)</u>
Net Change in Fund Balances	4,634	4,634	52,953	48,319
Fund Balances, January 1	<u>802,228</u>	<u>802,228</u>	<u>802,228</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 806,862</u>	<u>\$ 806,862</u>	<u>\$ 855,181</u>	<u>\$ 48,319</u>

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

Ambulance				Economic Development Authority			
Budgeted Amounts		Actual Amounts	Variance with Final Budget	Budgeted Amounts		Actual Amounts	Variance with Final Budget
Original	Final			Original	Final		
\$ -	\$ -	\$ -	\$ -	\$ 112,500	\$ 112,500	\$ 112,713	\$ 213
-	-	-	-	1,750	1,750	287	(1,463)
-	-	-	-	-	-	-	-
24,252	24,252	31,006	6,754	-	-	-	-
182,500	182,500	268,578	86,078	-	-	-	-
-	-	-	-	-	-	-	-
500	500	1,471	971	-	-	637	637
-	-	728	728	-	-	12,350	12,350
<u>207,252</u>	<u>207,252</u>	<u>301,783</u>	<u>94,531</u>	<u>114,250</u>	<u>114,250</u>	<u>125,987</u>	<u>11,737</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
202,565	202,565	210,072	(7,507)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	128,288	128,288	113,992	14,296
-	-	-	-	-	-	-	-
5,000	5,000	1,988	3,012	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>207,565</u>	<u>207,565</u>	<u>212,060</u>	<u>(4,495)</u>	<u>128,288</u>	<u>128,288</u>	<u>113,992</u>	<u>14,296</u>
<u>(313)</u>	<u>(313)</u>	<u>89,723</u>	<u>90,036</u>	<u>(14,038)</u>	<u>(14,038)</u>	<u>11,995</u>	<u>26,033</u>
-	-	-	-	-	-	6,800	6,800
-	-	-	-	15,000	15,000	15,000	-
<u>(37,500)</u>	<u>(37,500)</u>	<u>(25,000)</u>	<u>12,500</u>	-	-	-	-
<u>(37,500)</u>	<u>(37,500)</u>	<u>(25,000)</u>	<u>12,500</u>	<u>15,000</u>	<u>15,000</u>	<u>21,800</u>	<u>6,800</u>
(37,813)	(37,813)	64,723	102,536	962	962	33,795	32,833
152,995	152,995	152,995	-	169,082	169,082	169,082	-
<u>\$ 115,182</u>	<u>\$ 115,182</u>	<u>\$ 217,718</u>	<u>\$ 102,536</u>	<u>\$ 170,044</u>	<u>\$ 170,044</u>	<u>\$ 202,877</u>	<u>\$ 32,833</u>

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

City of Harmony, Minnesota

Statement of Net Position

Proprietary Funds

December 31, 2022

	Business-type Activities - Enterprise Funds				Total
	601	602	604	Nonmajor Proprietary Funds	
	Water Utility	Sewer Utility	Electric Utility		
<b>Assets</b>					
<b>Current Assets</b>					
Cash and temporary investments	\$ 397,672	\$ (27,049)	\$ 836,675	\$ 121,962	\$ 1,329,260
Receivables					
Accounts	31,340	30,839	83,749	13,033	158,961
Special assessments	5,652	10,256	1,424	-	17,332
Advance to other funds	-	-	58,644	-	58,644
Inventories	10,349	-	17,785	-	28,134
Prepaid items	5,137	7,003	5,146	725	18,011
Total Current Assets	<u>450,150</u>	<u>21,049</u>	<u>1,003,423</u>	<u>135,720</u>	<u>1,610,342</u>
<b>Noncurrent Assets</b>					
Special assessments	45,956	56,040	-	-	101,996
Advance to other funds	-	-	25,930	-	25,930
<b>Capital assets</b>					
Land	17,015	14,400	5,000	-	36,415
Buildings and improvements	-	2,351,348	187,008	-	2,538,356
Systems and infrastructure	2,112,866	1,184,477	2,097,272	796,103	6,190,718
Equipment and machinery	1,361,682	270,868	39,723	144,904	1,817,177
Vehicles	-	-	28,700	-	28,700
Less accumulated depreciation	(697,451)	(2,003,208)	(1,422,510)	(483,390)	(4,606,559)
Total Capital Assets (Net of Accumulated Depreciation)	<u>2,794,112</u>	<u>1,817,885</u>	<u>935,193</u>	<u>457,617</u>	<u>6,004,807</u>
Total Noncurrent Assets	<u>2,840,068</u>	<u>1,873,925</u>	<u>961,123</u>	<u>457,617</u>	<u>6,132,733</u>
Total Assets	<u>3,290,218</u>	<u>1,894,974</u>	<u>1,964,546</u>	<u>593,337</u>	<u>7,743,075</u>
<b>Deferred Outflows of Resources</b>					
Deferred pension resources	13,438	15,876	7,840	4,305	41,459
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Accounts payable	204	6,745	761	-	7,710
Deposits payable	-	-	13,484	-	13,484
Due to other governments	1,865	4,380	7,122	618	13,985
Advances from other funds	-	50,000	-	-	50,000
Accrued interest payable	2,840	275	-	-	3,115
Accrued salaries payable	817	251	292	152	1,512
Bonds payable	60,000	37,800	-	-	97,800
Compensated absences payable	2,280	1,129	679	445	4,533
Total Current Liabilities	<u>68,006</u>	<u>100,580</u>	<u>22,338</u>	<u>1,215</u>	<u>192,139</u>
<b>Noncurrent Liabilities</b>					
Net pension liability	44,129	52,134	25,746	14,137	136,146
Compensated absences payable	1,432	818	414	150	2,814
Bonds payable	659,000	14,400	-	-	673,400
Total Noncurrent Liabilities	<u>704,561</u>	<u>67,352</u>	<u>26,160</u>	<u>14,287</u>	<u>812,360</u>
Total Liabilities	<u>772,567</u>	<u>167,932</u>	<u>48,498</u>	<u>15,502</u>	<u>1,004,499</u>
<b>Deferred Inflows of Resources</b>					
Deferred pension resources	1,524	1,800	889	488	4,701
<b>Net Position</b>					
Net investment in capital assets	2,075,112	1,765,685	935,193	457,617	5,233,607
Unrestricted	454,453	(24,567)	987,806	124,035	1,541,727
Total Net Position	<u>\$ 2,529,565</u>	<u>\$ 1,741,118</u>	<u>\$ 1,922,999</u>	<u>\$ 581,652</u>	<u>\$ 6,775,334</u>

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

City of Harmony, Minnesota  
Statement of Revenues, Expenses and Changes in Fund Net Position  
Proprietary Funds  
For the Year Ended December 31, 2022

	Business-type Activities - Enterprise Funds				Total
	Water Utility	Sewer Utility	Electric Utility	Nonmajor Proprietary Funds	
Operating Revenues					
Charges for services	\$ 258,717	\$ 354,572	\$ 1,051,178	\$ 138,473	\$ 1,802,940
Other income	2,909	226	9,860	81	13,076
Total Operating Revenues	<u>261,626</u>	<u>354,798</u>	<u>1,061,038</u>	<u>138,554</u>	<u>1,816,016</u>
Operating Expenses					
Personal services	63,584	70,361	38,322	20,118	192,385
Supplies	13,755	49,582	64,346	2,467	130,150
Other services and charges	13,642	54,219	12,887	79,871	160,619
Insurance	5,449	6,489	6,620	780	19,338
Utilities	13,694	63,587	12,824	-	90,105
Purchased power	-	-	707,258	-	707,258
Repairs and maintenance	1,026	26,870	52,069	2,401	82,366
Depreciation	68,401	124,183	54,155	27,751	274,490
Total Operating Expenses	<u>179,551</u>	<u>395,291</u>	<u>948,481</u>	<u>133,388</u>	<u>1,656,711</u>
Operating Income (Loss)	<u>82,075</u>	<u>(40,493)</u>	<u>112,557</u>	<u>5,166</u>	<u>159,305</u>
Nonoperating Revenues (Expenses)					
Federal grants	-	2,638	10,609	-	13,247
Investment earnings	3,548	2	6,499	1,067	11,116
Gain on sale of capital assets	-	-	69	-	69
Interest and other expense	(8,302)	(919)	-	-	(9,221)
Total Nonoperating Revenues (Expenses)	<u>(4,754)</u>	<u>1,721</u>	<u>17,177</u>	<u>1,067</u>	<u>15,211</u>
Income (Loss) Before Contributions and Transfers	77,321	(38,772)	129,734	6,233	174,516
Capital Contributions	256,325	225,727	-	-	482,052
Special Assessments	1,642	410	-	-	2,052
Transfers In	-	37,559	-	-	37,559
Transfers Out	(66,000)	(39,000)	(28,000)	(3,500)	(136,500)
Change in Net Position	269,288	185,924	101,734	2,733	559,679
Net Position, January 1	<u>2,260,277</u>	<u>1,555,194</u>	<u>1,821,265</u>	<u>578,919</u>	<u>6,215,655</u>
Net Position, December 31	<u>\$ 2,529,565</u>	<u>\$ 1,741,118</u>	<u>\$ 1,922,999</u>	<u>\$ 581,652</u>	<u>\$ 6,775,334</u>

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

City of Harmony, Minnesota  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2022

	Business-type Activities - Enterprise Funds				Total
	Water Utility	Sewer Utility	Electric Utility	Nonmajor Proprietary Funds	
<b>Cash Flows from Operating Activities</b>					
Receipts from customers	\$ 243,770	\$ 343,703	\$ 1,007,930	\$ 129,174	\$ 1,724,577
Payments to suppliers and vendors	(63,584)	(206,772)	(849,326)	(84,929)	(1,204,611)
Payments to and on behalf of employees	(60,101)	(72,303)	(36,500)	(19,317)	(188,221)
Other receipts	2,909	226	9,860	81	13,076
Net Cash Provided (Used) by Operating Activities	<u>122,994</u>	<u>64,854</u>	<u>131,964</u>	<u>25,009</u>	<u>344,821</u>
<b>Cash Flows from Noncapital Financing Activities</b>					
Principal received (paid) on advances from (to) other funds	-	-	8,644	-	8,644
Intergovernmental revenue	-	2,638	10,609	-	13,247
Transfers from other funds	-	37,559	-	-	37,559
Transfers to other funds	(66,000)	(39,000)	(28,000)	(3,500)	(136,500)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(66,000)</u>	<u>1,197</u>	<u>(8,747)</u>	<u>(3,500)</u>	<u>(77,050)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>					
Special assessments received	9,827	2,456	-	-	12,283
Principal paid on bonds and notes payable	(58,000)	(37,800)	-	-	(95,800)
Interest and fees paid on bonds and notes payable	(8,679)	(1,055)	-	-	(9,734)
Proceeds on sale of capital assets	-	-	69	-	69
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(56,852)</u>	<u>(36,399)</u>	<u>69</u>	<u>-</u>	<u>(93,182)</u>
<b>Cash Flows from Investing Activities</b>					
Interest received on cash and temporary investments	3,548	2	6,499	1,067	11,116
Net Increase (Decrease) in Cash and Temporary Investments	3,690	29,654	129,785	22,576	185,705
Cash and Temporary Investments, January 1	393,982	(56,703)	706,890	99,386	1,143,555
Cash and Temporary Investments, December 31	<u>\$ 397,672</u>	<u>\$ (27,049)</u>	<u>\$ 836,675</u>	<u>\$ 121,962</u>	<u>\$ 1,329,260</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>					
Operating income (loss)	\$ 82,075	\$ (40,493)	\$ 112,557	\$ 5,166	\$ 159,305
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities					
Depreciation	68,401	124,183	54,155	27,751	274,490
(Increase) decrease in assets					
Accounts receivable	(14,947)	(10,869)	(46,473)	(9,299)	(81,588)
Special assessments	-	-	3,225	-	3,225
Intergovernmental	3,454	864	-	-	4,318
Inventories	364	-	227	-	591
(Increase) decrease in deferred outflows of resources					
Deferred pension resources	583	3,781	(226)	(574)	3,564
Prepaid items	(835)	(1,951)	1,953	(28)	(861)
Increase (decrease) in liabilities					
Accounts payable	(20,029)	(4,684)	(2,100)	-	(26,813)
Due to other governments	1,028	(254)	6,028	618	7,420
Deposits payable	-	-	570	-	570
Accrued salaries payable	(297)	(231)	(301)	(70)	(899)
Net pension liability	23,633	23,399	14,616	8,683	70,331
Compensated absences payable	(1,255)	(1,664)	(1,912)	(2,216)	(7,047)
Increase (decrease) in deferred inflows of resources					
Deferred pension resources	(19,181)	(27,227)	(10,355)	(5,022)	(61,785)
Net Cash Provided (Used) by Operating Activities	<u>\$ 122,994</u>	<u>\$ 64,854</u>	<u>\$ 131,964</u>	<u>\$ 25,009</u>	<u>\$ 344,821</u>
<b>Schedule of Noncash Investing, Capital and Financing Activities</b>					
Capital assets contributed by (to) other funds	<u>\$ 256,325</u>	<u>\$ 172,333</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 428,658</u>
Special assessments contributed by (to) other funds	<u>\$ -</u>	<u>\$ 53,394</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53,394</u>

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

City of Harmony, Minnesota  
Statement of Fiduciary Net Position  
Trust Fund  
December 31, 2022

	<b>851</b>
	Investment
	Trust
	Fund
	<hr/>
Assets	
Cash and Cash Equivalents	<u>\$ 10,437</u>
Net Position	
Restricted	<u>\$ 10,437</u>

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

City of Harmony, Minnesota  
Statement of Changes in Fiduciary Net Position  
Trust Fund  
For the Year Ended December 31, 2022

	<u>851 Investment Trust Fund</u>
Revenues	
Investment income	\$ 37
Net Position, January 1	<u>10,400</u>
Net Position, December 31	<u><u>\$ 10,437</u></u>

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

City of Harmony, Minnesota  
Notes to the Financial Statements  
December 31, 2022

## Note 1: Summary of Significant Accounting Policies

### A. Reporting Entity

The City of Harmony, Minnesota (the City) operates under "Optional Plan A" as defined in the State of Minnesota statutes. The City is governed by an elected Mayor and a four-member Council. The Council exercises legislative authority and determines all matters of policy. The Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. Blended component units, although legally separate entities are, in substance, part of the City's operations and so data from these units are combined with data of the primary government.

**Blended Component Unit.** The Harmony Economic Development Authority (EDA) was established under Minnesota statutes, 469.090 through 469.108 for the purpose of promoting economic development within the City. The EDA has a December 31 year-end and is reported as a special revenue fund. Separate financial statements are not issued for the EDA. The EDA is considered blended because the City has significant influence on the EDA activities and its sole purpose is to encourage future development within the City.

### B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.



City of Harmony, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 1: Summary of Significant Accounting Policies (Continued)**

The Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The City reports the following major governmental funds:

The *General fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Ambulance fund* accounts for the activities for the ambulance service.

The *Economic Development Authority* fund accounts for the activities for the EDA services.

The *Debt Service fund* accounts for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources and special assessment bond principal and interest from special assessment levies when the City is obligated in some manner for the payment.

The *Capital Projects fund* accounts for the acquisition of capital equipment for governmental activities of the City.

## Note 1: Summary of Significant Accounting Policies (Continued)

The City reports the following major proprietary funds:

The *Water Utility fund* accounts for costs associated with the City's water system and ensure that user charges are sufficient to pay for those costs.

The *Sewer Utility fund* accounts for the costs associated with the City's sewer system and ensure that user charges are sufficient to pay for those costs.

The *Electric Utility fund* accounts for the costs associated with the City's electric system and ensure that user charges are sufficient to pay for those costs.

Additionally, the City reports the following fund types:

The *Sanderson Memorial Trust fund* accounts for a non-expendable trust fund for assets held by the government in a trustee capacity or as an agent on behalf of others.

As a general rule the effect of interfund activity has been eliminated from government-wide financial statements. Exceptions to this general rule are charges between the City's water, sewer, storm water, electric, and refuse and recycling functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance

#### ***Deposits and Investments***

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The proprietary funds' portion in the government-wide cash and temporary investments pool is considered to be cash and cash equivalents for purposes of the statements of cash flows.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The City may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.

City of Harmony, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 1: Summary of Significant Accounting Policies (Continued)**

5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
9. Guaranteed investment contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

The Minnesota Municipal Money Market Fund is regulated by Minnesota statutes and the Board of Directors of the League of Minnesota Cities and is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the regulatory rules of the SEC. In accordance with GASB Statement No. 79, the City's investment in this pool is valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the 4M Liquid Asset Fund. Investments in the 4M Plus must be deposited for a minimum of 14 calendar days. Withdrawals prior to the 14-day restriction period will be subject to a penalty equal to seven days interest on the amount withdrawn. Seven days' notice of redemption is required for withdrawals of investments in the 4M Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption. Financial statements of the 4M Fund can be obtained by contracting RBC Global Management at 100 South Fifth Street, Suite 2300, Minneapolis, MN 55402-1240.

***Investment Policy***

The City's investment policy incorporates Minnesota statutes as described above which reduces the City's exposure to credit, custodial credit and interest rate risks. Specific risk information for the City is as follows:

- *Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota statutes and the City's investment policy limit the City's investments to the list above.
- *Custodial Credit Risk.* 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 that are in the possession of an outside party. The City's investment policy does not address custodial credit risk but typically limits its exposure by purchasing insured or registered investments.
- *Concentration of Credit Risk.* Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City does not limit concentrations with any one institution.
- *Interest Rate Risk.* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the City requires at least 30 day cash flow of the City's investment portfolio to be available on a daily basis without loss of principal. Also, no more than 50 percent of the portfolio should have maturities exceeding 3 years.

City of Harmony, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 1: Summary of Significant Accounting Policies (Continued)**

***Property Taxes***

The Council annually adopts a tax levy and certifies it to the County in December for collection the following year. The County is responsible for collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Treasurer and tax settlements are made to the City during January, June and November each year.

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by a deferred inflow of resources for delinquent taxes not received within 60 days after year end in the fund financial statements.

***Accounts Receivable***

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2022. The City annually certifies delinquent utility accounts to the County for collection. All trade receivables are shown net of an allowance for uncollectible accounts. The allowance for uncollectible accounts at December 31, 2022 was \$10,375 in the Fire fund and \$750 for Ambulance receivables. All receivables aged greater than two years are deemed uncollectible.

***Special Assessments***

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue when they are annually certified to the County or received in cash or within 60 days after year end. All governmental special assessments receivable are offset by a deferred inflow of resources in the governmental fund financial statements.

***Interfund Receivables and Payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

***Inventories and Prepaid Items***

All inventories are stated at the lower of cost or market on the first-in, first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

City of Harmony, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 1: Summary of Significant Accounting Policies (Continued)**

**Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial estimated useful life in excess of one year. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements.

In the case of initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include items dating back to June 30, 1980. The City was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the City constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the City values these capital assets at the acquisition value of the item at the date of its donation.

For financial statement purposes only, a capitalization threshold is \$1,000 and is established for each capital asset category. Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings and Improvements	10 - 50
Streets	20 - 30
Storm Sewers	40
Water Mains	50
Sanitary Sewers	50
Sidewalks	20
Curb and Gutter	30
Electric Distribution	10 - 50
Machinery and Equipment	5 - 25
Computer Software and Equipment	5 - 10

**Compensated Absences**

It is the government's policy to permit employees to accumulate a limited amount of earned but unused paid time off. Select employees also have earned but unused sick leave earned prior to the implementation of a paid time off policy. All personal time off up to a maximum limit is accrued when incurred in the government-wide and proprietary fund financial statements. Employees with 20 years or more of service with the City receive 10 percent of the accumulated sick leave upon termination. A liability for these amounts has been accrued in the government-wide and proprietary fund financial statements. The total amount of compensated absences accrued for 2022 was \$47,572. The General fund is typically used to liquidate governmental compensated absences payable.

**Note 1: Summary of Significant Accounting Policies (Continued)**

***Deferred Inflows of Resources***

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies as needing to be reported in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The City has an additional item which qualifies for reporting in this category. The item, deferred pension resources, is reported only in the statements of net position and results from actuarial calculations.

***Long-term Obligations***

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. The recognition of bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period incurred.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. 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.

***Pensions***

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. Investments are reported at fair value. The General fund is typically used to liquidate the governmental net pension liability.

The total pension expense for the GERP is as follows:

	Public Employees Retirement Association of Minnesota (PERA)
	GERP
Pension Expense	\$ 46,023

## **Note 1: Summary of Significant Accounting Policies (Continued)**

### ***Fund Balance***

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

*Nonspendable* - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

*Restricted* - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

*Committed* - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council (the Council), which is the City's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Council modifies or rescinds the commitment by resolution.

*Assigned* - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the Council itself or by an official to which the governing body delegates the authority. The Council has adopted a fund balance policy which delegates the authority to assign amounts for specific purposes to the City Administrator/Clerk.

*Unassigned* - The residual classification for the General fund and also negative residual amounts in other funds.

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

The City has formally adopted a fund balance policy for the General fund of 40-50 percent of budgeted operating expenditures for cash-flow timing needs.

### ***Net Position***

Net position represents the difference between assets and liabilities. Net position is displayed in three components:

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

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

City of Harmony, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 2: Stewardship, Compliance and Accountability**

**A. Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General, Fire, Ambulance, Revolving Loan and Economic Development Authority funds. The City does not use encumbrance accounting.

In July of each year, all departments of the City submit requests for appropriations to the Administrator so that a budget may be prepared. Before September 30, the proposed budget is presented to the Council for review. The Council holds public hearings and a final budget is prepared and adopted in early December.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Administrator. The legal level of budgetary control is the department level. Budgeted amounts are as originally adopted, or as amended by the Council. No budget amendments were made during the year.

**B. Excess Expenditures Over Appropriations**

Fund	Budget	Actual	Excess of Expenditures Over Appropriations
Ambulance	\$ 207,565	\$ 212,060	\$ 4,495
Nonmajor Special Revenue			
Fire	63,857	70,412	6,555

The above funds' actual expenditures in excess of budget were offset by an excess of actual revenues.

**C. Deficit Fund Equity**

The following funds had fund equity deficits at December 31, 2022:

Fund	Amount
Nonmajor Capital Projects	
TIF District #7	\$ 54,057
TIF District #8	6,251

The above deficits will be eliminated through future tax increments and transfers from other funds.



City of Harmony, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 3: Detailed Notes on All Funds**

**A. Deposits and Investments**

***Deposits***

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the City's deposits and investments may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the Council, the City maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The fair value of collateral pledged must equal 110 percent of the deposits not covered by insurance, bonds, or irrevocable standby letters of credit from Federal Home Loan Banks.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rate "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any federal agency.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a 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. The selection should be approved by the government entity.

At year end, the City's carrying amount of deposits was \$2,799,681 and the bank balance was \$2,826,330. Of the bank balance, \$500,000 was covered by federal depository insurance. The remaining balance of \$2,326,330 was collateralized with securities held by the pledging financial institution's trust department in the City's name and a letter of credit.

City of Harmony, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 3: Detailed Notes on All Funds (Continued)**

**Investments**

As of December 31, 2022, the City had the following investments that are insured or registered, or securities held by the City or its agent in the City's name.

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Fair Value and Carrying Amount
Pooled Investments at Amortized Costs			
Minnesota Municipal Money Market (4M) Fund	N/A	less than 6 months	<u>\$ 1,441,541</u>

(1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.

(2) Interest rate risk is disclosed using the segmented time distribution method.

N/A Indicates not applicable or available.

The investments of the City are subject to the following risks:

- *Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota Statutes limit the City's investments.
- *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 that are in the possession of an outside party.
- *Concentration of Credit Risk.* The concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.
- *Interest Rate Risk.* The interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The City has not adopted a formal investment policy outlining objectives and procedures for investing idle funds or that addresses interest rate and credit risk.

**Cash on Hand**

Cash in the possession of the City, consisting of petty cash and change funds, totals \$165.

City of Harmony, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 3: Detailed Notes on All Funds (Continued)**

***Cash and Investments Summary***

A reconciliation of cash and investments as shown on the statement of net position for the City follows:

Deposits	\$ 2,799,681
Investments	1,441,541
Cash on Hand	<u>165</u>
 Total Cash and Temporary Investments	 <u>\$ 4,241,387</u>
 Cash and Temporary Investments	 \$ 4,230,950
Fiduciary Fund Cash	<u>10,437</u>
 Total	 <u>\$ 4,241,387</u>

**B. Loans Receivable**

The City has made various economic development loans to businesses through its revolving loan program. These loans are receivable by the City over three to ten year periods with varying interest rates at 3 percent to 7 percent per annum. These loans are secured by equipment and other assets. The receivable balances in this fund at December 31, 2022 was \$242,858. Additionally, EDA commercial revitalization loans, which are forgivable in 10 years, totaled \$80,000.

Under a Small Cities Development Program Grant through the Minnesota Department of Trade and Economic Development, loans are made to eligible homeowners to assist with residential and commercial improvements. The City will collect these loans only if there is an ownership change of the improved property. Consequently, the loans are reduced annually and eventually forgiven if ownership is retained over the ten year period per the loan program. The balance on all loans receivable at December 31, 2022 is \$51,240.

City of Harmony, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 3: Detailed Notes on All Funds (Continued)**

**C. Capital Assets**

Capital asset activity for the City for the year ended December 31, 2022 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated				
Land	\$ 424,743	\$ -	\$ (4,575)	\$ 420,168
Construction in progress	562,217	-	(562,217)	-
Total Capital Assets Not Being Depreciated	<u>986,960</u>	<u>-</u>	<u>(566,792)</u>	<u>420,168</u>
Capital Assets Being Depreciated				
Buildings and improvements	1,237,968	564,121	-	1,802,089
Systems and infrastructure	5,630,188	-	-	5,630,188
Equipment and machinery	1,331,399	4,720	(4,000)	1,332,119
Vehicles	1,706,365	135,316	(59,605)	1,782,076
Total Capital Assets Being Depreciated	<u>9,905,920</u>	<u>704,157</u>	<u>(63,605)</u>	<u>10,546,472</u>
Less Accumulated Depreciation For				
Buildings and improvements	(750,056)	(41,146)	-	(791,202)
Systems and infrastructure	(2,679,326)	(174,640)	-	(2,853,966)
Equipment and machinery	(738,568)	(95,255)	3,080	(830,743)
Vehicles	(775,692)	(106,958)	40,730	(841,920)
Total Accumulated Depreciation	<u>(4,943,642)</u>	<u>(417,999)</u>	<u>43,810</u>	<u>(5,317,831)</u>
Total Capital Assets Being Depreciated, Net	<u>4,962,278</u>	<u>286,158</u>	<u>(19,795)</u>	<u>5,228,641</u>
Governmental Activities Capital Assets, Net	<u>\$ 5,949,238</u>	<u>\$ 286,158</u>	<u>\$ (586,587)</u>	<u>\$ 5,648,809</u>

City of Harmony, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 3: Detailed Notes on All Funds (Continued)**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type Activities</b>				
Capital Assets Not Being Depreciated				
Land	\$ 36,415	\$ -	\$ -	\$ 36,415
Capital Assets Being Depreciated				
Buildings and improvements	2,538,356	-	-	2,538,356
Systems and infrastructure	5,764,263	428,658	(2,203)	6,190,718
Equipment and machinery	1,817,177	-	-	1,817,177
Vehicles	28,700	-	-	28,700
Total Capital Assets Being Depreciated	<u>10,148,496</u>	<u>428,658</u>	<u>(2,203)</u>	<u>10,574,951</u>
Less Accumulated Depreciation For				
Buildings and improvements	(1,619,018)	(78,378)	-	(1,697,396)
Systems and infrastructure	(2,255,875)	(136,259)	2,203	(2,389,931)
Equipment and machinery	(430,679)	(59,853)	-	(490,532)
Vehicles	(28,700)	-	-	(28,700)
Total Accumulated Depreciation	<u>(4,334,272)</u>	<u>(274,490)</u>	<u>2,203</u>	<u>(4,606,559)</u>
Total Capital Assets Being Depreciated, Net	<u>5,814,224</u>	<u>154,168</u>	<u>-</u>	<u>5,968,392</u>
Business-type Activities Capital Assets, Net	<u>\$ 5,850,639</u>	<u>\$ 154,168</u>	<u>\$ -</u>	<u>\$ 6,004,807</u>

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

**Governmental Activities**

General government	\$ 39,800
Public safety	126,362
Streets and highways	221,934
Culture and recreation	29,704
Economic development	199
Total Depreciation Expense - Governmental Activities	<u>\$ 417,999</u>

**Business-type Activities**

Water utility	\$ 68,401
Sewer utility	124,183
Refuse and recycling	496
Electric utility	54,155
Storm water utility	27,255
Total Depreciation Expense - Business-type Activities	<u>\$ 274,490</u>

City of Harmony, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 3: Detailed Notes on All Funds (Continued)**

**D. Interfund Receivables, Payables and Transfers**

The composition of interfund balances at December 31, 2022 is as follows:

**Advances to/from Other Funds**

Receivable Fund	Payable Fund	Amount
Electric Utility	Sewer Utility	\$ 50,000
	Nonmajor governmental	
	Fire	34,574
EDA	Debt Service	15,743
	Nonmajor governmental	
	TIF District #7	295
	TIF District #8	54,057
Nonmajor Governmental	Nonmajor governmental	
	TIF District #7	5,956
		<u>5,956</u>
Total		<u>\$ 160,625</u>

The Revolving Loan fund and EDA fund advanced \$5,956 to the TIF District #7 fund and \$54,057 to the TIF District #8 fund to finance the initial developer loan for tax increment project costs related to the districts. Furthermore, the EDA fund advanced \$15,743 to the Debt Service fund to cover tax increment bond payments. These funds should be repaid through the term of the district by future tax increment revenue. If the future increment does not generate enough dollars to pay back the advance the developer shall pay back any shortfall of the advance. These loan shall be paid back at a fixed interest rate of 3 percent.

The Electric Utility fund advanced the Fire fund \$203,394 to assist in the purchase of a fire truck. This advance shall be paid back with annual payments paid by township charges. There is no interest rate on this advance. The outstanding balance as of December 31, 2022 was \$34,574.

The Electric Utility fund advanced the Sewer Utility \$155,000 to assist with cash flows. These advance shall be paid back within five years as cash becomes available. There is no interest rate on the advance. The outstanding balance as of December 31, 2022 was \$50,000.

City of Harmony, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 3: Detailed Notes on All Funds (Continued)**

**Interfund Transfers**

In the year ended December 31, 2022, the City made the following transfers:

Fund	Transfers In						Total
	General	Economic Development Authority	Debt Service	Capital Projects	Other Governmental Funds	Sewer Utility	
<b>Transfers Out</b>							
<b>Governmental</b>							
General	\$ -	\$ -	\$ -	\$ 83,500	\$ 6,098	\$ -	\$ 89,598
Ambulance	-	-	-	25,000	-	-	25,000
Capital Projects	5,000	-	-	-	33,000	-	38,000
Debt Service	-	-	-	-	-	37,559	37,559
Nonmajor Governmental	-	-	-	31,000	-	-	31,000
<b>Business-type</b>							
Water Utility	1,000	-	65,000	-	-	-	66,000
Sewer Utility	1,000	-	38,000	-	-	-	39,000
Electric Utility	2,000	15,000	-	11,000	-	-	28,000
Nonmajor Enterprise	1,000	-	-	2,500	-	-	3,500
<b>Total</b>	<b>\$ 10,000</b>	<b>\$ 15,000</b>	<b>\$ 103,000</b>	<b>\$ 153,000</b>	<b>\$ 39,098</b>	<b>\$ 37,559</b>	<b>\$ 357,657</b>

During the year, transfers are used to 1) move General fund resources to provide an annual savings for future capital spending to the capital projects fund, 2) move special revenue resources in the ambulance fund to provide for its share of annual operating expenditures to the fire fund, 3) move resources from the Electric Utility fund to the Economic Development Authority to cover operating expenditures, 4) move funds from the various utility funds to the General fund related to PILOT and 5) move funds from the various utility funds to the Debt Service fund to cover bond payments. Additionally, the General transferred \$6,098 to the nonmajor TIF District #6 fund upon decertification of the district and the Debt Service fund transferred \$37,559 to the Sewer Utility fund to close the 2014A G.O. Improvement Bond fund upon maturity of the bond.

**E. Long-term Debt**

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenues. In addition, general obligation bonds have been issued to refund special assessments related bonds.

G.O. Improvement Bonds

The following bonds were issued to finance various improvements and will be repaid primarily from special assessments levied on the properties benefiting from the improvements. Some issues, however, are partly financed by ad valorem tax levies. All special assessment debt is backed by the full faith and credit of the City. General obligation bonds currently outstanding are as follows:

City of Harmony, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 3: Detailed Notes on All Funds (Continued)**

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Improvement Notes of 2020	\$ 1,648,000	1.95 %	06/01/20	02/01/31	\$ 1,816,800
G.O. Improvement Refunding Note of 2021C	660,000	1.30	07/12/21	02/01/28	575,000
Total General Obligation Improvement Bonds					<u>\$ 2,391,800</u>

Annual requirement to maturity for long-term liabilities is as follows:

Year Ending December 31	<b>G.O. Improvement Bonds</b> Governmental Activities		
	Principal	Interest	Total
2023	\$ 279,200	\$ 40,485	\$ 319,685
2024	283,200	35,606	318,806
2025	289,200	30,634	319,834
2026	293,200	25,576	318,776
2027	300,200	20,420	320,620
2028 - 2031	946,800	34,096	980,896
Total	<u>\$ 2,391,800</u>	<u>\$ 186,817</u>	<u>\$ 2,578,617</u>

G.O. Tax Abatement Bonds

The following bonds were issued to refund the USDA promissory note for community center improvements and to finance the sale of the Assisted Living Facility. They will be retired from tax abatement revenues and ad valorem tax levies.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Tax Abatement Bonds, 2013A	\$ 313,000	2.20 %	01/14/13	10/01/24	<u>\$ 32,000</u>

The expected annual debt service requirements to maturity for general obligation revenues bonds are as follows:

Year Ending December 31	<b>G.O. Tax Abatement Bonds</b> Governmental Activities		
	Principal	Interest	Total
2023	\$ 16,000	\$ 704	\$ 16,704
2024	16,000	352	16,352
Total	<u>\$ 32,000</u>	<u>\$ 1,056</u>	<u>\$ 33,056</u>



City of Harmony, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 3: Detailed Notes on All Funds (Continued)**

G.O. Tax Increment Notes

The following notes were issued for economic development in the City's tax increment financing districts. They will be retired from tax increment revenues and ad valorem tax levies.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Taxable G.O. Tax Increment Notes, 2021A	\$ 84,083	- %	11/01/21	11/01/31	\$ 75,675
Taxable G.O. Tax Increment Notes, 2021B	247,000	1.80	11/01/21	02/01/32	247,000
 Total General Obligation Tax Increment Notes					<u>\$ 322,675</u>

The expected annual debt service requirements to maturity for general obligation tax increment notes are as follows:

Year Ending December 31	<b>G.O. Tax Increment Notes</b> Governmental Activities		
	Principal	Interest	Total
	2023	\$ 8,408	\$ 4,446
2024	33,408	4,221	37,629
2025	34,408	3,762	38,170
2026	34,408	3,294	37,702
2027	35,408	2,817	38,225
2028 - 2032	176,635	6,561	183,196
 Total	<u>\$ 322,675</u>	<u>\$ 25,101</u>	<u>\$ 347,776</u>

G.O. Revenue Bonds

The following bonds were issued to financial capital improvements in the enterprise funds. They will be retired from net revenues of the enterprise funds.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
2004 Public Facilities Authority Bonds	\$ 625,465	1.00 %	05/13/04	08/20/23	\$ 36,000
2015 Public Facilities Authority Bonds	857,100	1.00	11/10/15	08/20/35	579,000
G.O. Improvement Notes of 2020	450,000	1.95	06/01/20	02/01/31	89,200
G.O. Utility Revenue Refunding Notes of 2021C	77,000	1.30	07/12/21	02/01/28	67,000
 Total G.O. Revenue Bonds					<u>\$ 771,200</u>

City of Harmony, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 3: Detailed Notes on All Funds (Continued)**

The expected annual debt service requirements to maturity for general obligation revenue bonds are as follows:

Year Ending December 31	<b>G.O. Revenue Bonds</b> Business-type Activities		
	Principal	Interest	Total
2023	\$ 97,800	\$ 8,596	\$ 106,396
2024	62,800	7,493	70,293
2025	64,800	6,741	71,541
2026	63,800	5,975	69,775
2027	64,800	5,211	70,011
2028 - 2032	276,200	15,531	291,731
2033 - 2035	141,000	2,840	143,840
<b>Total</b>	<b>\$ 771,200</b>	<b>\$ 52,387</b>	<b>\$ 823,587</b>

Annual revenues from charges for service, principal and interest payments, and percentage of revenue required to cover principal and interest payments are as follows:

	Water Utility	Sewer Utility
Revenues	\$ 261,626	\$ 354,798
Principal and Interest	66,679	38,855
Percentage of Revenues	25.5%	11.0%

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2022, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Bonds Payable					
G.O. Improvement Bonds	\$ 2,686,000	\$ -	\$ (294,200)	\$ 2,391,800	\$ 279,200
G.O. Tax Abatement Bonds	48,000	-	(16,000)	32,000	16,000
G.O. Tax Increment Bonds	331,083	-	(8,408)	322,675	8,408
Total Bonds Payable	3,065,083	-	(318,608)	2,746,475	303,608
Compensated Absences Payable	48,955	24,780	(33,510)	40,225	17,292
Governmental Activities Long-term Liabilities	<u>\$ 3,114,038</u>	<u>\$ 24,780</u>	<u>\$ (352,118)</u>	<u>\$ 2,786,700</u>	<u>\$ 320,900</u>
<b>Business-type Activities</b>					
Bonds Payable					
G.O. Revenue Bonds	\$ 867,000	\$ -	\$ (95,800)	\$ 771,200	\$ 97,800
Compensated Absences Payable	14,394	12,229	(19,276)	7,347	4,533
Business-type Activities Long-term Liabilities	<u>\$ 881,394</u>	<u>\$ 12,229</u>	<u>\$ (115,076)</u>	<u>\$ 778,547</u>	<u>\$ 102,333</u>

City of Harmony, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 4: Defined Benefit Pension Plan - Statewide**

**A. Plan Description**

The City participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with *Minnesota statutes*, chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan

All full-time and certain part-time employees of the City are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

**B. Benefits Provided**

PERA provides retirement, disability and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

General Employee Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent for average salary for all years of service. For 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.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 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. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

**C. Contributions**

Minnesota statutes chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2022 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the years ending December 31, 2022, 2021 and 2020 were \$27,354, \$25,670 and \$35,736 , respectively. The City's contributions were equal to the required contributions for each year as set by state statute.

City of Harmony, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 4: Defined Benefit Pension Plans - Statewide (Continued)**

**D. Pension Costs**

General Employees Fund Pension Costs

At December 31, 2022, the City reported a liability of \$380,162 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$11,053. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021 through June 30, 2022 relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0048 percent at the end of the measurement period and .0046 percent for the beginning of the period.

City's Proportionate Share of the Net Pension Liability	\$ 380,162
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the City	<u>11,053</u>
Total	<u><u>\$ 391,215</u></u>

For the year ended December 31, 2022, the City recognized pension expense of \$44,371 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized \$1,652 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2022, the City 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 3,175	\$ 3,892
Changes in Actuarial Assumptions	82,561	1,482
Net Difference Between Projected and Actual Earnings on Plan Investments	12,094	-
Changes in Proportion	4,271	7,755
Contributions Paid to PERA Subsequent to the Measurement Date	<u>13,669</u>	<u>-</u>
Total	<u><u>\$ 115,770</u></u>	<u><u>\$ 13,129</u></u>

The \$13,669 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2023	\$ 27,780
2024	36,910
2025	(10,098)
2026	34,380

City of Harmony, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 4: Defined Benefit Pension Plans - Statewide (Continued)**

**E. Long-term Expected Return on Investment**

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return 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. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	33.5 %	5.10 %
Alternative Assets (Private Markets)	25.0	5.90
Bonds (Fixed Income)	25.0	0.75
International Equity	16.5	5.30
Total	100.0 %	

**F. Actuarial Assumptions**

The total pension liability in the June 30, 2022, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.5 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.5 percent was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25 percent for the General Employees Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan. Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 27 years of service. Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. The tables are adjusted slightly to fit PERA's experience.

Actuarial assumptions used in the June 30, 2022 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and become effective with the July 1, 2020 actuarial valuation. The most recent four-year experience study for the Police and Fire Plan was completed in 2020 were adopted by the Board and became effective with the July 1, 2021 actuarial valuation.

General Employees Fund

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There were no changes in plan provisions since the previous valuation.

City of Harmony, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 4: Defined Benefit Pension Plans - Statewide (Continued)**

**G. Discount Rate**

The discount rate used to measure the total pension liability in 2022 was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. 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.

**H. Pension Liability Sensitivity**

The following presents the City’s proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City’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:

	City Proportionate Share of NPL		
	1 Percent Decrease (5.50%)	Current (6.50%)	1 Percent Increase (7.50%)
	General Employees Fund	\$ 600,485	\$ 380,162

**I. Pension Plan Fiduciary Net Position**

Detailed information about each 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](http://www.mnpera.org).

**Note 5: Defined Benefit Pension Plan - Fire Relief Association**

**A. Plan Description**

All members of the Harmony Fire Department (the Department) are covered by a defined benefit plan administered by the Harmony Fire Department Relief Association ( the Association). As of December 31, 2022, the plan covered 26 active firefighters and 4 vested terminated firefighters whose pension benefits are deferred. The plan is a single employer retirement plan and is established and administered in accordance with Minnesota statute, chapter 69.

The Association maintains a separate Special fund to accumulate assets to fund the retirement benefits earned by the Department’s membership. Funding for the Association is derived from an insurance premium tax in accordance with the Volunteer Firefighter’s Relief Association Financing Guidelines Act of 1971 (chapter 261 as amended by chapter 509 of Minnesota statutes of 1980). Funds are also derived from investment income.

**B. Benefits Provided**

The Volunteer Firefighter Plan provides retirement, death, and supplemental benefits to covered firefighters and survivors. Benefits are paid based on the number of years of service multiplied by a benefit level approved by the City. Members are eligible for a lump-sum retirement benefit at 50 years of age with five years of service. Plan provisions include a pro-rated vesting schedule that increases from 5 years at 40 percent through 20 years at 100 percent.

City of Harmony, Minnesota  
Notes to the Financial Statements  
December 31, 2022

**Note 5: Defined Benefit Pension Plan - Fire Relief Association (Continued)**

**C. Contributions**

Minnesota statutes, chapters 424 and 424A authorize pension benefits for volunteer fire relief associations. The plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota statutes and voluntary City contributions (if applicable). The State of Minnesota contributed \$18,801 in fire state aid and supplemental aid to the plan on behalf of the City Fire Department for the year ended December 31, 2022, which was recorded as a revenue. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contributions to the plan for the year ended December 31, 2022 were \$18,801. The City's contributions were equal to the required contributions as set by state statute. The City did not make any voluntary contributions to the plan during 2022.

**Note 6: Other Information**

**A. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT) which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City's coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The City's management is not aware of any incurred but not reported claims.

**B. Legal Debt Margin**

The City's statutory debt limit is three percent of estimated taxable market value of real and personal property located in the City. The taxable market value was \$67,466,800 at December 31, 2022 for a limit of \$2,024,004. The City currently has no general obligation debt subject to this limit. Debt financed partially or entirely by special assessments or by operations of enterprise funds is excluded from this computation by statute.

**C. Concentrations**

The City receives a significant amount of its annual General fund revenues from the State of Minnesota from the Local Government Aid (LGA) program. The amount received in 2022 was \$356,192 for LGA. This accounted for 46.6 percent of General fund revenues.

**D. Tax Increment Districts**

The City's tax increment districts are subject to review by the State of Minnesota Office of the State Auditor (OSA). Any disallowed claims or misuse of tax increments could become a liability of the applicable fund. Management has indicated that they are not aware of any instance of noncompliance which would have a material effect on the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARMONY  
HARMONY, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2022



City of Harmony, Minnesota  
Required Supplementary Information  
December 31, 2022

**Schedule of Employer's Share of PERA Net Pension Liability - General Employees Fund**

Fiscal Year Ending	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/22	0.0048 %	\$ 380,162	\$ 11,053	\$ 391,215	\$ 357,107	106.5 %	76.7 %
06/30/21	0.0046	196,441	5,948	202,389	504,837	38.9	87.0
06/30/20	0.0046	275,791	8,429	284,220	495,514	55.7	79.0
06/30/19	0.0051	281,968	8,666	290,634	501,289	56.2	80.2
06/30/18	0.0052	288,475	-	288,475	477,481	60.4	79.5
06/30/17	0.0049	312,813	-	312,813	449,515	69.6	75.9
06/30/16	0.0051	414,095	-	414,095	447,499	92.5	68.9
06/30/15	0.0052	269,491	-	269,491	431,436	62.5	78.2

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

**Schedule of Employer's PERA Contributions - General Employees Fund**

Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/22	\$ 27,354	\$ 27,354	\$ -	\$ 364,714	7.5 %
12/31/21	25,670	25,670	-	509,269	7.5
12/31/20	35,736	35,736	-	476,476	7.5
12/31/19	39,716	39,716	-	529,545	7.5
12/31/18	36,290	36,290	-	483,866	7.5
12/31/17	34,438	34,438	-	459,170	7.5
12/31/16	33,960	33,960	-	452,797	7.5
12/31/15	32,852	32,852	-	438,033	7.5

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

City of Harmony, Minnesota  
Required Supplementary Information (Continued)  
December 31, 2022

**Notes to the Required Supplementary Information - General Employees Fund**

Changes in Actuarial Assumptions

2022 - The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

2021 - The investment return and single discount rates were changed from 7.50 percent to 6.50 percent for financial reporting purposes. The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

2020 - The price inflation assumption was decreased from 2.50% to 2.25%. The payroll growth assumption was decreased from 3.25% to 3.00%. Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates. Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements. Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter. Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females. The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments. The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019. The assumed spouse age difference was changed from two years older for females to one year older. The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

2019 - The mortality projection scale was changed from MP-2017 to MP-2018.

2018 - The mortality projection scale was changed from MP-2015 to MP-2017. The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

2017 - The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

City of Harmony, Minnesota  
Required Supplementary Information (Continued)  
December 31, 2022

**Notes to the Required Supplementary Information - General Employees Fund (Continued)**

Changes in Plan Provisions

2022 - There were no changes in plan provisions since the previous valuation.

2021 - There were no changes in plan provisions since the previous valuation.

2020 - Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019 - The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The state's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

2018 - The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018. Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply. Contribution stabilizer provisions were repealed. Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors. Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 - The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter. The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

2016 - There were no changes in plan provisions since the previous valuation.

2015 - On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

COMBINING AND INDIVIDUAL FUND FINANCIAL  
STATEMENTS AND SCHEDULES

CITY OF HARMONY  
HARMONY, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2022

City of Harmony, Minnesota  
 Nonmajor Governmental Funds  
 Combining Balance Sheet  
 December 31, 2022

	Special Revenue			
	201	202	211	222
	Revolving Loan	Small Cities Grant	Library Fund	Fire
<b>Assets</b>				
Cash and temporary investments	\$ 119,796	\$ 41,511	\$ 30,083	\$ 93,892
Receivables				
Accounts, net of allowances	-	-	-	4,200
Loans	242,858	51,240	-	-
Intergovernmental	-	-	196	87
Advances to other funds	5,956	-	-	-
Prepaid items	-	-	323	5,059
<b>Total Assets</b>	<u><u>\$ 368,610</u></u>	<u><u>\$ 92,751</u></u>	<u><u>\$ 30,602</u></u>	<u><u>\$ 103,238</u></u>
<b>Liabilities</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ 1,048
Due to other governments	-	-	-	345
Accrued salaries payable	-	-	1,166	2
Advances from other funds	-	-	-	34,574
<b>Total Liabilities</b>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>1,166</u></u>	<u><u>35,969</u></u>
<b>Fund Balances</b>				
<b>Nonspendable</b>				
Prepaid items	-	-	323	5,059
<b>Restricted</b>				
Economic development	-	80,751	-	-
<b>Committed</b>				
Loans	242,858	-	-	-
<b>Assigned</b>				
Economic development	125,752	12,000	-	-
Culture and recreation	-	-	29,113	-
Public safety	-	-	-	62,210
<b>Unassigned</b>	-	-	-	-
<b>Total Fund Balances</b>	<u><u>368,610</u></u>	<u><u>92,751</u></u>	<u><u>29,436</u></u>	<u><u>67,269</u></u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 368,610</u></u>	<u><u>\$ 92,751</u></u>	<u><u>\$ 30,602</u></u>	<u><u>\$ 103,238</u></u>

Special Revenue		Capital Project				Total
251	261	420	410	425	426	
Park Fund	Arts Fund	TIF District #6	Trailhead Project	TIF District #7	TIF District #8	
\$ 60,229	\$ 14,157	\$ -	\$ 139	\$ -	\$ -	\$ 359,807
-	-	-	-	-	-	4,200
-	-	-	-	-	-	294,098
175	12	-	-	-	-	470
-	-	-	-	-	-	5,956
1,907	-	-	-	-	-	7,289
<u>\$ 62,311</u>	<u>\$ 14,169</u>	<u>\$ -</u>	<u>\$ 139</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 671,820</u>
\$ 950	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,998
248	-	-	-	-	-	593
116	-	-	-	-	-	1,284
-	-	-	-	54,057	6,251	94,882
<u>1,314</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>54,057</u>	<u>6,251</u>	<u>98,757</u>
1,907	-	-	-	-	-	7,289
-	-	-	-	-	-	80,751
-	-	-	-	-	-	242,858
-	-	-	-	-	-	137,752
59,090	14,169	-	139	-	-	102,511
-	-	-	-	-	-	62,210
-	-	-	-	(54,057)	(6,251)	(60,308)
<u>60,997</u>	<u>14,169</u>	<u>-</u>	<u>139</u>	<u>(54,057)</u>	<u>(6,251)</u>	<u>573,063</u>
<u>\$ 62,311</u>	<u>\$ 14,169</u>	<u>\$ -</u>	<u>\$ 139</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 671,820</u>

City of Harmony, Minnesota  
 Nonmajor Governmental Funds  
 Combining Statement of Revenues, Expenditures and  
 Changes in Fund Balances  
 For the Year Ended December 31, 2022

	Special Revenue			
	201	202	211	222
	Revolving Loan	Small Cities Grant	Library Fund	Fire
Revenues				
Taxes				
Property taxes	\$ -	\$ -	\$ 101,421	\$ 45,087
Tax increments	-	-	-	-
Intergovernmental	-	-	32,695	924
Fines and forfeits	-	-	121	-
Charges for services	-	-	343	51,527
Investment earnings	1,179	312	109	1,036
Miscellaneous				
Contributions and donations	-	-	1,141	125
Loan interest	7,613	-	-	-
Other	6,673	-	-	2,592
Total Revenues	<u>15,465</u>	<u>312</u>	<u>135,830</u>	<u>101,291</u>
Expenditures				
Current				
Public safety	-	-	-	64,500
Culture and recreation	-	-	129,459	-
Economic development	10,137	16,273	-	-
Capital outlay				
Public safety	-	-	-	5,912
Culture and recreation	-	-	5,929	-
Economic development	-	-	-	-
Debt service				
Interest and other costs	-	-	-	-
Total Expenditures	<u>10,137</u>	<u>16,273</u>	<u>135,388</u>	<u>70,412</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>5,328</u>	<u>(15,961)</u>	<u>442</u>	<u>30,879</u>
Other Financing Sources (Uses)				
Transfers in	-	-	-	-
Transfers out	-	-	-	(25,000)
Sale of capital assets	-	-	-	4,100
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(20,900)</u>
Net Change in Fund Balances	5,328	(15,961)	442	9,979
Fund Balances, January 1	<u>363,282</u>	<u>108,712</u>	<u>28,994</u>	<u>57,290</u>
Fund Balances, December 31	<u>\$ 368,610</u>	<u>\$ 92,751</u>	<u>\$ 29,436</u>	<u>\$ 67,269</u>

Special Revenue		Capital Project				Total
251	261	420	410	425	426	
Park Fund	Arts Fund	TIF District #6	Trailhead Project	TIF District #7	TIF District #8	
\$ 90,175	\$ 6,012	\$ -	\$ -	\$ -	\$ -	\$ 242,695
-	-	16,738	-	-	-	16,738
-	-	-	-	-	-	33,619
-	-	-	-	-	-	121
2,860	-	-	-	-	-	54,730
512	104	69	1	14	-	3,336
2,530	243	-	-	-	-	4,039
-	-	-	-	-	-	7,613
253	-	-	-	-	-	9,518
<u>96,330</u>	<u>6,359</u>	<u>16,807</u>	<u>1</u>	<u>14</u>	<u>-</u>	<u>372,409</u>
-	-	-	-	-	-	64,500
67,091	3,709	-	-	-	-	200,259
-	-	11,859	-	-	295	38,564
-	-	-	-	-	-	5,912
113,678	-	-	-	-	-	119,607
-	-	-	-	87,554	-	87,554
-	-	239	-	-	-	239
<u>180,769</u>	<u>3,709</u>	<u>12,098</u>	<u>-</u>	<u>87,554</u>	<u>295</u>	<u>516,635</u>
<u>(84,439)</u>	<u>2,650</u>	<u>4,709</u>	<u>1</u>	<u>(87,540)</u>	<u>(295)</u>	<u>(144,226)</u>
33,000	-	6,098	-	-	-	39,098
(6,000)	-	-	-	-	-	(31,000)
-	-	-	-	-	-	4,100
<u>27,000</u>	<u>-</u>	<u>6,098</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,198</u>
(57,439)	2,650	10,807	1	(87,540)	(295)	(132,028)
<u>118,436</u>	<u>11,519</u>	<u>(10,807)</u>	<u>138</u>	<u>33,483</u>	<u>(5,956)</u>	<u>705,091</u>
<u>\$ 60,997</u>	<u>\$ 14,169</u>	<u>\$ -</u>	<u>\$ 139</u>	<u>\$ (54,057)</u>	<u>\$ (6,251)</u>	<u>\$ 573,063</u>



City of Harmony, Minnesota  
Statement of Net Position  
Nonmajor Proprietary Funds  
December 31, 2022

	Business-type Activities - Enterprise Funds		
	603 Refuse and Recycling	605 Storm Water	Total
<b>Assets</b>			
<b>Current Assets</b>			
Cash and temporary investments	\$ 41,024	\$ 80,938	\$ 121,962
Receivables			
Accounts	10,357	2,676	13,033
Prepaid items	63	662	725
Total Current Assets	<u>51,444</u>	<u>84,276</u>	<u>135,720</u>
<b>Noncurrent Assets</b>			
Capital assets			
Systems and infrastructure	-	796,103	796,103
Equipment and machinery	4,952	139,952	144,904
Less accumulated depreciation	(4,952)	(478,438)	(483,390)
Total Capital Assets (Net of Accumulated Depreciation)	<u>-</u>	<u>457,617</u>	<u>457,617</u>
Total Assets	<u>51,444</u>	<u>541,893</u>	<u>593,337</u>
<b>Deferred Outflows of Resources</b>			
Deferred pension resources	<u>3,284</u>	<u>1,021</u>	<u>4,305</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Due to other governments	618	-	618
Accrued salaries payable	143	9	152
Compensated absences payable	201	244	445
Total Current Liabilities	<u>962</u>	<u>253</u>	<u>1,215</u>
<b>Noncurrent Liabilities</b>			
Net pension liability	10,784	3,353	14,137
Compensated absences payable	58	92	150
Total Noncurrent Liabilities	<u>10,842</u>	<u>3,445</u>	<u>14,287</u>
Total Liabilities	<u>11,804</u>	<u>3,698</u>	<u>15,502</u>
<b>Deferred Inflows of Resources</b>			
Deferred pension resources	<u>372</u>	<u>116</u>	<u>488</u>
<b>Net Position</b>			
Net investment in capital assets	-	457,617	457,617
Unrestricted	<u>42,552</u>	<u>81,483</u>	<u>124,035</u>
Total Net Position	<u>\$ 42,552</u>	<u>\$ 539,100</u>	<u>\$ 581,652</u>

City of Harmony, Minnesota  
Statement of Revenues, Expenses and Changes in Fund Net Position  
Nonmajor Proprietary Funds  
For the Year Ended December 31, 2022

	Business-type Activities - Enterprise Funds		
	<u>603</u>	<u>605</u>	<u>Total</u>
	Refuse and Recycling	Storm Water	Total
Operating Revenues			
Charges for services	\$ 104,808	\$ 33,665	\$ 138,473
Miscellaneous income	47	34	81
Total Operating Revenues	<u>104,855</u>	<u>33,699</u>	<u>138,554</u>
Operating Expenses			
Personal services	16,569	3,549	20,118
Supplies	2,467	-	2,467
Other services and charges	77,803	2,068	79,871
Insurance	-	780	780
Repairs and maintenance	2,321	80	2,401
Depreciation	496	27,255	27,751
Total Operating Expenses	<u>99,656</u>	<u>33,732</u>	<u>133,388</u>
Operating Income (Loss)	5,199	(33)	5,166
Nonoperating Revenues (Expenses)			
Investment earnings	<u>396</u>	<u>671</u>	<u>1,067</u>
Income (Loss) Before Transfers	5,595	638	6,233
Transfers Out	<u>(1,000)</u>	<u>(2,500)</u>	<u>(3,500)</u>
Change in Net Position	4,595	(1,862)	2,733
Net Position, January 1	<u>37,957</u>	<u>540,962</u>	<u>578,919</u>
Net Position, December 31	<u>\$ 42,552</u>	<u>\$ 539,100</u>	<u>\$ 581,652</u>

City of Harmony, Minnesota  
Statement of Cash Flows  
Nonmajor Proprietary Funds  
For the Year Ended December 31, 2022

	Business-type Activities - Enterprise Funds		
	Refuse and Recycling	Storm Water	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 97,173	\$ 32,001	\$ 129,174
Payments to suppliers and vendors	(81,936)	(2,993)	(84,929)
Payments to and on behalf of employees	(15,200)	(4,117)	(19,317)
Other receipts	47	34	81
Net Cash Provided (Used) by Operating Activities	84	24,925	25,009
Cash Flows from Noncapital Financing Activities			
Transfers to other funds	(1,000)	(2,500)	(3,500)
Cash Flows from Investing Activities			
Interest received on cash and temporary investments	396	671	1,067
Net Increase (Decrease) in Cash and Temporary Investments	(520)	23,096	22,576
Cash and Temporary Investments, January 1	41,544	57,842	99,386
Cash and Temporary Investments, December 31	<u>\$ 41,024</u>	<u>\$ 80,938</u>	<u>\$ 121,962</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating income (loss)	\$ 5,199	\$ (33)	\$ 5,166
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	496	27,255	27,751
(Increase) decrease in assets			
Accounts receivable	(7,635)	(1,664)	(9,299)
(Increase) decrease in deferred outflows of resources			
Deferred pension resources	(954)	380	(574)
Prepaid items	37	(65)	(28)
Increase (decrease) in liabilities			
Due to other governments	618	-	618
Accrued salaries payable	(41)	(29)	(70)
Net pension liability	7,378	1,305	8,683
Compensated absences payable	(1,945)	(271)	(2,216)
Increase (decrease) in deferred inflows of resources			
Deferred pension resources	(3,069)	(1,953)	(5,022)
Net Cash Provided (Used) by Operating Activities	<u>\$ 84</u>	<u>\$ 24,925</u>	<u>\$ 25,009</u>

City of Harmony, Minnesota  
 Fire Fund  
 Schedule of Revenues, Expenditures and Changes in Fund Balances -  
 Budget and Actual  
 For the Year Ended December 31, 2022  
 (With Comparative Actual Amounts for Year Ended December 31, 2021)

	2022				2021
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Property taxes	\$ 45,000	\$ 45,000	\$ 45,087	\$ 87	\$ 43,360
Intergovernmental	-	-	924	924	94,000
Charges for services	51,000	51,000	51,527	527	51,544
Investment earnings	-	-	1,036	1,036	395
Miscellaneous					
Contributions and donations	-	-	125	125	25,234
Other	6,500	6,500	2,592	(3,908)	1,834
Total Revenues	<u>102,500</u>	<u>102,500</u>	<u>101,291</u>	<u>(1,209)</u>	<u>216,367</u>
Expenditures					
Current					
Public safety					
Personal services	19,957	19,957	18,364	1,593	20,407
Supplies	12,700	12,700	9,404	3,296	71,959
Other services	21,150	21,150	23,859	(2,709)	10,934
Other charges	10,050	10,050	12,873	(2,823)	8,867
Capital outlay					
Public safety					
Fire	-	-	5,912	(5,912)	25,434
Total Expenditures	<u>63,857</u>	<u>63,857</u>	<u>70,412</u>	<u>(6,555)</u>	<u>137,601</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>38,643</u>	<u>38,643</u>	<u>30,879</u>	<u>(7,764)</u>	<u>78,766</u>
Other Financing Sources (Uses)					
Sale of capital assets	-	-	4,100	4,100	16,502
Transfers out	<u>(35,000)</u>	<u>(35,000)</u>	<u>(25,000)</u>	<u>10,000</u>	<u>(25,000)</u>
Total Other Financing Sources (Uses)	<u>(35,000)</u>	<u>(35,000)</u>	<u>(20,900)</u>	<u>14,100</u>	<u>(8,498)</u>
Net Change in Fund Balances	3,643	3,643	9,979	6,336	70,268
Fund Balances, January 1	<u>57,290</u>	<u>57,290</u>	<u>57,290</u>	-	<u>(12,978)</u>
Fund Balances, December 31	<u>\$ 60,933</u>	<u>\$ 60,933</u>	<u>\$ 67,269</u>	<u>\$ 6,336</u>	<u>\$ 57,290</u>

THIS PAGE IS LEFT  
BLANK INTENTIONALLY

City of Harmony, Minnesota  
Revolving Loan Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balances -  
Budget and Actual  
For the Year Ended December 31, 2022  
(With Comparative Actual Amounts for Year Ended December 31, 2021)

	2022			Variance with Final Budget	2021
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
Revenues					
Investment earnings	\$ -	\$ -	\$ 1,179	\$ 1,179	\$ 472
Miscellaneous					
Loan interest	61,250	61,250	7,613	(53,637)	6,830
Other	-	-	6,673	6,673	7,579
Total Revenues	<u>61,250</u>	<u>61,250</u>	<u>15,465</u>	<u>(45,785)</u>	<u>14,881</u>
Expenditures					
Current					
Economic development					
Other services	1,500	1,500	563	937	284
Other charges	-	-	9,574	(9,574)	-
Loans made	25,000	25,000	-	25,000	-
Total Expenditures	<u>26,500</u>	<u>26,500</u>	<u>10,137</u>	<u>16,363</u>	<u>284</u>
Net Change in Fund Balances	34,750	34,750	5,328	(29,422)	14,597
Fund Balances, January 1	<u>363,282</u>	<u>363,282</u>	<u>363,282</u>	-	<u>348,685</u>
Fund Balances, December 31	<u>\$ 398,032</u>	<u>\$ 398,032</u>	<u>\$ 368,610</u>	<u>\$ (29,422)</u>	<u>\$ 363,282</u>

City of Harmony, Minnesota  
General Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balances -  
Budget and Actual (Continued on the Following Pages)  
For the Year Ended December 31, 2022  
(With Comparative Actual Amounts for Year Ended December 31, 2021)

	2022			2021	
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Taxes					
Property	\$ 282,500	\$ 282,500	\$ 273,340	\$ (9,160)	\$ 287,602
Franchise	4,000	4,000	3,375	(625)	7,075
Lodging	3,500	3,500	3,500	-	3,762
Total Taxes	<u>290,000</u>	<u>290,000</u>	<u>280,215</u>	<u>(9,785)</u>	<u>298,439</u>
Special assessments	-	-	40	40	4,687
Licenses and permits					
Business	5,000	5,000	4,115	(885)	3,365
Nonbusiness	3,500	3,500	2,693	(807)	4,075
Total Licenses and Permits	<u>8,500</u>	<u>8,500</u>	<u>6,808</u>	<u>(1,692)</u>	<u>7,440</u>
Intergovernmental					
State					
Local government aid	356,192	356,192	356,192	-	355,592
Property tax credits and aids	-	-	492	492	184
Fire aid	15,000	15,000	18,801	3,801	17,819
Other state aids	-	-	-	-	27,628
Total Intergovernmental	<u>371,192</u>	<u>371,192</u>	<u>375,485</u>	<u>4,293</u>	<u>401,223</u>
Charges for services					
General government	160	160	41	(119)	59
Streets and highways	4,000	4,000	2,008	(1,992)	3,199
Rents	4,000	4,000	2,315	(1,685)	3,880
Total Charges for Services	<u>8,160</u>	<u>8,160</u>	<u>4,364</u>	<u>(3,796)</u>	<u>7,138</u>
Fines and forfeits	875	875	592	(283)	838
Investment earnings	4,000	4,000	726	(3,274)	1,639
Miscellaneous					
Contributions and donations	5,000	5,000	8,570	3,570	15,750
Refunds and reimbursements	5,000	5,000	21,476	16,476	16,482
Other	250	250	35,339	35,089	10,226
Total Miscellaneous	<u>10,250</u>	<u>10,250</u>	<u>65,385</u>	<u>55,135</u>	<u>42,458</u>
Total Revenues	<u>692,977</u>	<u>692,977</u>	<u>733,615</u>	<u>40,638</u>	<u>763,862</u>

City of Harmony, Minnesota  
General Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balances -  
Budget and Actual (Continued)  
For the Year Ended December 31, 2022  
(With Comparative Actual Amounts for Year Ended December 31, 2021)

	2022				2021
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Expenditures					
Current					
Mayor and Council					
Personal services	\$ 7,471	\$ 7,471	\$ 7,465	\$ 6	\$ 7,458
Materials and supplies	150	150	117	33	563
Other services and charges	1,800	1,800	1,374	426	29
Total Mayor and Council	<u>9,421</u>	<u>9,421</u>	<u>8,956</u>	<u>465</u>	<u>8,050</u>
Finance and administration					
Personal services	83,725	83,725	115,865	(32,140)	124,211
Materials and supplies	7,400	7,400	10,126	(2,726)	5,775
Printing and publication	2,350	2,350	1,901	449	3,824
Training	650	650	231	419	375
Repairs and maintenance	1,000	1,000	830	170	1,359
Professional fees	7,500	7,500	23,745	(16,245)	16,520
Miscellaneous	4,900	4,900	2,095	2,805	9,154
Total Finance and Administration	<u>107,525</u>	<u>107,525</u>	<u>154,793</u>	<u>(47,268)</u>	<u>161,218</u>
Planning and development					
Personal services	250	250	-	250	75
Other services and charges	150	150	16,928	(16,778)	21
Total planning and development	<u>400</u>	<u>400</u>	<u>16,928</u>	<u>(16,528)</u>	<u>96</u>
Elections	<u>1,915</u>	<u>1,915</u>	<u>2,586</u>	<u>(671)</u>	<u>-</u>
Professional services					
Legal	<u>8,500</u>	<u>8,500</u>	<u>8,658</u>	<u>(158)</u>	<u>6,350</u>
Total General Government	<u>127,761</u>	<u>127,761</u>	<u>191,921</u>	<u>(64,160)</u>	<u>175,714</u>
Government Buildings					
Visitor center					
Personal services	11,635	11,635	17,334	(5,699)	10,830
Materials and supplies	2,750	2,750	2,752	(2)	1,870
Insurance	2,625	2,625	2,490	135	2,336
Repairs and maintenance	4,250	4,250	11,251	(7,001)	680
Utilities	6,150	6,150	7,347	(1,197)	6,102
Total Visitor Center	<u>27,410</u>	<u>27,410</u>	<u>41,174</u>	<u>(13,764)</u>	<u>21,818</u>
Community center					
Personal services	38,880	38,880	32,062	6,818	29,557
Materials and supplies	7,200	7,200	5,427	1,773	5,940
Insurance	20,200	20,200	19,690	510	17,597
Repairs and maintenance	18,500	18,500	13,450	5,050	3,920
Utilities	33,150	33,150	31,647	1,503	22,375
Miscellaneous	100	100	-	100	-
Total Community Center	<u>118,030</u>	<u>118,030</u>	<u>102,276</u>	<u>15,754</u>	<u>79,389</u>
Total Government Buildings	<u>145,440</u>	<u>145,440</u>	<u>143,450</u>	<u>1,990</u>	<u>101,207</u>



City of Harmony, Minnesota  
General Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balances -  
Budget and Actual (Continued)  
For the Year Ended December 31, 2022  
(With Comparative Actual Amounts for Year Ended December 31, 2021)

	2022			Variance with Final Budget	2021
	Budgeted Amounts		Actual		Actual
	Original	Final	Amounts		Amounts
Expenditures (Continued)					
Current (continued)					
Public safety					
Police					
Contracted services	\$ 115,750	\$ 115,750	\$ 91,013	\$ 24,737	\$ 84,792
Vehicle expense	2,000	2,000	-	2,000	3,163
Materials and supplies	650	650	-	650	-
Insurance	600	600	-	600	1,258
Repairs and maintenance	400	400	-	400	229
Miscellaneous	775	775	507	268	485
Total Police	<u>120,175</u>	<u>120,175</u>	<u>91,520</u>	<u>28,655</u>	<u>89,927</u>
Fire					
Firemen's relief	24,500	24,500	28,301	(3,801)	27,319
Civil defense					
Personal services	650	650	-	650	646
Repairs and maintenance	750	750	-	750	-
Other charges	2,000	2,000	1,509	491	1,945
Total Civil Defense	<u>3,400</u>	<u>3,400</u>	<u>1,509</u>	<u>1,891</u>	<u>2,591</u>
Animal control					
Personal services	4,230	4,230	2,946	1,284	2,829
Materials and supplies	400	400	310	90	276
Other services	400	400	-	400	-
Total Animal and Pest Control	<u>5,030</u>	<u>5,030</u>	<u>3,256</u>	<u>1,774</u>	<u>3,105</u>
Total Public Safety	<u>153,105</u>	<u>153,105</u>	<u>124,586</u>	<u>28,519</u>	<u>122,942</u>
Streets and Highways					
Personal services	19,945	19,945	6,145	13,800	7,337
Vehicle expenses	2,000	2,000	2,052	(52)	2,854
Materials and supplies	19,600	19,600	13,188	6,412	6,783
Insurance	2,625	2,625	772	1,853	2,472
Repairs and maintenance	35,500	35,500	1,847	33,653	19,360
Snow and ice	43,521	43,521	37,057	6,464	32,418
Building maintenance	29,246	29,246	22,858	6,388	15,917
Total Streets and Highways	<u>152,437</u>	<u>152,437</u>	<u>83,919</u>	<u>68,518</u>	<u>87,141</u>
Culture and recreation					
Community events	6,500	6,500	21,810	(15,310)	14,067
Economic development					
Lodging tax	5,000	5,000	5,156	(156)	3,349
Community development	500	500	15	485	-
Repairs and maintenance	-	-	-	-	50
Total Economic Development	<u>5,500</u>	<u>5,500</u>	<u>5,171</u>	<u>329</u>	<u>3,399</u>
Unallocated					
Miscellaneous	5,000	5,000	6,285	(1,285)	-
Insurance	2,600	2,600	2,435	165	2,414
Total Miscellaneous	<u>7,600</u>	<u>7,600</u>	<u>8,720</u>	<u>(1,120)</u>	<u>2,414</u>
Total Current	<u>598,343</u>	<u>598,343</u>	<u>579,577</u>	<u>18,766</u>	<u>506,884</u>

City of Harmony, Minnesota  
General Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balances -  
Budget and Actual (Continued)  
For the Year Ended December 31, 2022  
(With Comparative Actual Amounts for Year Ended December 31, 2021)

	2022				2021
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Expenditures (Continued)					
Capital outlay					
Finance and administration	\$ 1,500	\$ 1,500	\$ 1,271	\$ 229	\$ 5,528
Economic development	2,500	2,500	5,028	(2,528)	-
Government buildings	-	-	3,388	(3,388)	-
Streets and highways	12,500	12,500	11,800	700	9,000
Total Capital Outlay	<u>16,500</u>	<u>16,500</u>	<u>21,487</u>	<u>(4,987)</u>	<u>14,528</u>
Total Expenditures	<u>614,843</u>	<u>614,843</u>	<u>601,064</u>	<u>13,779</u>	<u>521,412</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>78,134</u>	<u>78,134</u>	<u>132,551</u>	<u>54,417</u>	<u>242,450</u>
Other Financing Sources (Uses)					
Sale of capital assets	-	-	-	-	3,000
Transfers in	10,000	10,000	10,000	-	10,000
Transfers out	<u>(83,500)</u>	<u>(83,500)</u>	<u>(89,598)</u>	<u>(6,098)</u>	<u>(170,280)</u>
Total Other Financing Sources (Uses)	<u>(73,500)</u>	<u>(73,500)</u>	<u>(79,598)</u>	<u>(6,098)</u>	<u>(157,280)</u>
Net Change in Fund Balances	4,634	4,634	52,953	48,319	85,170
Fund Balances, January 1	<u>802,228</u>	<u>802,228</u>	<u>802,228</u>	<u>-</u>	<u>717,058</u>
Fund Balances, December 31	<u>\$ 806,862</u>	<u>\$ 806,862</u>	<u>\$ 855,181</u>	<u>\$ 48,319</u>	<u>\$ 802,228</u>

City of Harmony, Minnesota

Debt Service Funds

Combining Balance Sheet

December 31, 2022

	<b>315</b>	<b>317</b>	<b>318</b>	<b>319</b>	<b>321</b>	
	2013A G.O.	2014A G.O.	2017A G.O.	2020A G.O.	2021A/B	
	Tax Abatement	Improvement	Improvement	Improvement	Mi Energy	Total
	Bonds	Bonds	Bonds	Bonds	Loans	
<b>Assets</b>						
Cash and temporary investments	\$ 37,018	\$ -	\$ 211,010	\$ 406,170	\$ -	\$ 654,198
Receivables						
Delinquent taxes	425	0	1,680	1,330	-	3,435
Special assessments	-	-	96,911	224,787	-	321,698
Intergovernmental	35	-	138	156	-	329
	<u>37,478</u>	<u>-</u>	<u>309,739</u>	<u>632,443</u>	<u>-</u>	<u>979,660</u>
<b>Total Assets</b>	<b>\$ 37,478</b>	<b>\$ -</b>	<b>\$ 309,739</b>	<b>\$ 632,443</b>	<b>\$ -</b>	<b>\$ 979,660</b>
<b>Liabilities</b>						
Advances from other funds	\$ -	\$ -	\$ -	\$ -	\$ 15,743	\$ 15,743
<b>Deferred Inflows of Resources</b>						
Unavailable revenue						
Property taxes	425	-	1,680	1,330	-	3,435
Special assessments	-	-	96,911	224,787	-	321,698
<b>Total Deferred Inflows of Resources</b>	<b>425</b>	<b>-</b>	<b>98,591</b>	<b>226,117</b>	<b>-</b>	<b>325,133</b>
<b>Fund Balances</b>						
Restricted						
Debt service	37,053	-	211,148	406,326	-	654,527
Unassigned	-	-	-	-	(15,743)	(15,743)
<b>Total Fund Balances</b>	<b>37,053</b>	<b>-</b>	<b>211,148</b>	<b>406,326</b>	<b>(15,743)</b>	<b>638,784</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 37,478</b>	<b>\$ -</b>	<b>\$ 309,739</b>	<b>\$ 632,443</b>	<b>\$ -</b>	<b>\$ 979,660</b>

City of Harmony, Minnesota  
Debt Service Funds  
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
For the Year Ended December 31, 2022

	<b>315</b> 2013A G.O. Tax Abatement Bonds	<b>317</b> 2014A G.O. Improvement Bonds	<b>318</b> 2017A G.O. Improvement Bonds	<b>319</b> 2020A G.O. Improvement Bonds	<b>321</b> 2021A/B Mi Energy Loans	Total
<b>Revenues</b>						
Property taxes	\$ 17,754	\$ 176	\$ 79,634	\$ 70,404	\$ -	\$ 167,968
Special assessments	-	12,106	28,268	42,917	-	83,291
Investment earnings	303	295	1,211	3,040	-	4,849
Total Revenues	<u>18,057</u>	<u>12,577</u>	<u>109,113</u>	<u>116,361</u>	<u>-</u>	<u>256,108</u>
<b>Expenditures</b>						
Debt service						
Principal	16,000	26,000	85,000	183,200	8,408	318,608
Interest and other costs	1,056	293	8,480	37,215	7,335	54,379
Total Expenditures	<u>17,056</u>	<u>26,293</u>	<u>93,480</u>	<u>220,415</u>	<u>15,743</u>	<u>372,987</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,001</u>	<u>(13,716)</u>	<u>15,633</u>	<u>(104,054)</u>	<u>(15,743)</u>	<u>(116,879)</u>
<b>Other Financing Sources (Uses)</b>						
Transfers in	-	-	-	103,000	-	103,000
Transfers out	-	(37,559)	-	-	-	(37,559)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(37,559)</u>	<u>-</u>	<u>103,000</u>	<u>-</u>	<u>65,441</u>
Net Change in Fund Balances	1,001	(51,275)	15,633	(1,054)	(15,743)	(51,438)
Fund Balances, January 1	<u>36,052</u>	<u>51,275</u>	<u>195,515</u>	<u>407,380</u>	<u>-</u>	<u>690,222</u>
Fund Balances, December 31	<u>\$ 37,053</u>	<u>\$ -</u>	<u>\$ 211,148</u>	<u>\$ 406,326</u>	<u>\$ (15,743)</u>	<u>\$ 638,784</u>

City of Harmony, Minnesota  
 Summary Financial Report  
 Revenues and Expenditures for General Operations -  
 Governmental Funds  
 For the Years Ended December 31, 2022 and 2021

	Total 2022	Total 2021	Percent Increase (Decrease)
<b>Revenues</b>			
Taxes	\$ 820,329	\$ 819,900	0.05 %
Special assessments	83,618	107,363	(22.12)
Licenses and permits	6,808	7,440	(8.49)
Intergovernmental	507,610	811,076	(37.42)
Charges for services	327,672	232,268	41.07
Fines and forfeits	713	1,080	(33.98)
Investment earnings	16,714	7,979	109.47
Miscellaneous	144,192	213,240	(32.38)
	<u>\$ 1,907,656</u>	<u>\$ 2,200,346</u>	(13.30) %
<b>Total Revenues</b>			
Per Capita	\$ 1,831	\$ 2,110	(13.22) %
<b>Expenditures</b>			
<b>Current</b>			
General government	\$ 335,371	\$ 276,921	21.11 %
Public safety	399,158	418,094	(4.53)
Streets and highways	83,919	137,823	(39.11)
Culture and recreation	222,069	189,379	17.26
Economic development	157,727	121,588	29.72
Miscellaneous	8,720	2,414	261.23
<b>Capital outlay</b>			
General government	152,506	43,443	251.05
Public safety	7,900	461,700	(98.29)
Streets and highways	147,116	194,082	(24.20)
Culture and recreation	201,058	12,673	1,486.51
Economic development	92,582	526,766	(82.42)
<b>Debt service</b>			
Principal	318,608	874,000	(63.55)
Interest and other charges	54,618	68,063	(19.75)
	<u>\$ 2,181,352</u>	<u>\$ 3,326,946</u>	(34.43) %
<b>Total Expenditures</b>			
Per Capita	\$ 2,093	\$ 3,190	(34.37) %
<b>Total Long-term Indebtedness</b>	\$ 2,391,800	\$ 2,686,000	(10.95) %
Per Capita	2,295	2,575	(10.87)
<b>General Fund Balance - December 31</b>	\$ 855,181	\$ 802,228	6.60 %
Per Capita	821	769	6.70

The purpose of this report is to provide a summary of financial information concerning the City of Harmony to interested citizens. The complete financial statements may be examined at City Hall, 225 3rd Ave SW, Harmony, Minnesota. Questions about this report should be directed to the City Clerk at (507) 886-8122.

OTHER REQUIRED REPORTS

CITY OF HARMONY  
HARMONY, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2022

THIS PAGE IS LEFT  
BLANK INTENTIONALLY

**INDEPENDENT AUDITOR’S REPORT ON  
MINNESOTA LEGAL COMPLIANCE**

Honorable Mayor and City Council  
City of Harmony, Minnesota, Minnesota

We have audited, in accordance with auditing standard generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Harmony, Minnesota, Minnesota (the City) as of and for the year ended December 31, 2022, and the notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated May 10, 2023.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Harmony failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the Minnesota Legal Compliance Audit Guide for Cities, promulgated by the State Auditor pursuant to Minn. Stat. § 665, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City’s noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.



**Abdo**  
Mankato, Minnesota  
May 10, 2023



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and City Council  
City of Harmony, Minnesota, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Harmony, Minnesota, Minnesota (the City), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report there on dated May 10, 2023.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as items 2022-001 and 2022-002 that we consider to be a significant deficiencies.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses item 2022-003 to be a material weakness.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards* or Minnesota statutes.

## The City's Response to Findings

The City's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**Abdo**  
Mankato, Minnesota  
May 10, 2023



City of Harmony, Minnesota  
Schedule of Findings and Responses  
For the Year Ended December 31, 2022

<u>Finding</u>	<u>Description</u>
<b>2022-001</b>	<b>Segregation of Duties</b>
<i>Condition:</i>	During our audit we reviewed internal control procedures over payroll, disbursements, cash receipts, utility billing and investments and found the City to have limited segregation of duties in these areas as noted below.
<i>Criteria:</i>	There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.
<i>Effect:</i>	The existence of this limited segregation of duties increases the risk of fraud and misstatement.

**Internal Control Over Payroll**

<i>Cause:</i>	The Finance Clerk sets up employee records, posts activity to the general ledger, prepares payroll tax returns, maintains the payroll records and reconciles the bank statements while the City Administrator handles deductions and benefit remittances.
<i>Recommendation:</i>	While we recognize the number of staff is not large enough to eliminate this deficiency it is important that the Council is aware of this condition and monitor all financial information. We recommend that in addition to approving payroll disbursements and wage rates, the Council review amounts earned and accrued for compensated absences on an annual basis to compensate for control deficiencies with respect to payroll accruals. Also bank reconciliations should be reviewed by clerk with emphasis on reviewing approved ACH payments and confirm proper payment amount.

*Management Response:*

The Council, including the Mayor, will continue to review certain payroll reports including the ACH payments along with compensated absences reports and the Finance Clerk will compare approved payments to the bank reconciliation upon review. It is important that these procedures are documented that these procedures are completed.

*Updated Progress from Prior Year:*

No progress has been made in addressing this finding in the current year.

**Internal Control Over Cash Disbursements**

<i>Cause:</i>	The Deputy Clerk has control over the check stock as well as access to entering transactions into the accounting system.
<i>Recommendation:</i>	While we recognize staff is not large enough to eliminate this deficiency, we recommend that an individual separate from the Administrator review cancelled checks received with bank statement and investigate items such as: voided checks, inconsistencies in check sequence, possible alterations, and unusual payees. It is important that the Council is aware of this condition and monitor all financial information.

*Management Response:*

The Finance Clerk will review the cancelled checks that are received with the bank statements and look for any inconsistencies in check numbers along with mailing disbursements.

City of Harmony, Minnesota  
Schedule of Findings and Responses (Continued)  
For the Year Ended December 31, 2022

<u>Finding</u>	<u>Description</u>
<b>2022-001</b>	<b>Segregation of Duties (Continued)</b>

**Internal Control Over Cash Receipts**

*Cause:* The Deputy Clerk sets up and maintains customers, generates billing statements, maintains receipts journal, prepares deposits and delivers to the bank.

*Recommendation:* We recommend that an individual separate from the Deputy Clerk, such as the Finance Clerk, review cash receipt reports and agree to the bank reconciliation. The City could also look at a point of sale software to assist with documenting receipts. It is important that the Council is aware of this condition and monitor all financial information.

*Management Response:*

The Council has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes review of deposits, regular review of financial statements, regular review of bank reconciliations and budget comparisons.

*Updated Progress from Prior Year:*

No progress has been made in addressing this finding in the current year.

**Internal Control Over Utility Billing**

*Cause:* The Deputy Clerk approves new accounts, sets up customers and rates in the billing systems, generates statements, enters readings, prepares the deposit and makes adjustments to accounts.

*Recommendation:* We recommend that an individual separate from the Deputy Clerk, such as the Finance Clerk, review utility billing reports and agree to the bank reconciliation. The utility billing adjustment reports should also be reviewed and documented any adjustments made to the utility billing system. It is important that the Council is aware of this condition and monitor all financial information.

*Management Response:*

The Administrator will review procedures for future audits.

*Updated Progress from Prior Year:*

No progress has been made in addressing this finding in the current year.

City of Harmony, Minnesota  
Schedule of Findings and Responses (Continued)  
For the Year Ended December 31, 2022

<u>Finding</u>	<u>Description</u>
<b>2022-002</b>	<b>Financial Report Preparation</b>
<i>Condition:</i>	As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Recent auditing standards require auditors to communicate this situation to the City Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. It is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.
<i>Criteria:</i>	Internal controls should be in place to ensure adequate internal control over safeguarding of assets and the reliability of financial records and reporting.
<i>Cause:</i>	From a practical standpoint, we prepare the statements and determine the fairness of the presentation at the same time in connection with our audit. This is not unusual for us to do with organizations of your size.
<i>Effect:</i>	The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for accuracy; we have answered any questions that management might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosures in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.
<i>Recommendation:</i>	Under these circumstances, the most effective controls lie in management's knowledge of the City's financial operations. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost and other considerations. Regarding the specific situation listed above, we would offer the following specific recommendation: 1) Utilize a disclosure checklist to ensure all required disclosures are present and agree to work papers, and 2) Agree your Banyon receipt and disbursement information to the amount reported in the financial statements plus or minus any applicable accruals.

*Management Response:*

The City is aware of the control deficiency, which is an unavoidable consequence of the financial restrictions of small cities. Each year the City has a presentation from our auditor to the Council after the audit is performed. Management recognizes that it is not economically feasible to fully correct this finding; it is aware of the deficiency and is relying on oversight by management and the Council to monitor the deficiency. The Administrator may attend future classes dealing with governmental financial/accounting practices.

City of Harmony, Minnesota  
Schedule of Findings and Responses (Continued)  
For the Year Ended December 31, 2022

<u>Finding</u>	<u>Description</u>
<b>2022-003</b>	<b>Material Audit Adjustments</b>
<i>Condition:</i>	During our audit, adjustments were needed to record various material transactions and to properly state amounts for the current year.
<i>Criteria:</i>	Such adjustments should be detected and made by the City's personnel.
<i>Cause:</i>	City staff has not prepared a year-end trial balance reflecting all necessary accruals and year-end adjustments without auditor assistance.
<i>Effect:</i>	It is likely that if a misstatement were to occur, it would not be detected by the City's system of internal control.
<i>Recommendation:</i>	We recommend management review the related journal entries, obtain an understanding of why the entries were necessary and modify current procedure to ensure that future corrections are not needed.

*Management Response:*

The City will review all adjusting entries posted this year and make all such necessary adjustments in the future. The Finance Clerk will continue to monitor all financial activity and adjust account balances as needed throughout the year and at year end to prevent material misstatements from occurring.