

Annual Financial Report

City of Harmony
Harmony, Minnesota

For the Year Ended
December 31, 2020

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City of Harmony, Minnesota
Annual Financial Report
Table of Contents
For the Year Ended December 31, 2020

	Page No.
Introductory Section	
Elected and Appointed Officials	9
Financial Section	
Independent Auditor's Report	13
Management's Discussion and Analysis	17
Basic Financial Statements	
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	
Statements of Net Position	46
Statements of Revenues, Expenses and Changes in Fund Net Position	47
Statements 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
Required Supplementary Information	
Schedule of Employer's Share of Public Employees Retirement Association Net Pension Liability - General Employees Retirement Fund	78
Schedule of Employer's Public Employees Retirement Association Contributions - General Employees Retirement Fund	78
Notes to the Required Supplementary Information – General Employees Retirement Fund	79
Combining and Individual Fund Financial Statements and Schedules	
Nonmajor Governmental Funds	
Combining Balance Sheet	82
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	84
Nonmajor Proprietary Funds	
Statement of Net Position	86
Statement of Revenues, Expenses, and Changes in Net Position	87
Statement of Cash Flows	88
Schedule of Revenues, Expenditures and Changes in Fund Balances- Budget Actual	
Ambulance Fund	89
Economic Development Authority Fund ⁸⁵	90
Fire Fund	91
Revolving Loan Fund	92
General Fund	
Comparative Balance Sheets	93
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	94
Debt Service Funds	
Combining Balance Sheet	98
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	99
Summary Financial Report	
Revenues and Expenditures for General Operations	100

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City of Harmony, Minnesota
Annual Financial Report
Table of Contents (Continued)
For the Year Ended December 31, 2020

Other Required Reports

Independent Auditor's Report on Minnesota Legal Compliance	103
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>	104
Schedule of Findings and Responses	106

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INTRODUCTORY SECTION

CITY OF HARMONY
HARMONY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2020

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City of Harmony, Minnesota
Elected and Appointed Officials
For the Year Ended December 31, 2020

ELECTED

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steve Donney	Mayor	12/31/20
Lynn Mensink	Council	12/31/20
Steve Sagen	Council	12/31/22
Tony Webber	Council	12/31/22
Debbie Swenson	Council	12/31/20

APPOINTED

Jerome Illg	Administrator	02/14/20
Joel Dhein	Interim Administrator	04/01/20
Devin Swanberg	Administrator	
Eileen Schansberg	Deputy Clerk	

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FINANCIAL SECTION
CITY OF HARMONY
HARMONY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2020

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

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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, 2020, 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, 2020, 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.

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 78 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.

Other Information

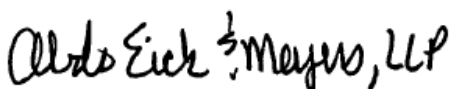
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City’s basic financial statements. The introductory section, combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 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.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2021, 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, EICK & MEYERS, LLP
Mankato, Minnesota
April 6, 2021

People
+ Process.
Going
Beyond the
Numbers

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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, 2020.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$12,019,229 (net position). Of this amount \$3,668,194 (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 \$3,231,998, an increase of \$735,901 in comparison with the prior year. Approximately 20.2 percent of the total amount, \$652,305, 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 (\$30,582) 2) restricted (\$780,868), 3) committed (\$1,180,036), or 4) assigned (\$588,207).
- At the end of the current fiscal year, unassigned fund balance for the General fund was \$696,638, or 119.0 percent of total General fund expenditures.
- The City's total debt increased by \$1,870,500, or 92.3 percent during the current fiscal year. This was attributable to the issuance of the 2020A G.O. Improvement Bond in the amount of \$2,098,000 and the retirement of debt through principal payments. Debt retirements during the year totaled \$227,500.

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

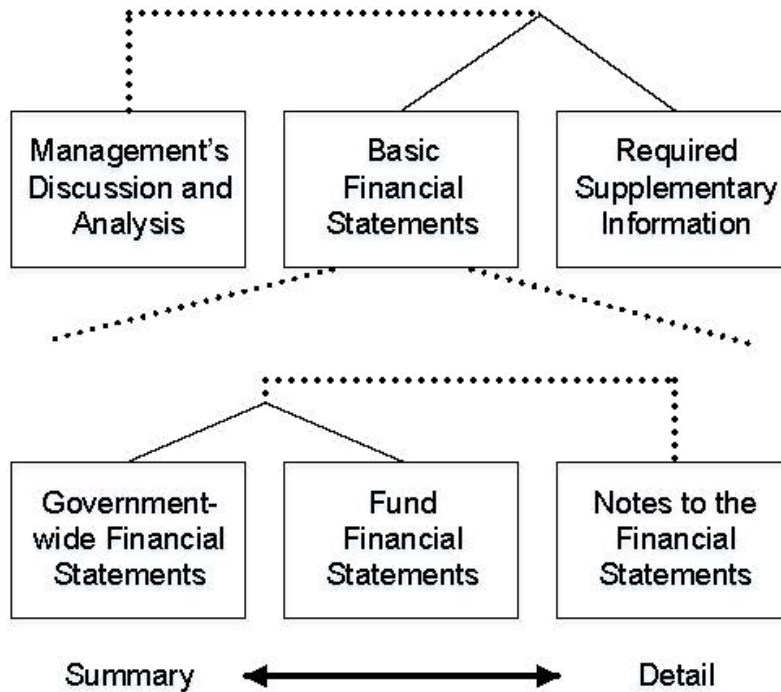


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the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

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

	Fund Financial Statements		
	Government-wide Statements	Governmental Funds	Proprietary Funds
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"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Revenues, Expenses and Changes in Fund Net Position • Statement of Cash Flows
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 22 individual governmental funds, six 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 Capital Projects fund, the Economic Development Authority, the 2020 Street and Utility Project, 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 78 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 \$12,019,229 at the close of the most recent fiscal year.

A large portion of the City's net position (62.3 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		
	2020	2019	Increase (Decrease)	2020	2019	Increase (Decrease)
Current and Other Assets	\$ 4,171,041	\$ 3,133,553	\$ 1,037,488	\$ 1,480,187	\$ 1,199,883	\$ 280,304
Capital Assets	5,029,734	4,062,976	966,758	5,918,696	5,582,953	335,743
Total Assets	<u>9,200,775</u>	<u>7,196,529</u>	<u>2,004,246</u>	<u>7,398,883</u>	<u>6,782,836</u>	<u>616,047</u>
Deferred Outflows of Resources	<u>23,315</u>	<u>29,829</u>	<u>(6,514)</u>	<u>6,663</u>	<u>10,239</u>	<u>(3,576)</u>
Long-term Liabilities Outstanding	3,206,053	1,361,896	1,844,157	1,023,391	1,033,775	(10,384)
Other Liabilities	172,620	152,441	20,179	169,779	118,833	50,946
Total Liabilities	<u>3,378,673</u>	<u>1,514,337</u>	<u>1,864,336</u>	<u>1,193,170</u>	<u>1,152,608</u>	<u>40,562</u>
Deferred Inflows of Resources	<u>29,991</u>	<u>44,443</u>	<u>(14,452)</u>	<u>8,573</u>	<u>15,257</u>	<u>(6,684)</u>
Net Investment in Capital Assets	2,513,052	3,191,476	(678,424)	4,968,696	4,645,953	322,743
Restricted	869,287	406,826	462,461	-	-	-
Unrestricted	<u>2,433,087</u>	<u>2,069,276</u>	<u>363,811</u>	<u>1,235,107</u>	<u>979,257</u>	<u>255,850</u>
Total Net Position	<u>\$ 5,815,426</u>	<u>\$ 5,667,578</u>	<u>\$ 147,848</u>	<u>\$ 6,203,803</u>	<u>\$ 5,625,210</u>	<u>\$ 578,593</u>

An additional portion of the City's net assets (7.2 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (30.5 percent) may be used to meet the City's ongoing obligations to citizens and creditors.

The City's net position increased by \$726,441 during the current fiscal year. The majority of this increase is attributable to capital grants and contributions for the governmental and business-type activities related to programs and activities including, but not limited to, special assessments and capital grants.

Governmental activities. Governmental activities increased the City's net position by \$147,848. Key elements of this increase are as follows:

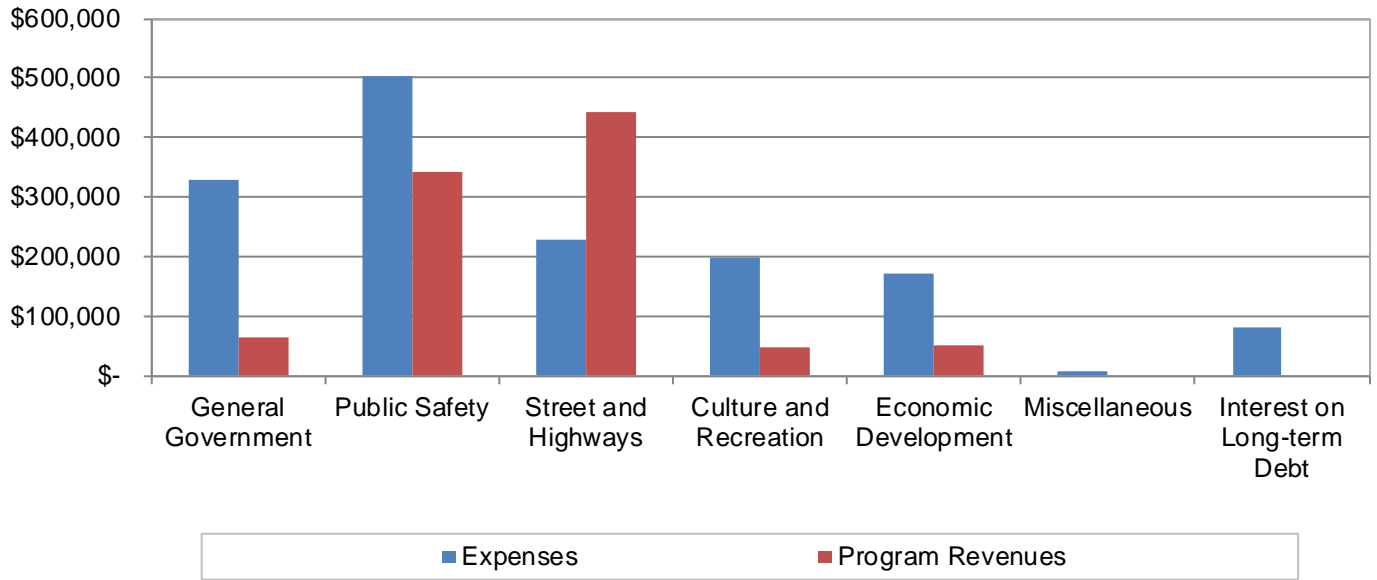
City of Harmony, Minnesota's Changes in Net Position

	Governmental Activities			Business-type Activities		
	2020	2019	Increase (Decrease)	2020	2019	Increase (Decrease)
Revenues						
Program Revenues						
Charges for services	\$ 315,842	\$ 337,737	\$ (21,895)	\$ 1,668,741	\$ 1,701,466	\$ (32,725)
Operating grants and contributions	149,329	269,507	(120,178)	26,972	13,233	13,739
Capital grants and contributions	482,240	194,213	288,027	153,398	33,946	119,452
General revenues						
Property taxes/tax increments	762,131	709,429	52,702	-	-	-
Other taxes	-	4,276	(4,276)	-	-	-
Grants and contributions not restricted to specific programs	352,491	347,575	4,916	-	-	-
Unrestricted investment earnings	17,829	32,485	(14,656)	5,934	14,772	(8,838)
Gain on sale of fixed assets	-	20,000	(20,000)	-	-	-
Other	1,367	-	1,367	-	-	-
Total Revenues	2,081,229	1,915,222	166,007	1,855,045	1,763,417	91,628
Expenses						
General government	329,283	280,771	48,512	-	-	-
Public safety	501,988	507,000	(5,012)	-	-	-
Streets and highways	228,925	289,989	(61,064)	-	-	-
Culture and recreation	199,502	217,610	(18,108)	-	-	-
Economic development	170,776	336,407	(165,631)	-	-	-
Miscellaneous	7,733	8,117	(384)	-	-	-
Interest on long-term debt	80,677	36,182	44,495	-	-	-
Water utility	-	-	-	228,452	187,695	40,757
Sewer utility	-	-	-	432,637	365,367	67,270
Electric utility	-	-	-	933,856	962,500	(28,644)
Refuse and recycling	-	-	-	56,979	67,492	(10,513)
Storm water	-	-	-	39,025	46,801	(7,776)
Total Expenses	1,518,884	1,676,076	(157,192)	1,690,949	1,629,855	61,094
Increase (Decrease) in Net						
Assets before Transfers	562,345	239,146	323,199	164,096	133,562	30,534
Transfers of Capital Assets	(447,997)	-	(447,997)	447,997	-	447,997
Transfers	33,500	(90,500)	124,000	(33,500)	90,500	(124,000)
Change in Net Position	147,848	148,646	(798)	578,593	224,062	354,531
Net Position - January 1	5,667,578	5,737,949	(70,371)	5,625,210	5,479,924	145,286
Change in Accounting Principle	-	(219,017)	219,017	-	(78,776)	78,776
Net Position - December 31	\$ 5,815,426	\$ 5,667,578	\$ 147,848	\$ 6,203,803	\$ 5,625,210	\$ 578,593

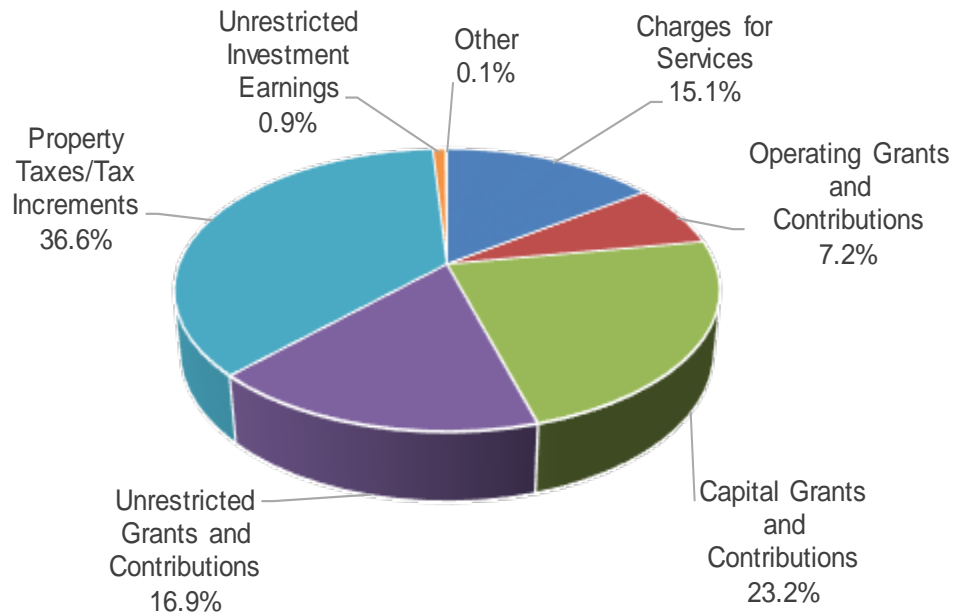
Property tax levies increased 6.5 percent during the year.

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

Expenses and Program Revenues - Governmental Activities

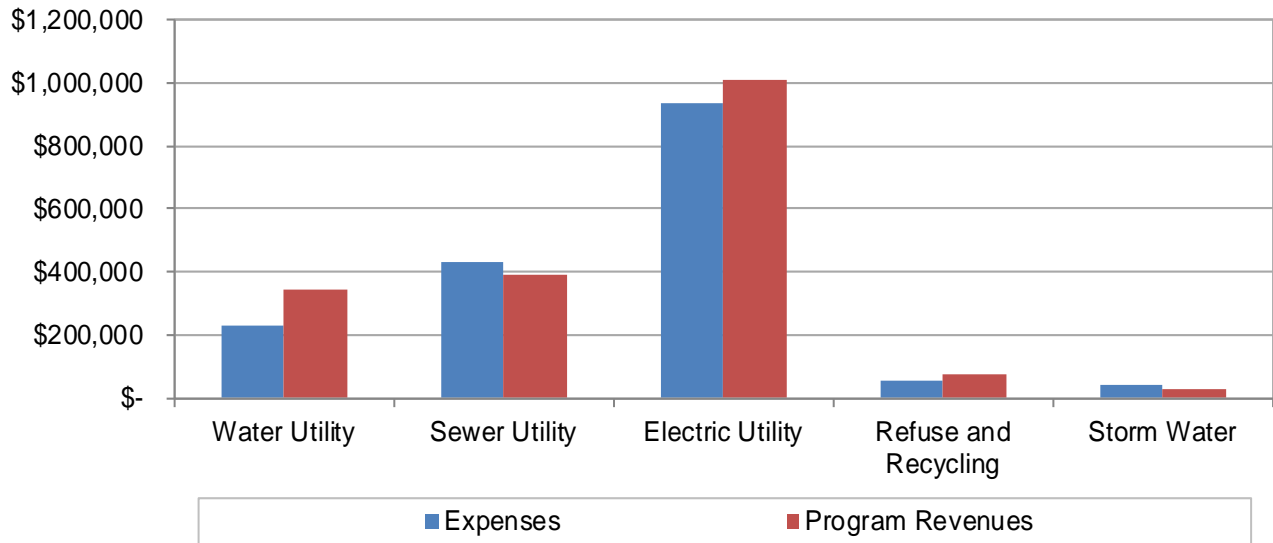


Revenues by Source - Governmental Activities

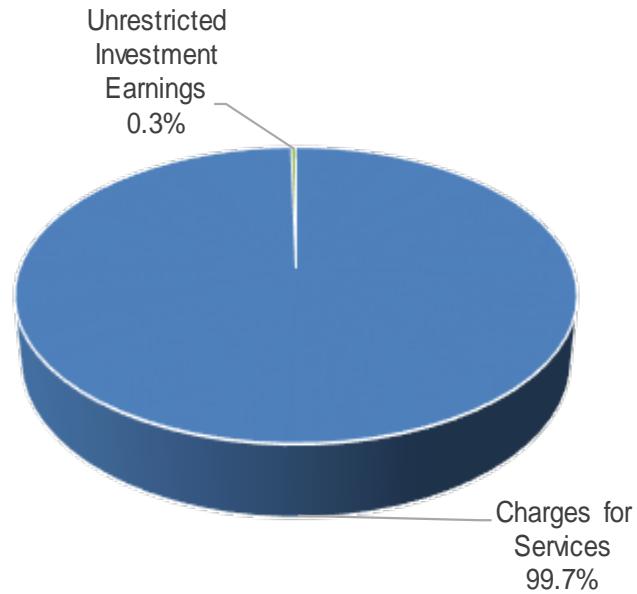


Business-type activities. Business-type activities increased the City's net position by \$578,593.

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 \$3,231,998, an increase of \$735,901 in comparison with the prior year. Approximately 20.2 percent of the total amount, \$652,305, 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 (\$30,582) 2) restricted (\$780,868), 3) committed (\$1,180,036), or 4) assigned (\$588,207).

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 \$717,058, \$696,638 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 122.5 percent of fund expenditures.

The fund balance of the City's General fund increased by \$65,384 during the current fiscal year. The key factor in this decrease was mainly related to additional wages in the finance and administration department with the addition of an accounting clerk position.

The Ambulance fund has a total fund balance of \$174,793 of which \$2,204 is nonspendable and the remainder assigned for ambulance services. The net increase in fund balance during the current year in this fund was \$14,350. This was mostly due to expenditures being under budget by \$33,435.

The Debt Service fund has a total fund balance of \$415,098. The net increase in fund balance during the current year was \$158,405 mainly due to taxes and assessments exceeding retirement of debt across all debt service funds.

The Capital Projects fund has a total fund balance of \$995,466, all of which is committed for future capital outlay. The net increase in fund balance during the current year in this fund was \$135,845 due to donations and transfers to the funds.

The Economic Development Authority fund has a total fund balance of \$127,359. The net increase in fund balance during the current year in this fund was \$35,224 due to revenue being over budget by \$42,000.

The 2020 Street and Utility Project fund has a total fund balance of \$854,270. The net increase in fund balance during the current year in this fund was \$854,720 due to the issuance of the 2020A G.O. Improvement Bond offset by capital outlay expenses.

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 \$1,235,107. The total growth in net position for the funds was \$578,593. 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 \$61,332 while expenditures were over budget by \$2,158 in 2020. The General fund budgeted for an increase in reserves by \$1,894.

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, 2020, amounts to \$10,948,430 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges. The total increase in the City's investment in capital assets for the current fiscal year was 13.5 percent (a 23.8 percent increase for governmental activities and a 6.0 percent increase for business-type activities).

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

- The purchase of a fire hall statue in the amount of \$70,000.
- The completion of a playground at Library park for a total amount of \$50,000
- The purchase of a sound system in the amount of \$11,429.
- The purchase of a SCADA System in the amount of \$29,742.
- Costs associated with the 2020 Street and utility Improvement Project in the amount of \$1,547,065.

Additional information on the City's capital assets can be found in Note 3C starting on pages 62 of this report.

City of Harmony, Minnesota's Capital Assets (net of depreciation)

	Governmental Activities			Business-type Activities		
	2020	2019	Increase (Decrease)	2020	2019	Increase (Decrease)
Land	\$ 424,743	\$ 424,743	\$ -	\$ 36,415	\$ 36,415	\$ -
Construction in Progress	1,275,263	93,227	1,182,036	545,998	36,088	509,910
Buildings and Improvements	521,299	554,686	(33,387)	997,716	1,076,094	(78,378)
Systems and Infrastructure	1,658,638	1,782,392	(123,754)	2,976,431	3,099,487	(123,056)
Equipment and Machinery	566,021	519,169	46,852	1,362,136	1,334,869	27,267
Vehicles	583,770	688,759	(104,989)	-	-	-
Total	\$ 5,029,734	\$ 4,062,976	\$ 966,758	\$ 5,918,696	\$ 5,582,953	\$ 335,743

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$3,898,000, 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		
	2020	2019	Increase (Decrease)	2020	2019	Increase (Decrease)
G.O. Improvement Bonds	\$ 2,770,000	\$ 871,500	\$ 1,898,500	\$ -	\$ -	\$ -
G.O. Tax Abatement Bonds	178,000	219,000	(41,000)	-	-	-
G.O. Revenue Bonds	-	-	-	950,000	937,000	13,000
Total	<u>\$ 2,948,000</u>	<u>\$ 1,090,500</u>	<u>\$ 1,857,500</u>	<u>\$ 950,000</u>	<u>\$ 937,000</u>	<u>\$ 13,000</u>

The City's total debt increased by \$1,870,500, or 92.3 percent during the current fiscal year. This was attributable to the issuance of bonds in the amount of \$2,098,000 and debt retirements during the year totaling \$227,500.

Minnesota statutes limit the amount of net general obligation debt a City may issue to 3 percent of the market value of taxable property within the City. The current debt limitation for the City is \$1,579,153. The City currently has no general obligation debt subject to this limit.

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 3.8 percent a year ago. This compares favorably to the State's average unemployment rate of 4.4 percent and to the national average rate of 6.7 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 2021 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.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF HARMONY
HARMONY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2020

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City of Harmony, Minnesota
Statement of Net Position
December 31, 2020

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and temporary investments	\$ 2,988,495	\$ 1,162,192	\$ 4,150,687
Receivables			
Interest	2,753	-	2,753
Delinquent taxes	27,549	-	27,549
Accounts, net of allowances	123,132	126,091	249,223
Special assessments	749,705	96,243	845,948
Loans	273,548	-	273,548
Intergovernmental	27,139	-	27,139
Internal balances	(51,862)	51,862	-
Inventories	-	27,686	27,686
Prepaid items	30,582	16,113	46,695
Capital assets			
Nondepreciable land and construction in progress	1,700,006	582,413	2,282,419
Depreciable assets (net of accumulated depreciation)	3,329,728	5,336,283	8,666,011
Total Assets	<u>9,200,775</u>	<u>7,398,883</u>	<u>16,599,658</u>
Deferred Outflows of Resources			
Deferred pension resources	<u>23,315</u>	<u>6,663</u>	<u>29,978</u>
Liabilities and Net Position			
Liabilities			
Accounts payable	98,107	140,969	239,076
Deposits payable	-	13,814	13,814
Due to other governments	31,974	7,735	39,709
Accrued interest payable	38,105	4,892	42,997
Accrued salaries payable	4,434	2,369	6,803
Noncurrent liabilities			
Due within one year			
Long-term liabilities	164,783	89,708	254,491
Due in more than one year			
Long-term liabilities	2,826,783	872,379	3,699,162
Net pension liability	214,487	61,304	275,791
Total Liabilities	<u>3,378,673</u>	<u>1,193,170</u>	<u>4,571,843</u>
Deferred Inflows of Resources			
Deferred pension resources	<u>29,991</u>	<u>8,573</u>	<u>38,564</u>
Net Position			
Net investment in capital assets	2,513,052	4,968,696	7,481,748
Restricted			
Economic development	111,084	-	111,084
Capital projects	1,368	-	1,368
Debt service	756,835	-	756,835
Unrestricted	<u>2,433,087</u>	<u>1,235,107</u>	<u>3,668,194</u>
Total Net Position	<u>\$ 5,815,426</u>	<u>\$ 6,203,803</u>	<u>\$ 12,019,229</u>

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, 2020

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General government	\$ 329,283	\$ 28,136	\$ 34,822	\$ 962
Public safety	501,988	236,738	59,874	46,345
Streets and highways	228,925	8,776	-	433,593
Culture and recreation	199,502	11,147	36,476	-
Economic development	170,776	31,045	18,157	1,340
Miscellaneous	7,733	-	-	-
Interest and other costs	80,677	-	-	-
Total Governmental Activities	<u>1,518,884</u>	<u>315,842</u>	<u>149,329</u>	<u>482,240</u>
Business-type Activities				
Water utility	228,452	245,842	-	97,268
Sewer utility	432,637	332,717	-	55,739
Electric utility	933,856	983,128	26,972	391
Refuse and recycling	56,979	77,053	-	-
Storm water	39,025	30,001	-	-
Total Business-type Activities	<u>1,690,949</u>	<u>1,668,741</u>	<u>26,972</u>	<u>153,398</u>
Total	<u><u>\$ 3,209,833</u></u>	<u><u>\$ 1,984,583</u></u>	<u><u>\$ 176,301</u></u>	<u><u>\$ 635,638</u></u>

General Revenues

- Property taxes, levied for general purposes
- Property taxes, levied for specific purposes
- Property taxes, levied for debt service
- Tax increments
- Grants and contributions not restricted to specific programs
- Unrestricted investment earnings
- Other revenues
- Contribution of capital assets
- Transfers
- Total General Revenues and Transfers

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
\$ (265,363)		\$ (265,363)
(159,031)		(159,031)
213,444		213,444
(151,879)		(151,879)
(120,234)		(120,234)
(7,733)		(7,733)
(80,677)		(80,677)
<u>(571,473)</u>		<u>(571,473)</u>
	\$ 114,658	114,658
	(44,181)	(44,181)
	76,635	76,635
	20,074	20,074
	<u>(9,024)</u>	<u>(9,024)</u>
	<u>158,162</u>	<u>158,162</u>
<u>(571,473)</u>	<u>158,162</u>	<u>(413,311)</u>
267,379	-	267,379
312,530	-	312,530
171,861	-	171,861
10,361	-	10,361
352,491	-	352,491
17,829	5,934	23,763
1,367	-	1,367
(447,997)	447,997	-
33,500	(33,500)	-
<u>719,321</u>	<u>420,431</u>	<u>1,139,752</u>
147,848	578,593	726,441
<u>5,667,578</u>	<u>5,625,210</u>	<u>11,292,788</u>
<u>\$ 5,815,426</u>	<u>\$ 6,203,803</u>	<u>\$ 12,019,229</u>

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

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FUND FINANCIAL STATEMENTS

CITY OF HARMONY
HARMONY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2020

City of Harmony, Minnesota
Balance Sheet
Governmental Funds
December 31, 2020

	101	223	620	300's
	General	Ambulance	Economic Development Authority	Debt Service
Assets				
Cash and temporary investments	\$ 746,046	\$ 70,360	\$ 111,887	\$ 428,410
Receivables				
Interest	2,753	-	-	-
Delinquent taxes	20,740	-	-	6,809
Accounts, net of allowances	436	103,651	12,000	-
Special assessments	-	-	225,286	523,759
Loans	-	-	-	-
Intergovernmental	12,741	-	-	13,962
Advances to other funds	-	-	4,251	-
Prepaid items	20,420	2,204	42	-
	<u>\$ 803,136</u>	<u>\$ 176,215</u>	<u>\$ 353,466</u>	<u>\$ 972,940</u>
Liabilities				
Accounts payable	\$ 31,867	\$ 749	\$ 512	\$ -
Due to other governments	31,457	-	-	-
Accrued salaries payable	2,014	673	309	-
Advances from other funds	-	-	-	-
Accrued interest payable	-	-	-	27,274
Total Liabilities	<u>65,338</u>	<u>1,422</u>	<u>821</u>	<u>27,274</u>
Deferred Inflows of Resources				
Unavailable revenue				
Property taxes	20,740	-	-	6,809
Special assessments	-	-	225,286	523,759
Total Deferred Inflows of Resources	<u>20,740</u>	<u>-</u>	<u>225,286</u>	<u>530,568</u>
Fund Balances				
Nonspendable				
Prepaid items	20,420	2,204	42	-
Restricted				
Economic development	-	-	-	-
Capital projects	-	-	-	-
Debt service	-	-	-	415,098
Committed				
Capital outlay	-	-	-	-
Loans	-	-	-	-
Assigned				
Economic development	-	-	127,317	-
Park and recreation	-	-	-	-
Public safety	-	172,589	-	-
Unassigned	696,638	-	-	-
Total Fund Balances	<u>717,058</u>	<u>174,793</u>	<u>127,359</u>	<u>415,098</u>
	<u>\$ 803,136</u>	<u>\$ 176,215</u>	<u>\$ 353,466</u>	<u>\$ 972,940</u>

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

401	424		
Capital Projects	2020 Street and Utility Project	Other Governmental Funds	Totals
\$ 995,466	\$ 308,660	\$ 327,666	\$ 2,988,495
-	-	-	2,753
-	-	-	27,549
-	-	7,045	123,132
-	-	660	749,705
-	-	273,548	273,548
-	-	436	27,139
-	-	32,990	37,241
-	-	7,916	30,582
<u>\$ 995,466</u>	<u>\$ 308,660</u>	<u>\$ 650,261</u>	<u>\$ 4,260,144</u>
\$ -	\$ 55,342	\$ 9,637	\$ 98,107
-	-	517	31,974
-	-	1,438	4,434
-	-	89,103	89,103
-	-	-	27,274
<u>-</u>	<u>55,342</u>	<u>100,695</u>	<u>250,892</u>
-	-	-	27,549
-	-	660	749,705
<u>-</u>	<u>-</u>	<u>660</u>	<u>777,254</u>
-	-	7,916	30,582
-	-	111,084	111,084
-	253,318	1,368	254,686
-	-	-	415,098
995,466	-	-	995,466
-	-	184,570	184,570
-	-	176,115	303,432
-	-	112,186	112,186
-	-	-	172,589
-	-	(44,333)	652,305
<u>995,466</u>	<u>253,318</u>	<u>548,906</u>	<u>3,231,998</u>
<u>\$ 995,466</u>	<u>\$ 308,660</u>	<u>\$ 650,261</u>	<u>\$ 4,260,144</u>

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

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City of Harmony, Minnesota
 Reconciliation of the Balance Sheet
 to the Statement of Net Position
 Governmental Funds
 December 31, 2020

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

Total Fund Balances - Governmental Funds	\$ 3,231,998
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds.	5,029,734
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	(43,566)
Bonds payable	(2,948,000)
Pension liability	(214,487)
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	27,549
Special assessments receivable	749,705
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	23,315
Deferred inflows of pension resources	(29,991)
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(10,831)</u>
Total Net Position - Governmental Activities	<u><u>\$ 5,815,426</u></u>

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, 2020

	101	223	620	300's
	General	Ambulance	Economic Development Authority	Debt Service
Revenues				
Taxes	\$ 263,932	\$ -	\$ 105,000	\$ 170,494
Special assessments	6,433	-	1,340	161,489
Licenses and permits	5,523	-	-	-
Intergovernmental	404,838	47,046	18,157	-
Fines and forfeits	1,021	-	-	-
Charges for services	7,888	154,799	-	-
Investment earnings	8,362	388	208	904
Miscellaneous	26,161	3,465	24,046	-
Total Revenues	<u>724,158</u>	<u>205,698</u>	<u>148,751</u>	<u>332,887</u>
Expenditures				
Current				
General government	210,754	-	-	-
Government buildings	106,715	-	-	-
Public safety	145,004	162,051	-	-
Streets and highways	75,062	-	-	-
Culture and recreation	11,244	-	-	-
Economic development	13,909	-	128,527	-
Miscellaneous	7,733	-	-	-
Capital outlay				
General government	1,698	-	-	-
Public safety	-	4,297	-	-
Streets and highways	-	-	-	-
Culture and recreation	-	-	-	-
Economic development	13,155	-	-	-
Debt service				
Principal	-	-	-	142,500
Interest and other costs	-	-	-	59,256
Total Expenditures	<u>585,274</u>	<u>166,348</u>	<u>128,527</u>	<u>201,756</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>138,884</u>	<u>39,350</u>	<u>20,224</u>	<u>131,131</u>
Other Financing Sources (Uses)				
Bond proceeds	-	-	-	27,274
Transfers in	10,000	-	15,000	-
Transfers out	(83,500)	(25,000)	-	-
Total Other Financing Sources (Uses)	<u>(73,500)</u>	<u>(25,000)</u>	<u>15,000</u>	<u>27,274</u>
Net Change in Fund Balances	65,384	14,350	35,224	158,405
Fund Balances, January 1	<u>651,674</u>	<u>160,443</u>	<u>92,135</u>	<u>256,693</u>
Fund Balances, December 31	<u>\$ 717,058</u>	<u>\$ 174,793</u>	<u>\$ 127,359</u>	<u>\$ 415,098</u>

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

401	424	Other	Totals
Capital Projects	2020 Street and Utility Project	Governmental Funds	
\$ -	\$ -	\$ 217,891	\$ 757,317
-	-	-	169,262
-	-	-	5,523
-	-	51,266	521,307
-	-	77	1,098
-	-	58,607	221,294
5,445	1,126	1,396	17,829
15,400	-	39,753	108,825
<u>20,845</u>	<u>1,126</u>	<u>368,990</u>	<u>1,802,455</u>
-	-	-	210,754
-	-	-	106,715
-	-	67,325	374,380
-	-	-	75,062
-	-	158,997	170,241
-	-	17,984	160,420
-	-	-	7,733
-	-	-	1,698
-	-	37,420	41,717
-	1,696,059	-	1,696,059
-	-	15,889	15,889
-	-	-	13,155
-	-	-	142,500
-	24,475	-	83,731
<u>-</u>	<u>1,720,534</u>	<u>297,615</u>	<u>3,100,054</u>
<u>20,845</u>	<u>(1,719,408)</u>	<u>71,375</u>	<u>(1,297,599)</u>
-	1,972,726	-	2,000,000
153,000	-	33,000	211,000
(38,000)	-	(31,000)	(177,500)
<u>115,000</u>	<u>1,972,726</u>	<u>2,000</u>	<u>2,033,500</u>
135,845	253,318	73,375	735,901
<u>859,621</u>	<u>-</u>	<u>475,531</u>	<u>2,496,097</u>
<u>\$ 995,466</u>	<u>\$ 253,318</u>	<u>\$ 548,906</u>	<u>\$ 3,231,998</u>

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

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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, 2020

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

Net Change in Fund Balances - Governmental Funds	\$ 735,901
<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	1,768,462
Depreciation expense	(353,707)
Contribution of capital assets to enterprise funds	(447,997)
<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>	
Bonds issued	(2,000,000)
Principal repayments	142,500
<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>	
	3,054
<p>Long-term pension activity is not reported in governmental funds.</p>	
Pension expense	2,792
Direct aid contributions	570
<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>	
	6,250
<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	272,104
<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	17,919
Change in Net Position - Governmental Activities	\$ 147,848

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, 2020

	General			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 270,798	\$ 270,798	\$ 263,932	\$ (6,866)
Special assessments	-	-	6,433	6,433
Licenses and permits	5,000	5,000	5,523	523
Intergovernmental	367,178	367,178	404,838	37,660
Charges for services	5,100	5,100	7,888	2,788
Fines and forfeits	750	750	1,021	271
Investment earnings	2,500	2,500	8,362	5,862
Miscellaneous	11,500	11,500	26,161	14,661
Total Revenues	<u>662,826</u>	<u>662,826</u>	<u>724,158</u>	<u>61,332</u>
Expenditures				
Current				
General government	110,557	110,557	210,754	(100,197)
Government buildings	156,787	156,787	106,715	50,072
Public safety	134,716	134,716	145,004	(10,288)
Streets and highways	150,114	150,114	75,062	75,052
Culture and recreation	6,463	6,463	11,244	(4,781)
Economic development	5,500	5,500	13,909	(8,409)
Miscellaneous	7,295	7,295	7,733	(438)
Capital outlay				
General government	1,000	1,000	1,698	(698)
Public safety	-	-	-	-
Streets and highways	12,500	12,500	-	12,500
Economic development	2,500	2,500	13,155	(10,655)
Total Expenditures	<u>587,432</u>	<u>587,432</u>	<u>585,274</u>	<u>2,158</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>75,394</u>	<u>75,394</u>	<u>138,884</u>	<u>63,490</u>
Other Financing Sources (Uses)				
Transfers in	10,000	10,000	10,000	-
Transfers out	(83,500)	(83,500)	(83,500)	-
Total Other Financing Sources (Uses)	<u>(73,500)</u>	<u>(73,500)</u>	<u>(73,500)</u>	<u>-</u>
Net Change in Fund Balances	1,894	1,894	65,384	63,490
Fund Balances, January 1	<u>651,674</u>	<u>651,674</u>	<u>651,674</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 653,568</u>	<u>\$ 653,568</u>	<u>\$ 717,058</u>	<u>\$ 63,490</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		
\$ -	\$ -	\$ -	\$ -	\$ 105,000	\$ 105,000	\$ 105,000	\$ -
-	-	-	-	1,750	1,750	1,340	(410)
-	-	-	-	-	-	-	-
24,252	24,252	47,046	22,794	-	-	18,157	18,157
182,500	182,500	154,799	(27,701)	-	-	-	-
-	-	-	-	-	-	-	-
500	500	388	(112)	-	-	208	208
-	-	3,465	3,465	-	-	24,046	24,046
<u>207,252</u>	<u>207,252</u>	<u>205,698</u>	<u>(1,554)</u>	<u>106,750</u>	<u>106,750</u>	<u>148,751</u>	<u>42,001</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
194,783	194,783	162,051	32,732	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	124,856	124,856	128,527	(3,671)
-	-	-	-	-	-	-	-
5,000	5,000	4,297	703	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>199,783</u>	<u>199,783</u>	<u>166,348</u>	<u>33,435</u>	<u>124,856</u>	<u>124,856</u>	<u>128,527</u>	<u>(3,671)</u>
7,469	7,469	39,350	31,881	(18,106)	(18,106)	20,224	38,330
-	-	-	-	-	-	-	-
(25,000)	(25,000)	(25,000)	-	15,000	15,000	15,000	-
(25,000)	(25,000)	(25,000)	-	15,000	15,000	15,000	-
(17,531)	(17,531)	14,350	31,881	(3,106)	(3,106)	35,224	38,330
160,443	160,443	160,443	-	92,135	92,135	92,135	-
<u>\$ 142,912</u>	<u>\$ 142,912</u>	<u>\$ 174,793</u>	<u>\$ 31,881</u>	<u>\$ 89,029</u>	<u>\$ 89,029</u>	<u>\$ 127,359</u>	<u>\$ 38,330</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, 2020

	Business-type Activities - Enterprise Funds				
	601	602	604	Nonmajor Proprietary Funds	Total
	Water Utility	Sewer Utility	Electric Utility		
Assets					
Current Assets					
Cash and temporary investments	\$ 380,697	\$ 11,348	\$ 705,156	\$ 64,991	\$ 1,162,192
Receivables					
Accounts	24,028	26,154	67,511	8,398	126,091
Special assessments	6,667	1,669	903	-	9,239
Advance to other funds - current	-	-	58,644	-	58,644
Inventories	12,607	-	15,079	-	27,686
Prepaid items	4,008	4,729	6,750	626	16,113
Total Current Assets	428,007	43,900	854,043	74,015	1,399,965
Noncurrent Assets					
Special assessments - noncurrent	69,605	17,399	-	-	87,004
Advance to other funds - noncurrent	-	-	43,218	-	43,218
Capital assets					
Land	17,015	14,400	5,000	-	36,415
Construction in progress	440,161	105,837	-	-	545,998
Buildings and improvements	-	2,351,348	187,008	-	2,538,356
Systems and infrastructure	1,408,664	892,537	2,006,302	796,103	5,103,606
Equipment and machinery	1,361,682	186,864	39,723	144,904	1,733,173
Vehicles	-	-	28,700	-	28,700
Less accumulated depreciation	(565,406)	(1,758,388)	(1,317,877)	(425,881)	(4,067,552)
Total Capital Assets (Net of Accumulated Depreciation)	2,662,116	1,792,598	948,856	515,126	5,918,696
Total Noncurrent Assets	2,731,721	1,809,997	992,074	515,126	6,048,918
Total Assets	3,159,728	1,853,897	1,846,117	589,141	7,448,883
Deferred Outflows of Resources					
Deferred pension resources	2,164	3,077	761	661	6,663
Liabilities					
Current Liabilities					
Accounts payable	56,243	9,350	72,626	2,750	140,969
Deposits payable	-	-	13,814	-	13,814
Due to other governments	1,442	4,901	1,392	-	7,735
Advances from other funds - current	-	50,000	-	-	50,000
Accrued interest payable	4,298	594	-	-	4,892
Accrued salaries payable	1,202	434	271	462	2,369
Bonds payable - current	50,000	36,000	-	-	86,000
Compensated absences payable - current	1,587	898	695	528	3,708
Total Current Liabilities	114,772	102,177	88,798	3,740	309,487
Noncurrent Liabilities					
Net pension liability	19,906	28,310	7,004	6,084	61,304
Compensated absences payable - noncurrent	2,565	2,134	1,797	1,883	8,379
Bonds payable - noncurrent	774,000	90,000	-	-	864,000
Total Noncurrent Liabilities	796,471	120,444	8,801	7,967	933,683
Total Liabilities	911,243	222,621	97,599	11,707	1,243,170
Deferred Inflows of Resources					
Deferred pension resources	2,784	3,959	979	851	8,573
Net Position					
Net investment in capital assets	1,838,116	1,666,598	948,856	515,126	4,968,696
Unrestricted	409,749	(36,204)	799,444	62,118	1,235,107
Total Net Position	\$ 2,247,865	\$ 1,630,394	\$ 1,748,300	\$ 577,244	\$ 6,203,803

City of Harmony, Minnesota
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2020

	Business-type Activities - Enterprise Funds				Total
	Water Utility	Sewer Utility	Electric Utility	Nonmajor Proprietary Funds	
Operating Revenues					
Charges for services	\$ 245,466	\$ 331,726	\$ 983,363	\$ 106,990	\$ 1,667,545
Operating Expenses					
Personal services	59,137	72,032	14,929	14,276	160,374
Supplies	9,203	37,242	5,004	1,224	52,673
Other services and charges	13,534	(489)	14,478	45,572	73,095
Insurance	4,835	5,359	9,098	719	20,011
Utilities	14,984	67,834	15,411	-	98,229
Purchased power	-	-	779,318	-	779,318
Repairs and maintenance	56,855	135,012	43,927	3,433	239,227
Depreciation	59,426	114,100	51,691	30,780	255,997
Total Operating Expenses	<u>217,974</u>	<u>431,090</u>	<u>933,856</u>	<u>96,004</u>	<u>1,678,924</u>
Operating Income (Loss)	<u>27,492</u>	<u>(99,364)</u>	<u>49,507</u>	<u>10,986</u>	<u>(11,379)</u>
Nonoperating Revenues (Expenses)					
Other income	376	991	27,128	64	28,559
Investment earnings	1,798	65	3,851	220	5,934
Interest and other expense	(10,478)	(1,547)	-	-	(12,025)
Total Nonoperating Revenues (Expenses)	<u>(8,304)</u>	<u>(491)</u>	<u>30,979</u>	<u>284</u>	<u>22,468</u>
Income (Loss) Before Contributions	19,188	(99,855)	80,486	11,270	11,089
Capital Contributions	360,160	87,837	-	-	447,997
Special Assessments	97,268	24,317	-	-	121,585
Capital Grants	-	31,422	-	-	31,422
Transfers Out	(1,000)	(1,000)	(28,000)	(3,500)	(33,500)
Change in Net Position	475,616	42,721	52,486	7,770	578,593
Net Position, January 1	<u>1,772,249</u>	<u>1,587,673</u>	<u>1,695,814</u>	<u>569,474</u>	<u>5,625,210</u>
Net Position, December 31	<u>\$ 2,247,865</u>	<u>\$ 1,630,394</u>	<u>\$ 1,748,300</u>	<u>\$ 577,244</u>	<u>\$ 6,203,803</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, 2020

	Business-type Activities - Enterprise Funds				Total
	Water Utility	Sewer Utility	Electric Utility	Nonmajor Proprietary Funds	
Cash Flows from Operating Activities					
Receipts from customers	\$ 249,536	\$ 337,388	\$ 1,000,388	\$ 108,492	\$ 1,695,804
Payments to suppliers and vendors	(26,059)	(203,922)	(876,357)	(51,928)	(1,158,266)
Payments to and on behalf of employees	(62,340)	(83,662)	(23,574)	(17,203)	(186,779)
Other receipts	376	991	27,128	64	28,559
Net Cash Provided (Used) by Operating Activities	161,513	50,795	127,585	39,425	379,318
Cash Flows from Noncapital Financing Activities					
Principal received (paid) on advances from (to) other funds	-	-	8,644	-	8,644
Intergovernmental revenue	-	1,680	-	-	1,680
Transfers to other funds	(1,000)	(1,000)	(28,000)	(3,500)	(33,500)
Net Cash Provided (Used) by Noncapital Financing Activities	(1,000)	680	(19,356)	(3,500)	(23,176)
Cash Flows from Capital and Related Financing Activities					
Special assessments received	21,085	5,249	-	-	26,334
Acquisition of capital assets	(97,581)	(68,174)	-	-	(165,755)
Principal paid on bonds and notes payable	(50,000)	(35,000)	-	-	(85,000)
Interest and fees paid on bonds and notes payable	(9,689)	(1,430)	-	-	(11,119)
Intergovernmental contributions for capital assets	-	29,742	-	-	29,742
Proceeds from bonds and notes issued	80,000	18,000	-	-	98,000
Net Cash Provided (Used) by Capital and Related Financing Activities	(56,185)	(51,613)	-	-	(107,798)
Cash Flows from Investing Activities					
Interest received on cash and temporary investments	1,798	65	3,851	220	5,934
Net Increase (Decrease) in Cash and Temporary Investments	106,126	(73)	112,080	36,145	254,278
Cash and Temporary Investments, January 1	274,571	11,421	593,076	28,846	907,914
Cash and Temporary Investments, December 31	\$ 380,697	\$ 11,348	\$ 705,156	\$ 64,991	\$ 1,162,192
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating income (loss)	\$ 27,492	\$ (99,364)	\$ 49,507	\$ 10,986	\$ (11,379)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities					
Other income related to operations	376	991	27,128	64	28,559
Depreciation	59,426	114,100	51,691	30,780	255,997
(Increase) decrease in assets					
Accounts receivable	4,070	5,662	17,055	1,502	28,289
Special assessments	-	-	(30)	-	(30)
Intergovernmental	-	33,946	-	-	33,946
Inventories	188	-	(475)	-	(287)
(Increase) decrease in deferred outflows of resources					
Deferred pension resources	913	1,103	1,028	532	3,576
Prepaid items	(308)	(379)	(614)	(36)	(1,337)
Increase (decrease) in liabilities					
Accounts payable	72,228	2,568	(3,258)	(625)	70,913
Due to other governments	1,244	4,901	(3,874)	(319)	1,952
Deposits payable	-	-	(900)	-	(900)
Accrued salaries payable	477	(584)	(77)	271	87
Net pension liability	(1,746)	(1,108)	(5,587)	(2,312)	(10,753)
Compensated absences payable	(1,047)	(8,771)	(2,322)	(491)	(12,631)
Increase (decrease) in deferred inflows of resources					
Deferred pension resources	(1,800)	(2,270)	(1,687)	(927)	(6,684)
Net Cash Provided (Used) by Operating Activities	\$ 161,513	\$ 50,795	\$ 127,585	\$ 39,425	\$ 379,318
Schedule of Noncash Investing, Capital and Financing Activities					
Capital assets acquired on account	\$ (17,580)	\$ (4,432)	\$ -	\$ -	\$ (22,012)
Capital assets contributed by (to) other funds	\$ 360,160	\$ 87,837	\$ -	\$ -	\$ 447,997
Special assessments levied	\$ 97,268	\$ 24,317	\$ -	\$ -	\$ 121,585

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, 2020

	851
	Investment Trust Fund
	<hr/>
Assets	
Cash and Cash Equivalents	<u>\$ 9,066</u>
Net Position	
Restricted	<u>\$ 9,066</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, 2020

	<u>851 Investment Trust Fund</u>
Revenues	
Investment income	<u>\$ 955</u>
Change in Net Position	955
Net Position, January 1	<u>8,111</u>
Net Position, December 31	<u><u>\$ 9,066</u></u>

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

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.

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.

Note 1: Summary of Significant Accounting Policies (Continued)

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.

The *2020 Street and Utility Project fund* accounts for the costs associated with the street and utility improvements.

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.

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2020

Note 1: Summary of Significant Accounting Policies (Continued)

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, 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.

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2020

Note 1: Summary of Significant Accounting Policies (Continued)

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.
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.

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 2020. 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, 2020 was \$3,500 in the Fire fund and \$400 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.

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.

Note 1: Summary of Significant Accounting Policies (Continued)

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 \$5,000 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:

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 2020 was \$55,653. The General fund is typically used to liquidate governmental compensated absences payable.

Postemployment Benefits Other Than Pensions

In August 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for the City's fiscal year 2009. Statement No. 45 requires accrual-based measurement, recognition and disclosure of other postemployment benefits (OPEB) expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability, net of any plan assets. During the year 2019 the City estimated its OPEB liability using an estimator and determined that the calculated liability was \$0. At this point, the City anticipates it will not incur material future explicit or implicit OPEB costs for its employees and therefore, no liability will be recorded.

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.

Note 1: Summary of Significant Accounting Policies (Continued)

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	\$ 19,926

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.

Note 1: Summary of Significant Accounting Policies (Continued)

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.

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.

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2020

Note 2: Stewardship, Compliance and Accountability (Continued)

B. Excess Expenditures Over Appropriations

<u>Fund</u>	<u>Budget</u>	<u>Actual</u>	<u>Excess of Expenditures Over Appropriations</u>
Economic Development Authority	\$ 124,856	\$ 128,527	\$ 3,671
Nonmajor Special Revenue			
Fire	61,024	104,745	43,721

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

C. Deficit Fund Equity

The following funds had fund equity deficits at December 31, 2020:

<u>Fund</u>	<u>Amount</u>
Nonmajor Special Revenue	
Fire	\$ 12,978
Nonmajor Capital Projects	
TIF District #6	27,133

The above deficits will be eliminated through future tax collections, transfers from other funds and charges for services.

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.

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2020

Note 3: Detailed Notes on All Funds (Continued)

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 \$2,739,193 and the bank balance was \$2,751,450. Of the bank balance, \$500,000 was covered by federal depository insurance. The remaining balance of \$2,251,450 was collateralized with securities held by the pledging financial institution’s trust department in the City’s name and a letter of credit.

Investments

As of December 31, 2020, 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
<u>Pooled Investments at Amortized Costs</u>			
Minnesota Municipal Money Market (4M) fund	N/A	less than 6 months	<u>\$ 1,420,395</u>

- (1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk. N/A indicates not applicable or available.
 (2) Interest rate risk is disclosed using the segmented time distribution method.

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2020

Note 3: Detailed Notes on All Funds (Continued)

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.

Cash and Investments Summary

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

Deposits		\$ 2,739,193
Investments		1,420,395
Cash on Hand		<u>165</u>
 Total Cash and Temporary Investments		 <u><u>\$ 4,159,753</u></u>
 Cash and Temporary Investments		 \$ 4,150,687
Fiduciary Fund Cash		<u>9,066</u>
 Total		 <u><u>\$ 4,159,753</u></u>

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2020

Note 3: Detailed Notes on All Funds (Continued)

B. Notes 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 remaining balance at December 31, 2020 is \$184,570.

The Economic Development Authority has also made commercial rehabilitation loans to businesses. The City will collect on 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 five year period per the loan agreements. There were no receivable balances in this fund at December 31, 2020.

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, 2020 is \$88,978. These loans are secured by equipment and other assets.

C. Capital Assets

Capital asset activity for the City for the year ended December 31, 2020 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets not being Depreciated				
Land	\$ 424,743	\$ -	\$ -	\$ 424,743
Construction in progress	93,227	1,182,036	-	1,275,263
Total Capital Assets being Depreciated	<u>517,970</u>	<u>1,182,036</u>	<u>-</u>	<u>1,700,006</u>
Capital Assets being Depreciated				
Buildings and improvements	1,237,968	-	-	1,237,968
Systems and infrastructure	4,190,840	-	-	4,190,840
Equipment and machinery	1,071,013	138,429	-	1,209,442
Vehicles	1,375,456	-	-	1,375,456
Total Capital Assets being Depreciated	<u>7,875,277</u>	<u>138,429</u>	<u>-</u>	<u>8,013,706</u>
Less Accumulated Depreciation for				
Buildings and improvements	(683,282)	(33,387)	-	(716,669)
Systems and infrastructure	(2,408,448)	(123,754)	-	(2,532,202)
Equipment and machinery	(551,844)	(91,577)	-	(643,421)
Vehicles	(686,697)	(104,989)	-	(791,686)
Total Accumulated Depreciation	<u>(4,330,271)</u>	<u>(353,707)</u>	<u>-</u>	<u>(4,683,978)</u>
Total Capital Assets being Depreciated, Net	<u>3,545,006</u>	<u>(215,278)</u>	<u>-</u>	<u>3,329,728</u>
Governmental Activities Capital Assets, Net	<u>\$ 4,062,976</u>	<u>\$ 966,758</u>	<u>\$ -</u>	<u>\$ 5,029,734</u>

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2020

Note 3: Detailed Notes on All Funds (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities				
Capital Assets not being Depreciated				
Land	\$ 36,415	\$ -	\$ -	\$ 36,415
Construction in progress	36,088	509,910	-	545,998
Total Capital Assets not being Depreciated	<u>72,503</u>	<u>509,910</u>	<u>-</u>	<u>582,413</u>
Capital Assets being Depreciated				
Buildings and improvements	2,538,356	-	-	2,538,356
Systems and infrastructure	5,103,606	-	-	5,103,606
Equipment and machinery	1,651,343	81,830	-	1,733,173
Vehicles	28,700	-	-	28,700
Total Capital Assets being Depreciated	<u>9,322,005</u>	<u>81,830</u>	<u>-</u>	<u>9,403,835</u>
Less Accumulated Depreciation For				
Buildings and improvements	(1,462,262)	(78,378)	-	(1,540,640)
Systems and infrastructure	(2,004,119)	(123,056)	-	(2,127,175)
Equipment and machinery	(316,474)	(54,563)	-	(371,037)
Vehicles	(28,700)	-	-	(28,700)
Total Accumulated Depreciation	<u>(3,811,555)</u>	<u>(255,997)</u>	<u>-</u>	<u>(4,067,552)</u>
Total Capital Assets being Depreciated, Net	<u>5,510,450</u>	<u>(174,167)</u>	<u>-</u>	<u>5,336,283</u>
Business-type Activities Capital Assets, Net	<u>\$ 5,582,953</u>	<u>\$ 335,743</u>	<u>\$ -</u>	<u>\$ 5,918,696</u>

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

Governmental Activities		
General government		\$ 38,870
Public safety		131,213
Streets and highways		154,194
Culture and recreation		29,231
Economic development		199
Total Depreciation Expense - Governmental Activities		<u>\$ 353,707</u>
Business-type Activities		
Water utility		\$ 59,426
Sewer utility		114,100
Refuse and recycling		990
Electric utility		51,691
Storm water utility		29,790
Total Depreciation Expense - Business-type Activities		<u>\$ 255,997</u>

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2020

Note 3: Detailed Notes on All Funds (Continued)

Construction Commitments

The City has active construction projects as of December 31, 2020. The projects include various street and utility improvements. At year end the City's commitments with contractors are as follows:

Project	Spent-to-Date	Remaining Commitment
2020 Street and Utility Project	\$ 1,547,065	\$ 119,564

D. Interfund Receivables, Payables and Transfers

The composition of interfund balances at December 31, 2020 is as follows:

Advances to/from Other Funds

Receivable Fund	Payable Fund	Amount
Electric Utility	Sewer Utility	\$ 50,000
	Nonmajor governmental	
	Fire	51,862
EDA	Nonmajor governmental	
	TIF District #6	4,251
Nonmajor Governmental	Nonmajor governmental	
	TIF District #6	32,990
Total		\$ 139,103

The Revolving Loan fund and EDA fund advanced \$65,000 and \$6,933 to the TIF District #6 in order to fund the initial developer loan for tax increment project costs related to this district. 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. This loan shall be paid back at a fixed interest rate of 3 percent. The outstanding balances as of December 31, 2020 were \$32,990 and \$4,251, respectively.

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, 2020 was \$51,862.

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, 2020 was \$50,000.

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2020

Note 3: Detailed Notes on All Funds (Continued)

Interfund Transfers

In the year ended December 31, 2020, the City made the following transfers:

Fund	Transfers In				Total
	General	Capital Projects	Economic Development Authority	Nonmajor Governmental	
Transfers Out					
Governmental					
General	\$ -	\$ 83,500	\$ -	\$ -	\$ 83,500
Ambulance	-	25,000	-	-	25,000
Capital Projects	5,000		-	33,000	38,000
Nonmajor Governmental	-	31,000	-	-	31,000
Business-type					
Water Utility	1,000	-	-	-	1,000
Sewer Utility	1,000	-	-	-	1,000
Electric Utility	2,000	11,000	15,000	-	28,000
Nonmajor Enterprise	1,000	2,500	-	-	3,500
Total	\$ 10,000	\$ 153,000	\$ 15,000	\$ 33,000	\$ 211,000

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, and 4) move funds from the various utility funds to the General fund related to PILOT.

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2020

Note 3: Detailed Notes on All Funds (Continued)

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:

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Improvement Bonds of 2014	\$ 370,000	2.25 %	08/01/14	02/01/22	\$ 51,000
G.O. Improvement Notes of 2017	935,000	3.05	09/01/17	02/01/28	719,000
G.O. Improvement Notes of 2020	1,648,000	1.95	06/01/20	02/01/31	<u>2,000,000</u>
Total General Obligation Improvement Bonds					<u>\$ 2,770,000</u>

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

Year Ending December 31	G.O. Improvement Bonds Governmental Activities		
	Principal	Interest	Total
2021	\$ 105,500	\$ 67,068	\$ 172,568
2022	291,700	55,724	347,424
2023	272,700	49,263	321,963
2024	277,700	42,938	320,638
2025	284,700	36,457	321,157
2026 - 2030	1,319,500	85,684	1,405,184
2031	<u>218,200</u>	<u>2,128</u>	<u>220,328</u>
Total	<u>\$ 2,770,000</u>	<u>\$ 339,262</u>	<u>\$ 3,109,262</u>

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2020

Note 3: Detailed Notes on All Funds (Continued)

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	\$ 64,000
G.O. Tax Abatement Bonds, 2013B	250,000	4.50	08/29/13	02/01/24	<u>114,000</u>
Total General Obligation Tax Abatement Bonds					<u><u>\$ 178,000</u></u>

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

Year Ending December 31	G.O. Tax Abatement Bonds Governmental Activities		
	Principal	Interest	Total
	2021	\$ 43,000	\$ 5,931
2022	44,000	4,341	48,341
2023	45,000	2,706	47,706
2024	<u>46,000</u>	<u>1,027</u>	<u>47,027</u>
Total	<u><u>\$ 178,000</u></u>	<u><u>\$ 14,005</u></u>	<u><u>\$ 192,005</u></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	\$ 108,000
2015 Public Facilities Authority Bonds	857,100	1.00	11/10/15	08/20/35	661,000
G.O. Improvement Notes of 2017	100,000	3.05	09/01/17	02/01/28	83,000
G.O. Improvement Notes of 2020	450,000	1.95	06/01/20	02/01/31	<u>98,000</u>
Total G.O. Revenue Bonds					<u><u>\$ 950,000</u></u>

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2020

Note 3: Detailed Notes on All Funds (Continued)

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	\$ 245,466	\$ 331,726
Principal and Interest	59,689	36,430
Percentage of Revenues	24.3%	11.0%

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

Year Ending December 31	G.O. Revenue Bonds Business-type Activities		
	Principal	Interest	Total
	2021	\$ 86,000	\$ 12,315
2022	95,800	10,849	106,649
2023	96,800	9,597	106,397
2024	61,800	8,332	70,132
2025	63,800	7,408	71,208
2026 - 2030	303,000	23,288	326,288
2031 - 2035	242,800	7,134	249,934
Total	\$ 950,000	\$ 78,923	\$ 1,028,923

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2020, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities					
Bonds Payable					
G.O. Improvement Bonds	\$ 871,500	\$ 2,000,000	\$ (101,500)	\$ 2,770,000	\$ 105,500
G.O. Tax Abatement Bonds	219,000	-	(41,000)	178,000	43,000
Total Bonds Payable	1,090,500	2,000,000	(142,500)	2,948,000	148,500
Compensated Absences Payable	61,485	22,702	(40,621)	43,566	16,283
Governmental Activities Long-term Liabilities	\$ 1,151,985	\$ 2,022,702	\$ (183,121)	\$ 2,991,566	\$ 164,783
Business-type Activities					
Bonds Payable					
G.O. Revenue Bonds	\$ 937,000	\$ 98,000	\$ (85,000)	\$ 950,000	\$ 86,000
Compensated Absences Payable	24,718	8,584	(21,215)	12,087	3,708
Business-type Activities Long-term Liabilities	\$ 961,718	\$ 106,584	\$ (106,215)	\$ 962,087	\$ 89,708

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. Beginning in 2019, the postretirement increase will be 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. For 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 2020 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, 2020, 2019 and 2018 were \$35,736, \$39,716 and \$36,290, 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, 2020

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

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2020, the City reported a liability of \$275,791 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 \$8,429. The net pension liability was measured as of June 30, 2020, 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, 2019 through June 30, 2020 relative to the total employer contributions received from all of PERA's participating employers. The City's proportion was 0.0046 percent which was a 0.0005 percent decrease from its proportion measured as of June 30, 2019.

City's proportionate share of the net pension liability	\$ 275,791
State of Minnesota's proportionate share of the net pension liability associated with the City	<u>8,429</u>
Total	<u><u>\$ 284,220</u></u>

For the year ended December 31, 2020, the City recognized pension expense of \$19,192 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized \$734 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, 2020, 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	\$ 3,215	\$ 1,092
Changes in Actuarial Assumptions	208	11,095
Net Difference Between Projected and Actual Earnings on Plan Investments	2,959	-
Changes in Proportion	4,830	26,377
Contributions paid to PERA Subsequent to the Measurement Date	<u>18,766</u>	<u>-</u>
Total	<u><u>\$ 29,978</u></u>	<u><u>\$ 38,564</u></u>

The \$18,766 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, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2021	\$ (21,174)
2022	(10,374)
2023	(2,467)
2024	6,663
2025	-

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2020

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

E. Actuarial Assumptions

The total pension liability in the June 30, 2020, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for General Employees Plan.

Actuarial assumptions used in the June 30, 2020 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. The recommended assumptions for that plan were adopted by the Board and will be effective with the July 1, 2021 actuarial valuations if approved by the Legislature.

The following changes in actuarial assumptions and plan provisions occurred in 2020:

General Employees Fund

Changes in Actuarial Assumptions

- 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.

Changes in Plan Provisions

- 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.

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2020

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

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Stocks	35.5 %	5.10 %
Alternative Assets (Private Markets)	25.0	5.90
Bonds (Fixed Income)	20.0	0.75
International Stocks	17.5	5.30
Cash	<u>2.0</u>	-
Total	<u><u>100.00 %</u></u>	

F. Discount Rate

The discount rate used to measure the total pension liability in 2020 was 7.50 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 were 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.

G. 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 1 percentage point lower or 1 percentage point higher than the current discount rate:

	<u>City Proportionate Share of NPL</u>		
	<u>1 Percent Decrease (6.50%)</u>	<u>Current (7.50%)</u>	<u>1 Percent Increase (8.50%)</u>
General Employees Fund	\$ 441,997	\$ 275,791	\$ 138,684

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2020

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, 2020, the plan covered 26 active firefighters and 3 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.

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 \$18,775 in fire state aid to the plan on behalf of the City Fire Department for the year ended December 31, 2020, 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, 2020 were \$18,775. The City's contributions were equal to the required contributions as set by state statute. In addition, the City made voluntary contributions of \$7,500 to the plan.

The financial requirements of the Special fund are determined in accordance with section 69.772 of the Minnesota statutes, which requires the payment of pension benefits in a lump sum or optionally in annual installments. The benefits are payable after age 50, 10-20 years of service, and 10-20 years of Association membership or upon death. The City's annual pension cost for the current year and related information for the plan is as follows:

Annual Pension Cost	\$	26,275
Contributions Made		
City (voluntary)		7,500
State aid		18,775
Actuarial Valuation Date		12/31/20
Actuarial Cost Method		Entry age normal
Amortization Method		Level dollar closed
Remaining Amortization Period		
Normal cost		20 years
Prior service cost		10 years
Asset Valuation Method		Market
Actuarial Assumptions		
Investment rate of return		5%
Projected salary increases		N/A
Inflation rate		N/A
Cost of living adjustments		None

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2020

Note 6: Defined Benefit Pension Plan - Fire Relief Association (Continued)

Three Year Trend Information

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/20	\$ 26,275	100.0 %	\$ -
12/31/19	24,155	100.0	-
12/31/18	28,032	100.0	-

Required Supplementary Information

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Assets in Excess of (Unfunded) Accrued Liability	Funded Rate	Pension Benefit Per Year of Service
12/31/20	*	*	*	* %	\$ 1,000
12/31/19	\$ 446,430	\$ 370,826	75,604	120.39	1,000
12/31/18	412,740	367,154	45,586	112.42	900
12/31/17	398,297	327,556	70,741	121.60	850
12/31/16	403,556	343,671	59,885	117.43	775
12/31/15	362,090	321,453	40,637	112.64	775

* Information not available at time of audit

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. Related Party Transactions

The City uses services from a company owned by an immediate relative of a City Council member. Total payments made to the business during 2020 were \$38,220.

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2020

Note 6: Other Information (Continued)

C. 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 \$52,638,418 at December 31, 2020 for a limit of \$1,579,153. 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.

D. 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 2020 was \$352,289 for LGA. This accounted for 48.6 percent of General fund revenues.

E. 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.

Note 7: COVID-19

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus ("COVID-19") and the risks to the international community as virus spreads globally. On March 11, 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. In response to the pandemic, the State of Minnesota has issued stay-at-home orders and other measures aimed at slowing the spread of the coronavirus.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. Due to the rapid development and fluidity of this situation, the City cannot determine the ultimate impact that the COVID-19 pandemic will have on its financial condition, liquidity, and future revenue collection, and therefore any prediction as to the ultimate impact on the City's financial condition, liquidity, and future results of its revenue collections is uncertain.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARMONY
HARMONY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2020

City of Harmony, Minnesota
Required Supplementary Information
December 31, 2020

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
06/30/20	0.0046 %	\$ 275,791	\$ 8,429	\$ 284,220	\$ 495,514	57.4 %	79.0 %
06/30/19	0.0051	281,968	8,666	290,634	501,289	58.0	80.2
06/30/18	0.0052	288,475	-	288,475	477,481	60.4	79.5
06/30/17	0.0049	213,813	-	213,813	449,515	47.6	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	438,783	61.4	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)
12/31/20	\$ 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, 2020

Notes to the Required Supplementary Information - General Employees Fund

Changes in actuarial assumptions

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.

Changes in plan provisions

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.

City of Harmony, Minnesota
Required Supplementary Information (Continued)
December 31, 2020

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

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 - No changes noted

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, 2020

City of Harmony, Minnesota
 Nonmajor Governmental Funds
 Combining Balance Sheet
 December 31, 2020

	Special Revenue		
	201	202	211
	Revolving Loan	Small Cities Grant	Library Fund
Assets			
Cash and temporary investments	\$ 131,125	\$ 34,001	\$ 31,132
Receivables			
Accounts, net of allowances	-	-	-
Special assessments	-	-	-
Loans	184,570	88,978	-
Intergovernmental	-	-	-
Advances to other funds	32,990	-	-
Prepaid items	-	-	340
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 348,685</u>	<u>\$ 122,979</u>	<u>\$ 31,472</u>
Liabilities			
Accounts payable	\$ -	\$ -	\$ 5,826
Due to other governments	-	-	24
Accrued salaries payable	-	-	1,355
Advances from other funds	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>7,205</u>
Deferred Inflows of Resources			
Unavailable revenue			
Special assessments	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Fund Balances			
Nonspendable			
Prepaid items	-	-	340
Restricted			
Economic development	-	110,979	-
Capital projects	-	-	-
Committed			
Loans	184,570	-	-
Assigned			
Economic development	164,115	12,000	-
Culture and recreation	-	-	23,927
Unassigned	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>348,685</u>	<u>122,979</u>	<u>24,267</u>
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 348,685</u>	<u>\$ 122,979</u>	<u>\$ 31,472</u>

Special Revenue			Capital Project			Total Nonmajor Funds
222	251	261	420 TIF District #6	410 Trailhead Project	421 First Ave SW Project	
Fire	Park Fund	Arts Fund				
\$ 31,323	\$ 79,861	\$ 8,643	\$ 10,108	\$ 105	\$ 1,368	\$ 327,666
7,045	-	-	-	-	-	7,045
660	-	-	-	-	-	660
-	-	-	-	-	-	273,548
436	-	-	-	-	-	436
-	-	-	-	-	-	32,990
4,222	3,354	-	-	-	-	7,916
<u>\$ 43,686</u>	<u>\$ 83,215</u>	<u>\$ 8,643</u>	<u>\$ 10,108</u>	<u>\$ 105</u>	<u>\$ 1,368</u>	<u>\$ 650,261</u>
\$ 3,811	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,637
329	164	-	-	-	-	517
2	81	-	-	-	-	1,438
51,862	-	-	37,241	-	-	89,103
<u>56,004</u>	<u>245</u>	<u>-</u>	<u>37,241</u>	<u>-</u>	<u>-</u>	<u>100,695</u>
660	-	-	-	-	-	660
4,222	3,354	-	-	-	-	7,916
-	-	-	-	105	-	111,084
-	-	-	-	-	1,368	1,368
-	-	-	-	-	-	184,570
-	-	-	-	-	-	176,115
-	79,616	8,643	-	-	-	112,186
(17,200)	-	-	(27,133)	-	-	(44,333)
<u>(12,978)</u>	<u>82,970</u>	<u>8,643</u>	<u>(27,133)</u>	<u>105</u>	<u>1,368</u>	<u>548,906</u>
<u>\$ 43,686</u>	<u>\$ 83,215</u>	<u>\$ 8,643</u>	<u>\$ 10,108</u>	<u>\$ 105</u>	<u>\$ 1,368</u>	<u>\$ 650,261</u>

City of Harmony, Minnesota
 Nonmajor Governmental Funds
 Combining Statement of Revenues, Expenditures and
 Changes in Fund Balances
 For the Year Ended December 31, 2020

	Special Revenue		
	201	202	211
	Revolving Loan	Small Cities Grant	Library Fund
Revenues			
Taxes			
Property taxes	\$ -	\$ -	\$ 92,550
Tax increments	-	-	-
Intergovernmental	-	-	30,516
Fines and forfeits	-	-	77
Charges for services	-	-	1,038
Investment earnings	841	87	17
Miscellaneous			
Contributions and donations	-	-	275
Loan interest	4,608	-	-
Other	955	-	1,275
Total Revenues	<u>6,404</u>	<u>87</u>	<u>125,748</u>
Expenditures			
Current			
Public safety	-	-	-
Culture and recreation	-	-	111,838
Economic development	-	17,984	-
Capital outlay			
Public safety	-	-	-
Culture and recreation	-	-	2,058
Total Expenditures	<u>-</u>	<u>17,984</u>	<u>113,896</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>6,404</u>	<u>(17,897)</u>	<u>11,852</u>
Other Financing Sources (Uses)			
Transfers in	-	-	-
Transfers out	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	6,404	(17,897)	11,852
Fund Balances, January 1	<u>342,281</u>	<u>140,876</u>	<u>12,415</u>
Fund Balances, December 31	<u>\$ 348,685</u>	<u>\$ 122,979</u>	<u>\$ 24,267</u>

Special Revenue			Capital Project			Total Nonmajor Funds
222	251	261	420	410	421	
Fire	Park Fund	Arts Fund	TIF District #6	Trailhead Project	First Ave SW Project	
\$ 41,550	\$ 67,430	\$ 6,000	\$ -	\$ -	\$ -	\$ 207,530
-	-	-	10,361	-	-	10,361
20,750	-	-	-	-	-	51,266
-	-	-	-	-	-	77
54,941	2,628	-	-	-	-	58,607
85	204	27	29	105	1	1,396
25,000	3,653	-	-	-	1,367	30,295
-	-	-	-	-	-	4,608
1,774	846	-	-	-	-	4,850
<u>144,100</u>	<u>74,761</u>	<u>6,027</u>	<u>10,390</u>	<u>105</u>	<u>1,368</u>	<u>368,990</u>
67,325	-	-	-	-	-	67,325
-	45,034	2,125	-	-	-	158,997
-	-	-	-	-	-	17,984
37,420	-	-	-	-	-	37,420
-	13,831	-	-	-	-	15,889
<u>104,745</u>	<u>58,865</u>	<u>2,125</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>297,615</u>
<u>39,355</u>	<u>15,896</u>	<u>3,902</u>	<u>10,390</u>	<u>105</u>	<u>1,368</u>	<u>71,375</u>
-	33,000	-	-	-	-	33,000
(25,000)	(6,000)	-	-	-	-	(31,000)
<u>(25,000)</u>	<u>27,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,000</u>
14,355	42,896	3,902	10,390	105	1,368	73,375
(27,333)	40,074	4,741	(37,523)	-	-	475,531
<u>\$ (12,978)</u>	<u>\$ 82,970</u>	<u>\$ 8,643</u>	<u>\$ (27,133)</u>	<u>\$ 105</u>	<u>\$ 1,368</u>	<u>\$ 548,906</u>

City of Harmony, Minnesota
Statement of Net Position
Nonmajor Proprietary Funds
December 31, 2020

	Business-type Activities - Enterprise Funds		
	603 Refuse and Recycling	605 Storm Water	Total
Assets			
Current Assets			
Cash and temporary investments	\$ 30,359	\$ 34,632	\$ 64,991
Receivables			
Accounts	6,083	2,315	8,398
Prepaid items	83	543	626
Total Current Assets	<u>36,525</u>	<u>37,490</u>	<u>74,015</u>
Noncurrent Assets			
Capital assets			
Systems and infrastructure	-	796,103	796,103
Equipment and machinery	4,952	139,952	144,904
Less accumulated depreciation	(3,466)	(422,415)	(425,881)
Total Capital Assets (Net of Accumulated Depreciation)	<u>1,486</u>	<u>513,640</u>	<u>515,126</u>
Total Assets	<u>38,011</u>	<u>551,130</u>	<u>589,141</u>
Deferred Outflows of Resources			
Deferred pension resources	<u>379</u>	<u>282</u>	<u>661</u>
Liabilities			
Current Liabilities			
Accounts payable	2,750	-	2,750
Accrued salaries payable	429	33	462
Compensated absences payable - current	381	147	528
Total Current Liabilities	<u>3,560</u>	<u>180</u>	<u>3,740</u>
Noncurrent Liabilities			
Net pension liability	3,487	2,597	6,084
Compensated absences payable - noncurrent	1,508	375	1,883
Total Noncurrent Liabilities	<u>4,995</u>	<u>2,972</u>	<u>7,967</u>
Total Liabilities	<u>8,555</u>	<u>3,152</u>	<u>11,707</u>
Deferred Inflows of Resources			
Deferred pension resources	<u>488</u>	<u>363</u>	<u>851</u>
Net Position			
Net investment in capital assets	1,486	513,640	515,126
Unrestricted	27,861	34,257	62,118
Total Net Position	<u>\$ 29,347</u>	<u>\$ 547,897</u>	<u>\$ 577,244</u>

City of Harmony, Minnesota
Statement of Revenues, Expenses and Changes in Fund Net Position
Nonmajor Proprietary Funds
For the Year Ended December 31, 2020

	Business-type Activities - Enterprise Funds		
	603	605	
	Refuse and Recycling	Storm Water	Total
Operating Revenues			
Charges for services	\$ 76,996	\$ 29,994	\$ 106,990
Operating Expenses			
Personal services	7,140	7,136	14,276
Supplies	527	697	1,224
Other services and charges	45,572	-	45,572
Insurance	-	719	719
Repairs and maintenance	2,750	683	3,433
Depreciation	990	29,790	30,780
Total Operating Expenses	<u>56,979</u>	<u>39,025</u>	<u>96,004</u>
Operating Income (Loss)	<u>20,017</u>	<u>(9,031)</u>	<u>10,986</u>
Nonoperating Revenues (Expenses)			
Other income	57	7	64
Investment earnings	87	133	220
Total Nonoperating Revenues (Expenses)	<u>144</u>	<u>140</u>	<u>284</u>
Income (Loss) Before Transfers	20,161	(8,891)	11,270
Transfers Out	<u>(1,000)</u>	<u>(2,500)</u>	<u>(3,500)</u>
Change in Net Position	19,161	(11,391)	7,770
Net Position, January 1	<u>10,186</u>	<u>559,288</u>	<u>569,474</u>
Net Position, December 31	<u>\$ 29,347</u>	<u>\$ 547,897</u>	<u>\$ 577,244</u>

City of Harmony, Minnesota
Statement of Cash Flows
Nonmajor Proprietary Funds
For the Year Ended December 31, 2020

	Business-type Activities - Enterprise Funds		
	Refuse and Recycling	Storm Water	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 78,231	\$ 30,261	\$ 108,492
Payments to suppliers and vendors	(49,803)	(2,125)	(51,928)
Payments to and on behalf of employees	(10,038)	(7,165)	(17,203)
Other receipts	57	7	64
Net Cash Provided (Used) by Operating Activities	<u>18,447</u>	<u>20,978</u>	<u>39,425</u>
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	87	133	220
Net Increase (Decrease) in Cash and Temporary Investments	17,534	18,611	36,145
Cash and Temporary Investments, January 1	12,825	16,021	28,846
Cash and Temporary Investments, December 31	<u>\$ 30,359</u>	<u>\$ 34,632</u>	<u>\$ 64,991</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating income (loss)	\$ 20,017	\$ (9,031)	\$ 10,986
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Other income related to operations	57	7	64
Depreciation	990	29,790	30,780
(Increase) decrease in assets			
Accounts receivable	1,235	267	1,502
(Increase) decrease in deferred outflows of resources			
Deferred pension resources	420	112	532
Prepaid items	(10)	(26)	(36)
Increase (decrease) in liabilities			
Accounts payable	(625)	-	(625)
Due to other governments	(319)	-	(319)
Accrued salaries payable	246	25	271
Accrued interest payable			
Net pension liability	(2,136)	(176)	(2,312)
Compensated absences payable	(725)	234	(491)
Increase (decrease) in deferred inflows of resources			
Deferred pension resources	(703)	(224)	(927)
Net Cash Provided (Used) by Operating Activities	<u>\$ 18,447</u>	<u>\$ 20,978</u>	<u>\$ 39,425</u>

City of Harmony, Minnesota
 Ambulance Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balances -
 Budget and Actual
 For the Year Ended December 31, 2020
 (With Comparative Actual Amounts for Year Ended December 31, 2019)

	2020				2019
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Intergovernmental	\$ 24,252	\$ 24,252	\$ 47,046	\$ 22,794	\$ 25,177
Charges for services	182,500	182,500	154,799	(27,701)	195,462
Investment earnings	500	500	388	(112)	1,319
Miscellaneous					
Contributions and donations	-	-	-	-	4,426
Other	-	-	3,465	3,465	15,855
Total Revenues	<u>207,252</u>	<u>207,252</u>	<u>205,698</u>	<u>(1,554)</u>	<u>242,239</u>
Expenditures					
Current					
Public safety					
Personal services	105,808	105,808	98,479	7,329	102,882
Supplies	13,975	13,975	10,871	3,104	9,621
Other services	21,260	21,260	14,224	7,036	18,032
Other charges	53,740	53,740	38,477	15,263	46,520
Capital outlay					
Public safety	5,000	5,000	4,297	703	4,426
Total Expenditures	<u>199,783</u>	<u>199,783</u>	<u>166,348</u>	<u>33,435</u>	<u>181,481</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	7,469	7,469	39,350	31,881	60,758
Other Financing Sources (Uses)					
Transfers out	<u>(25,000)</u>	<u>(25,000)</u>	<u>(25,000)</u>	<u>-</u>	<u>(37,500)</u>
Net Change in Fund Balances	(17,531)	(17,531)	14,350	31,881	23,258
Fund Balances, January 1	<u>160,443</u>	<u>160,443</u>	<u>160,443</u>	<u>-</u>	<u>137,185</u>
Fund Balances, December 31	<u>\$ 142,912</u>	<u>\$ 142,912</u>	<u>\$ 174,793</u>	<u>\$ 31,881</u>	<u>\$ 160,443</u>

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

City of Harmony, Minnesota
Economic Development Authority Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
For the Year Ended December 31, 2020
(With Comparative Actual Amounts for Year Ended December 31, 2019)

	2020			2019	
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Property taxes	\$ 105,000	\$ 105,000	\$ 105,000	\$ -	\$ 102,500
Special assessments	1,750	1,750	1,340	(410)	1,430
Intergovernmental	-	-	18,157	18,157	178,209
Investment earnings	-	-	208	208	1,755
Miscellaneous					
Contributions and donations	-	-	-	-	15,000
Other	-	-	24,046	24,046	4,300
Total Revenues	<u>106,750</u>	<u>106,750</u>	<u>148,751</u>	<u>42,001</u>	<u>303,194</u>
Expenditures					
Current					
Economic development					
Personal services	17,946	17,946	33,494	(15,548)	18,145
Supplies	-	-	150	(150)	876
Other services	40,100	40,100	60,251	(20,151)	61,359
Other charges	66,810	66,810	34,632	32,178	210,055
Capital outlay					
Economic development	-	-	-	-	115,000
Total Expenditures	<u>124,856</u>	<u>124,856</u>	<u>128,527</u>	<u>(3,671)</u>	<u>405,435</u>
Excess (Deficiency) of Revenues Over Expenditures	(18,106)	(18,106)	20,224	38,330	(102,241)
Other Financing Sources (Uses)					
Transfers in	15,000	15,000	15,000	-	31,750
Net Change in Fund Balances	(3,106)	(3,106)	35,224	38,330	(70,491)
Fund Balances, January 1	92,135	92,135	92,135	-	162,626
Fund Balances, December 31	<u>\$ 89,029</u>	<u>\$ 89,029</u>	<u>\$ 127,359</u>	<u>\$ 38,330</u>	<u>\$ 92,135</u>

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

City of Harmony, Minnesota
Fire Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
For the Year Ended December 31, 2020
(With Comparative Actual Amounts for Year Ended December 31, 2019)

	2020				2019
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Property taxes	\$ 41,500	\$ 41,500	\$ 41,550	\$ 50	\$ 41,500
Intergovernmental	-	-	20,750	20,750	-
Charges for services	50,000	50,000	54,941	4,941	50,342
Investment earnings	-	-	85	85	600
Miscellaneous					
Contributions and donations	-	-	25,000	25,000	1,084
Other	6,500	6,500	1,774	(4,726)	7,325
Total Revenues	<u>98,000</u>	<u>98,000</u>	<u>144,100</u>	<u>46,100</u>	<u>100,851</u>
Expenditures					
Current					
Public safety					
Personal services	19,518	19,518	31,084	(11,566)	17,433
Supplies	11,350	11,350	10,919	431	6,928
Other services	20,606	20,606	15,021	5,585	21,672
Other charges	9,550	9,550	10,301	(751)	15,860
Capital outlay					
Public safety					
Fire	-	-	37,420	(37,420)	25,953
Total Expenditures	<u>61,024</u>	<u>61,024</u>	<u>104,745</u>	<u>(43,721)</u>	<u>87,846</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>36,976</u>	<u>36,976</u>	<u>39,355</u>	<u>2,379</u>	<u>13,005</u>
Other Financing Sources (Uses)					
Transfers in	-	-	-	-	20,000
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>(25,000)</u>	<u>10,000</u>	<u>(5,000)</u>
Net Change in Fund Balances	1,976	1,976	14,355	12,379	8,005
Fund Balances, January 1	<u>(27,333)</u>	<u>(27,333)</u>	<u>(27,333)</u>	-	<u>(35,338)</u>
Fund Balances, December 31	<u>\$ (25,357)</u>	<u>\$ (25,357)</u>	<u>\$ (12,978)</u>	<u>\$ 12,379</u>	<u>\$ (27,333)</u>

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

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, 2020
 (With Comparative Actual Amounts for Year Ended December 31, 2019)

	2020			Variance with Final Budget	2019
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
Revenues					
Investment earnings	\$ -	\$ -	\$ 841	\$ 841	\$ 1,657
Miscellaneous					
Loan interest	61,250	61,250	4,608	(56,642)	8,029
Other	300	300	955	655	600
Total Revenues	<u>61,550</u>	<u>61,550</u>	<u>6,404</u>	<u>(55,146)</u>	<u>10,286</u>
Expenditures					
Current					
Economic development					
Other services	1,500	1,500	-	1,500	637
Loans made	25,000	25,000	-	25,000	-
Total Expenditures	<u>26,500</u>	<u>26,500</u>	<u>-</u>	<u>26,500</u>	<u>637</u>
Net Change in Fund Balances	35,050	35,050	6,404	(28,646)	9,649
Fund Balances, January 1	<u>342,281</u>	<u>342,281</u>	<u>342,281</u>	<u>-</u>	<u>332,632</u>
Fund Balances, December 31	<u>\$ 377,331</u>	<u>\$ 377,331</u>	<u>\$ 348,685</u>	<u>\$ (28,646)</u>	<u>\$ 342,281</u>

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

City of Harmony, Minnesota
 General Fund
 Comparative Balance Sheets
 December 31, 2020 and 2019

	2020	2019
Assets		
Cash and temporary investments	\$ 746,046	\$ 523,720
Receivables		
Interest	2,753	5,511
Delinquent taxes	20,740	15,857
Accounts	436	4,632
Intergovernmental	12,741	27,334
Advance to other funds	-	150,000
Prepaid items	20,420	18,927
	\$ 803,136	\$ 745,981
Liabilities		
Accounts payable	\$ 31,867	\$ 60,455
Accrued salaries payable	2,014	3,101
Due to other governments	31,457	14,894
Total Liabilities	65,338	78,450
Deferred Inflows of Resources		
Unavailable revenue		
Property taxes	20,740	15,857
	20,740	15,857
Fund Balances		
Nonspendable		
Prepaid items	20,420	18,927
Advance to other funds	-	150,000
Unassigned	696,638	482,747
Total Fund Balances	717,058	651,674
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 803,136	\$ 745,981

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, 2020
 (With Comparative Actual Amounts for Year Ended December 31, 2019)

	2020			2019	
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Taxes					
Property taxes	\$ 262,298	\$ 262,298	\$ 262,496	\$ 198	\$ 221,543
Franchise taxes	3,500	3,500	-	(3,500)	4,276
Lodging	5,000	5,000	1,436	(3,564)	3,852
Total Taxes	<u>270,798</u>	<u>270,798</u>	<u>263,932</u>	<u>(6,866)</u>	<u>229,671</u>
Special assessments	-	-	6,433	6,433	2,443
Licenses and permits					
Business	2,750	2,750	2,842	92	3,115
Nonbusiness	2,250	2,250	2,681	431	2,782
Total Licenses and Permits	<u>5,000</u>	<u>5,000</u>	<u>5,523</u>	<u>523</u>	<u>5,897</u>
Intergovernmental					
Federal					
CARES	-	-	33,572	33,572	-
USDA grant	-	-	-	-	11,054
Total Federal	<u>-</u>	<u>-</u>	<u>33,572</u>	<u>33,572</u>	<u>11,054</u>
State					
Local government aid	351,976	351,976	352,289	313	346,400
Property tax credits and aids	202	202	202	-	311
Fire aid	15,000	15,000	18,775	3,775	16,655
Other State aids	-	-	-	-	864
Total State	<u>367,178</u>	<u>367,178</u>	<u>371,266</u>	<u>4,088</u>	<u>364,230</u>
Total Intergovernmental	<u>367,178</u>	<u>367,178</u>	<u>404,838</u>	<u>37,660</u>	<u>375,284</u>
Charges for services					
General government	100	100	165	65	229
Streets and highways	500	500	3,305	2,805	2,220
Rents	4,500	4,500	4,418	(82)	3,442
Total Charges for Services	<u>5,100</u>	<u>5,100</u>	<u>7,888</u>	<u>2,788</u>	<u>5,891</u>
Fines and forfeits	750	750	1,021	271	1,173
Investment earnings	2,500	2,500	8,362	5,862	10,687
Miscellaneous					
Contributions and donations	4,000	4,000	6,935	2,935	15,302
Refunds and reimbursements	7,500	7,500	7,230	(270)	2,854
Other	-	-	11,996	11,996	3,615
Total Miscellaneous	<u>11,500</u>	<u>11,500</u>	<u>26,161</u>	<u>14,661</u>	<u>21,771</u>
Total Revenues	<u>662,826</u>	<u>662,826</u>	<u>724,158</u>	<u>61,332</u>	<u>652,817</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, 2020
 (With Comparative Actual Amounts for Year Ended December 31, 2019)

	2020				2019
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Budget			
Expenditures					
Current					
General Government					
Mayor and Council					
Personal services	\$ 7,686	\$ 7,686	\$ 7,434	\$ 252	\$ 7,526
Materials and supplies	350	350	352	(2)	73
Other services and charges	1,750	1,750	533	1,217	1,277
Total Mayor and Council	<u>9,786</u>	<u>9,786</u>	<u>8,319</u>	<u>1,467</u>	<u>8,876</u>
Finance and administration					
Personal services	67,228	67,228	119,431	(52,203)	69,480
Materials and supplies	7,650	7,650	6,133	1,517	5,856
Printing and publication	3,294	3,294	8,624	(5,330)	2,483
Training	800	800	250	550	-
Repairs and maintenance	1,500	1,500	1,543	(43)	3,099
Professional fees	7,750	7,750	22,359	(14,609)	6,953
Miscellaneous	2,639	2,639	32,702	(30,063)	2,689
Total Finance and Administration	<u>90,861</u>	<u>90,861</u>	<u>191,042</u>	<u>(100,181)</u>	<u>90,560</u>
Elections	1,910	1,910	2,413	(503)	-
Professional services					
Legal	8,000	8,000	8,980	(980)	8,005
Total General Government	<u>110,557</u>	<u>110,557</u>	<u>210,754</u>	<u>(100,197)</u>	<u>107,441</u>
Government Buildings					
Visitor center					
Personal services	10,986	10,986	10,319	667	10,272
Materials and supplies	2,750	2,750	2,175	575	1,682
Insurance	1,942	1,942	1,854	88	1,826
Repairs and maintenance	3,750	3,750	4,210	(460)	7,665
Utilities	7,650	7,650	4,970	2,680	5,898
Total Visitor Center	<u>27,078</u>	<u>27,078</u>	<u>23,528</u>	<u>3,550</u>	<u>27,343</u>
Community center					
Personal services	45,552	45,552	29,981	15,571	34,669
Materials and supplies	7,200	7,200	8,857	(1,657)	6,123
Insurance	15,757	15,757	15,862	(105)	15,104
Repairs and maintenance	25,500	25,500	1,909	23,591	13,888
Utilities	35,600	35,600	26,558	9,042	31,388
Miscellaneous	100	100	20	80	-
Total Community Center	<u>129,709</u>	<u>129,709</u>	<u>83,187</u>	<u>46,522</u>	<u>101,172</u>
Total Government Buildings	<u>156,787</u>	<u>156,787</u>	<u>106,715</u>	<u>50,072</u>	<u>128,515</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, 2020
(With Comparative Actual Amounts for Year Ended December 31, 2019)

	2020				2019
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Expenditures (Continued)					
Current (continued)					
Public safety					
Police					
Contracted services	\$ 92,750	\$ 92,750	\$ 102,261	\$ (9,511)	\$ 90,467
Vehicle expense	5,250	5,250	5,790	(540)	4,142
Materials and supplies	600	600	60	540	-
Insurance	1,174	1,174	1,276	(102)	1,168
Repairs and maintenance	1,000	1,000	1,001	(1)	728
Miscellaneous	775	775	729	46	562
Total Police	<u>101,549</u>	<u>101,549</u>	<u>111,117</u>	<u>(9,568)</u>	<u>97,067</u>
Fire					
Firemen's relief	<u>24,500</u>	<u>24,500</u>	<u>27,275</u>	<u>(2,775)</u>	<u>24,155</u>
Civil defense					
Personal services	646	646	646	-	646
Repairs and maintenance	1,000	1,000	375	625	691
Other charges	<u>2,011</u>	<u>2,011</u>	<u>2,135</u>	<u>(124)</u>	<u>1,965</u>
Total Civil Defense	<u>3,657</u>	<u>3,657</u>	<u>3,156</u>	<u>501</u>	<u>3,302</u>
Animal control					
Personal services	4,210	4,210	3,069	1,141	4,285
Materials and supplies	400	400	192	208	218
Other services	<u>400</u>	<u>400</u>	<u>195</u>	<u>205</u>	<u>195</u>
Total Animal and Pest Control	<u>5,010</u>	<u>5,010</u>	<u>3,456</u>	<u>1,554</u>	<u>4,698</u>
Total Public Safety	<u>134,716</u>	<u>134,716</u>	<u>145,004</u>	<u>(10,288)</u>	<u>129,222</u>
Streets and Highways					
Personal services	22,879	22,879	12,327	10,552	18,715
Vehicle expenses	2,000	2,000	2,155	(155)	1,803
Materials and supplies	19,900	19,900	15,575	4,325	19,420
Insurance	2,145	2,145	2,232	(87)	2,049
Repairs and maintenance	35,500	35,500	5,191	30,309	26,207
Snow and ice	39,624	39,624	21,266	18,358	45,652
Building maintenance	<u>28,066</u>	<u>28,066</u>	<u>16,316</u>	<u>11,750</u>	<u>25,742</u>
Total Streets and Highways	<u>150,114</u>	<u>150,114</u>	<u>75,062</u>	<u>75,052</u>	<u>139,588</u>
Culture and recreation					
Community events	<u>6,463</u>	<u>6,463</u>	<u>11,244</u>	<u>(4,781)</u>	<u>19,267</u>
Economic development					
Lodging tax	5,000	5,000	862	4,138	4,163
Community development	500	500	447	53	97
Repairs and maintenance	-	-	12,600	(12,600)	-
Total Economic Development	<u>5,500</u>	<u>5,500</u>	<u>13,909</u>	<u>(8,409)</u>	<u>4,260</u>
Unallocated					
Miscellaneous	5,000	5,000	5,465	(465)	5,930
Insurance	<u>2,295</u>	<u>2,295</u>	<u>2,268</u>	<u>27</u>	<u>2,187</u>
Total Miscellaneous	<u>7,295</u>	<u>7,295</u>	<u>7,733</u>	<u>(438)</u>	<u>8,117</u>
Total Current	<u>571,432</u>	<u>571,432</u>	<u>570,421</u>	<u>1,011</u>	<u>536,410</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, 2020
(With Comparative Actual Amounts for Year Ended December 31, 2019)

	2020				2019
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Expenditures (Continued)					
Capital outlay					
Finance and administration	1,000	1,000	1,698	(698)	-
Economic development	2,500	2,500	13,155	(10,655)	154
Government buildings	-	-	-	-	30,502
Streets and highways	12,500	12,500	-	12,500	68,996
Total Capital Outlay	<u>16,000</u>	<u>16,000</u>	<u>14,853</u>	<u>1,147</u>	<u>99,652</u>
Total Expenditures	<u>587,432</u>	<u>587,432</u>	<u>585,274</u>	<u>2,158</u>	<u>636,062</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>75,394</u>	<u>75,394</u>	<u>138,884</u>	<u>63,490</u>	<u>16,755</u>
Other Financing Sources (Uses)					
Transfers in	10,000	10,000	10,000	-	24,000
Transfers out	<u>(83,500)</u>	<u>(83,500)</u>	<u>(83,500)</u>	<u>-</u>	<u>(100,250)</u>
Total Other Financing Sources (Uses)	<u>(73,500)</u>	<u>(73,500)</u>	<u>(73,500)</u>	<u>-</u>	<u>(76,250)</u>
Net Change in Fund Balances	1,894	1,894	65,384	63,490	(59,495)
Fund Balances, January 1	<u>651,674</u>	<u>651,674</u>	<u>651,674</u>	<u>-</u>	<u>711,169</u>
Fund Balances, December 31	<u>\$ 653,568</u>	<u>\$ 653,568</u>	<u>\$ 717,058</u>	<u>\$ 63,490</u>	<u>\$ 651,674</u>

City of Harmony, Minnesota
Debt Service Funds
Combining Balance Sheet
December 31, 2020

	314 2010 G.O. Improvement Bonds	315 2013A G.O. Tax Abatement Bonds	316 2013B G.O. Tax Abatement Bonds	317 2014A G.O. Improvement Bonds	318 2017A G.O. Improvement Bonds	319 2020A G.O. Improvement Bonds	Total
Assets							
Cash and temporary investments	\$ 51,429	\$ 31,913	\$ 27,858	\$ 44,486	\$ 133,201	\$ 139,523	\$ 428,410
Receivables							
Delinquent taxes	68	1,543	1,273	804	3,121	-	6,809
Special assessments	1,200	-	-	77,269	137,344	307,946	523,759
Intergovernmental	232	884	729	2,236	2,896	6,985	13,962
Total Assets	<u>\$ 52,929</u>	<u>\$ 34,340</u>	<u>\$ 29,860</u>	<u>\$ 124,795</u>	<u>\$ 276,562</u>	<u>\$ 454,454</u>	<u>\$ 972,940</u>
Liabilities							
Accrued interest payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27,274	\$ 27,274
Deferred Inflows of Resources							
Unavailable revenue							
Property taxes	68	1,543	1,273	804	3,121	-	6,809
Special assessments	1,200	-	-	77,269	137,344	307,946	523,759
Total Deferred Inflows of Resources	<u>1,268</u>	<u>1,543</u>	<u>1,273</u>	<u>78,073</u>	<u>140,465</u>	<u>307,946</u>	<u>530,568</u>
Fund Balances							
Restricted							
Debt service	51,661	32,797	28,587	46,722	136,097	119,234	415,098
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 52,929</u>	<u>\$ 34,340</u>	<u>\$ 29,860</u>	<u>\$ 124,795</u>	<u>\$ 276,562</u>	<u>\$ 454,454</u>	<u>\$ 972,940</u>

City of Harmony, Minnesota

Debt Service Funds

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances For the Year Ended December 31, 2020

	314 2010 G.O. Improvement Bonds	315 2013A G.O. Tax Abatement Bonds	316 2013B G.O. Tax Abatement	317 2014A G.O. Improvement Bonds	318 2017A G.O. Improvement Bonds	319 2020A G.O. Improvement Bonds	Total
Revenues							
Property taxes	\$ 59	\$ 40,016	\$ 33,013	\$ 17,560	\$ 79,846	\$ -	\$ 170,494
Special assessments	4,962	-	-	12,476	24,817	119,234	161,489
Investment earnings	291	19	172	159	263	-	904
Total Revenues	<u>5,312</u>	<u>40,035</u>	<u>33,185</u>	<u>30,195</u>	<u>104,926</u>	<u>119,234</u>	<u>332,887</u>
Expenditures							
Debt service							
Principal	-	15,000	26,000	24,000	77,500	-	142,500
Interest and other costs	-	1,738	5,715	1,418	23,111	27,274	59,256
Total Expenditures	<u>-</u>	<u>16,738</u>	<u>31,715</u>	<u>25,418</u>	<u>100,611</u>	<u>27,274</u>	<u>201,756</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	5,312	23,297	1,470	4,777	4,315	91,960	131,131
Other Financing Sources (Uses)							
Bond proceeds	-	-	-	-	-	27,274	27,274
Net Change in Fund Balances	5,312	23,297	1,470	4,777	4,315	119,234	158,405
Fund Balances, January 1	<u>46,349</u>	<u>9,500</u>	<u>27,117</u>	<u>41,945</u>	<u>131,782</u>	<u>-</u>	<u>256,693</u>
Fund Balances, December 31	<u><u>\$ 51,661</u></u>	<u><u>\$ 32,797</u></u>	<u><u>\$ 28,587</u></u>	<u><u>\$ 46,722</u></u>	<u><u>\$ 136,097</u></u>	<u><u>\$ 119,234</u></u>	<u><u>\$ 415,098</u></u>

City of Harmony, Minnesota
 Summary Financial Report
 Revenues and Expenditures for General Operations -
 Governmental Funds
 For the Years Ended December 31, 2020 and 2019

	Total 2020	Total 2019	Percent Increase (Decrease)
Revenues			
Taxes	\$ 757,317	\$ 716,875	5.64 %
Special assessments	169,262	60,463	179.94
Licenses and permits	5,523	5,897	(6.34)
Intergovernmental	521,307	608,659	(14.35)
Charges for services	221,294	253,955	(12.86)
Fines and forfeits	1,098	1,517	(27.62)
Investment earnings	17,829	32,633	(45.37)
Miscellaneous	108,825	137,875	(21.07)
Total Revenues	\$ 1,802,455	\$ 1,817,874	(0.85) %
Per Capita	\$ 1,769	\$ 1,772	(0.17) %
Expenditures			
Current			
General government	\$ 317,469	\$ 235,956	34.55 %
Public safety	374,380	368,170	1.69
Streets and highways	75,062	139,588	(46.23)
Culture and recreation	170,241	185,183	(8.07)
Economic development	160,420	313,470	(48.82)
Miscellaneous	7,733	8,117	(4.73)
Capital outlay			
General government	1,698	30,502	(94.43)
Public safety	41,717	38,536	8.25
Streets and highways	1,696,059	68,996	2,358.20
Culture and recreation	15,889	81,167	(80.42)
Economic development	13,155	115,000	(88.56)
Debt service			
Principal	142,500	147,500	(3.39)
Interest and other charges	83,731	37,862	121.15
Total Expenditures	\$ 3,100,054	\$ 1,770,047	75.14 %
Per Capita	\$ 3,042	\$ 1,725	76.34 %
Total Long-term Indebtedness	\$ 2,770,000	\$ 871,500	217.84 %
Per Capita	2,718	849	220.02
General Fund Balance - December 31	\$ 717,058	\$ 651,674	10.03 %
Per Capita	704	635	10.79

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 City Administrator at (507) 886-8122.

OTHER REQUIRED REPORTS

CITY OF HARMONY
HARMONY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2020

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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, 2020, and the notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 6, 2021.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Harmony, Minnesota 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. § 6.65, except as described in the Schedule of Findings and Responses as item 2020-003. 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, EICK & MEYERS, LLP
Mankato, Minnesota
April 6, 2021



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, 2020, 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 April 6, 2021.

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 2020-001 and 2020-002 that we consider to be a significant deficiency.

Compliance and Other Matters

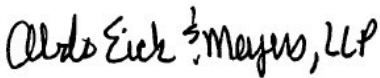
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* or Minnesota statutes as described as item 2020-003.

The City's Response to Finding

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

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, EICK & MEYERS, LLP
Mankato, Minnesota
April 6, 2021

City of Harmony, Minnesota
Schedule of Findings and Responses
For the Year Ended December 31, 2020

<u>Finding</u>	<u>Description</u>
2020-001	Segregation of Duties
<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

Cause: 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.

Recommendation: 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

Cause: The Deputy Clerk has control over the check stock as well as access to entering transactions into the accounting system.

Recommendation: 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, 2020

Finding Description

2020-001 Segregation of Duties (Continued)

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, 2020

<u>Finding</u>	<u>Description</u>
2020-002	Financial Report Preparation
<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.
<i>Management Response:</i>	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, 2020

2020-003

Claims Approval

- Condition:* We conducted an audit under the provisions of the Minnesota Legal Compliance Audit Guide for Cities. This audit for legal compliance requires a review of the City's claims and disbursements. Our study indicated an instance of non-compliance that we believe should be remedied.
- Criteria:* Minnesota Statute § 412.271, subd. 1 directs all claims be audited and allowed by the City Council. Meaning all claims paid by the City are required to be approved by the City Council at the City's monthly meetings. We noted instances throughout the year where there were gaps in the check sequences that the City Council was approving, thereby not approving all claims.
- Cause:* The current process of running the check register report to be approved by the City Council is not a continuous list of claims from month to month. Checks written after the City Council meeting but before the end of the month are being excluded from the next month's report.
- Effect:* This does not permit a clear process to document that all disbursements have been approved by the City Council.
- Recommendation:* We recommend that a claims list be generated by looking at the previous claims list and generating the report for checks after that last check number. We recommend that the minutes disclose the total amount approved as well as disclose the sequence of checks disbursed.

Management Response:

All disbursements including EFTs will be included in future check register reports.