

Annual Financial Report

City of Harmony

Harmony, Minnesota

For the year ended December 31, 2021



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INTRODUCTORY SECTION

CITY OF HARMONY
HARMONY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

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City of Harmony, Minnesota
Elected and Appointed Officials
For the Year Ended December 31, 2021

ELECTED

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

APPOINTED

Devin Swanberg	Administrator
Sam Grabau	Finance Clerk

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FINANCIAL SECTION
CITY OF HARMONY
HARMONY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Harmony, Minnesota, Minnesota (the City), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Basis for Qualified Opinion

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

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the "Basis for Qualified Opinion", the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the City as of December 31, 2021, 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, 2021, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General, Ambulance and Economic Development fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Harmony, Minnesota ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility

Our 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.

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 18, 2022, 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.



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Mankato, Minnesota
April 18, 2022



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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, 2021.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$12,786,218 (net position). Of this amount \$3,211,463 (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 \$3,252,483, an increase of \$20,485 in comparison with the prior year. Approximately 22.6 percent of the total amount, \$736,603, 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 (\$32,542) 2) restricted (\$952,545), 3) committed (\$827,821), or 4) assigned (\$702,972).
- At the end of the current fiscal year, unassigned fund balance for the General fund was \$753,366, or 144.5 percent of total General fund expenditures.
- The City's total debt decreased by \$297,000, or 7.6 percent during the current fiscal year. This was attributable to regularly scheduled debt service payments and the prepayment of the 2013B G.O. tax abatement bond, net of three bond issuances during the year.

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**

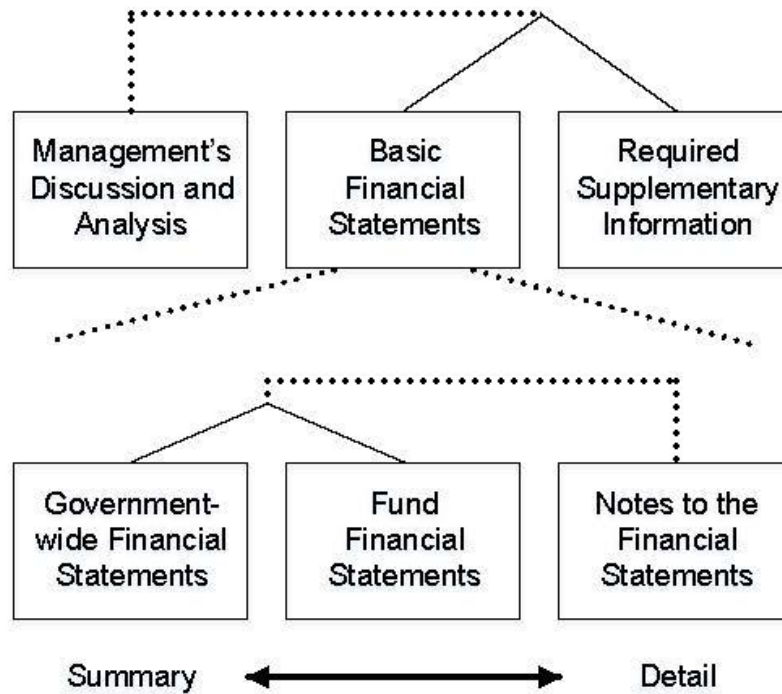


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the 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, seven of which are Debt Service funds which are considered one fund for reporting purposes. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, the Ambulance fund, the Economic Development Authority, the Capital Projects fund, the TIF District #7 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 \$12,786,218 at the close of the most recent fiscal year.

A large portion of the City's net position (64.5 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		
	2021	2020	Increase (Decrease)	2021	2020	Increase (Decrease)
Current and Other Assets	\$ 4,092,181	\$ 4,171,041	\$ (78,860)	\$ 1,393,729	\$ 1,480,187	\$ (86,458)
Capital Assets	5,949,238	5,029,734	919,504	5,850,639	5,918,696	(68,057)
Total Assets	10,041,419	9,200,775	840,644	7,244,368	7,398,883	(154,515)
Deferred Outflows of Resources	89,356	23,315	66,041	45,023	6,663	38,360
Long-term Liabilities Outstanding	3,244,664	3,206,053	38,611	947,209	1,023,391	(76,182)
Other Liabilities	183,593	172,620	10,973	60,041	169,779	(109,738)
Total Liabilities	3,428,257	3,378,673	49,584	1,007,250	1,193,170	(185,920)
Deferred Inflows of Resources	131,955	29,991	101,964	66,486	8,573	57,913
Net Investment in Capital Assets	3,263,238	2,513,052	750,186	4,983,639	4,968,696	14,943
Restricted	1,327,878	869,287	458,591	-	-	-
Unrestricted	1,979,447	2,433,087	(453,640)	1,232,016	1,235,107	(3,091)
Total Net Position	\$ 6,570,563	\$ 5,815,426	\$ 755,137	\$ 6,215,655	\$ 6,203,803	\$ 11,852

An additional portion of the City's net assets (10.4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (25.1 percent) may be used to meet the City's ongoing obligations to citizens and creditors.

The City's net position increased by \$766,989 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 \$755,137. Key elements of this increase are as follows:

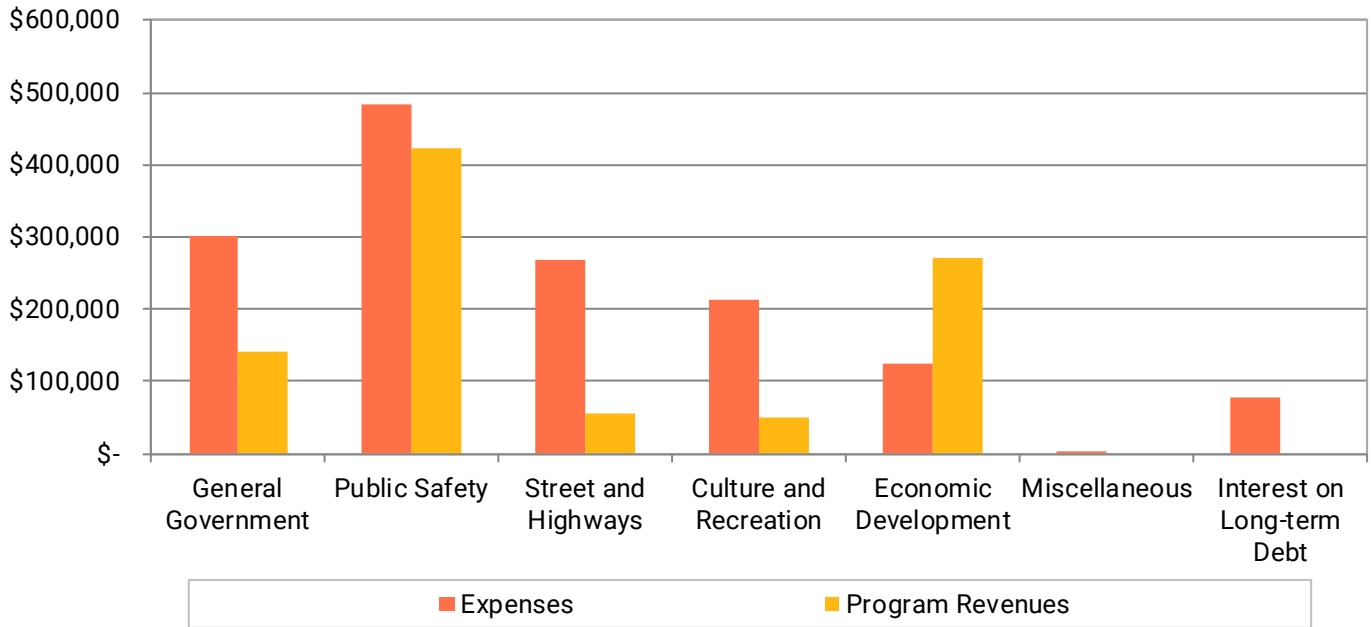
City of Harmony, Minnesota's Changes in Net Position

	Governmental Activities			Business-type Activities		
	2021	2020	Increase (Decrease)	2021	2020	Increase (Decrease)
Revenues						
Program Revenues						
Charges for services	\$ 336,575	\$ 315,842	\$ 20,733	\$ 1,676,360	\$ 1,668,741	\$ 7,619
Operating grants and contributions	99,487	149,329	(49,842)	10,027	26,972	(16,945)
Capital grants and contributions	504,412	482,240	22,172	2,155	153,398	(151,243)
General revenues						
Property taxes/tax increments	789,652	762,131	27,521	-	-	-
Other taxes	7,075	-	7,075	-	-	-
Grants and contributions not restricted to specific programs	355,776	352,491	3,285	-	-	-
Unrestricted investment earnings	7,979	17,829	(9,850)	3,651	5,934	(2,283)
Gain on sale of fixed assets	9,253	-	9,253	-	-	-
Other	-	1,367	(1,367)	-	-	-
Total Revenues	2,110,209	2,081,229	28,980	1,692,193	1,855,045	(162,852)
Expenses						
General government	301,364	329,283	(27,919)	-	-	-
Public safety	483,798	501,988	(18,190)	-	-	-
Streets and highways	268,105	228,925	39,180	-	-	-
Culture and recreation	212,177	199,502	12,675	-	-	-
Economic development	123,531	170,776	(47,245)	-	-	-
Miscellaneous	2,414	7,733	(5,319)	-	-	-
Interest on long-term debt	78,697	80,677	(1,980)	-	-	-
Water utility	-	-	-	198,580	228,452	(29,872)
Sewer utility	-	-	-	371,360	432,637	(61,277)
Electric utility	-	-	-	894,095	933,856	(39,761)
Refuse and recycling	-	-	-	67,139	56,979	10,160
Storm water	-	-	-	34,153	39,025	(4,872)
Total Expenses	1,470,086	1,518,884	(48,798)	1,565,327	1,690,949	(125,622)
Increase (Decrease) in Net						
Assets before Transfers	640,123	562,345	77,778	126,866	164,096	(37,230)
Contribution of Capital Assets	(21,486)	(447,997)	426,511	21,486	447,997	(426,511)
Transfers	136,500	33,500	103,000	(136,500)	(33,500)	(103,000)
Change in Net Position	755,137	147,848	607,289	11,852	578,593	(566,741)
Net Position - January 1	5,815,426	5,667,578	147,848	6,203,803	5,625,210	578,593
Net Position - December 31	\$ 6,570,563	\$ 5,815,426	\$ 755,137	\$ 6,215,655	\$ 6,203,803	\$ 11,852

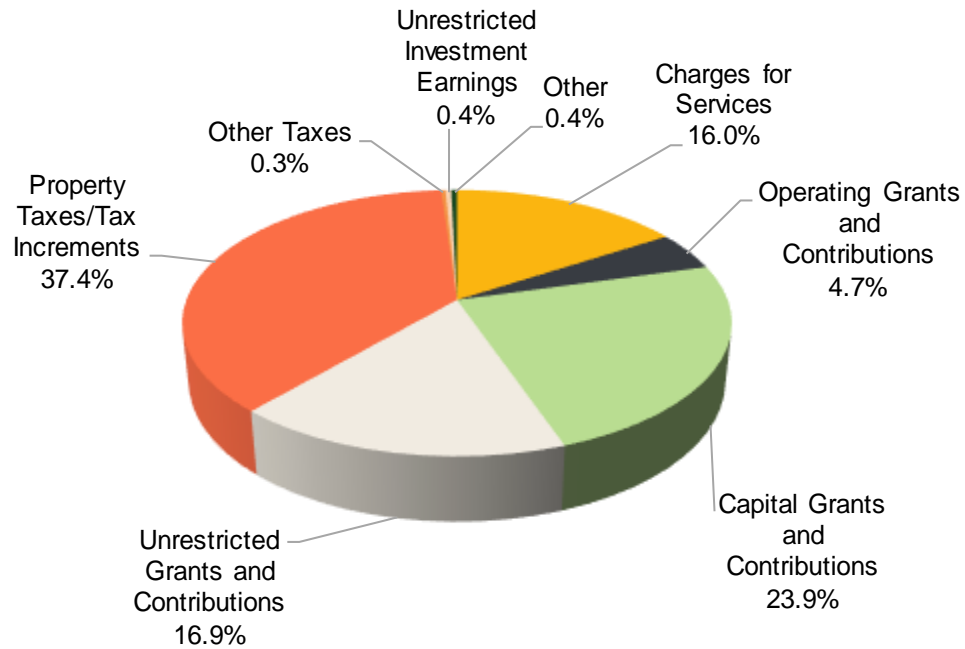
Property tax levies increased 4.0 percent during the year.

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

Expenses and Program Revenues - Governmental Activities

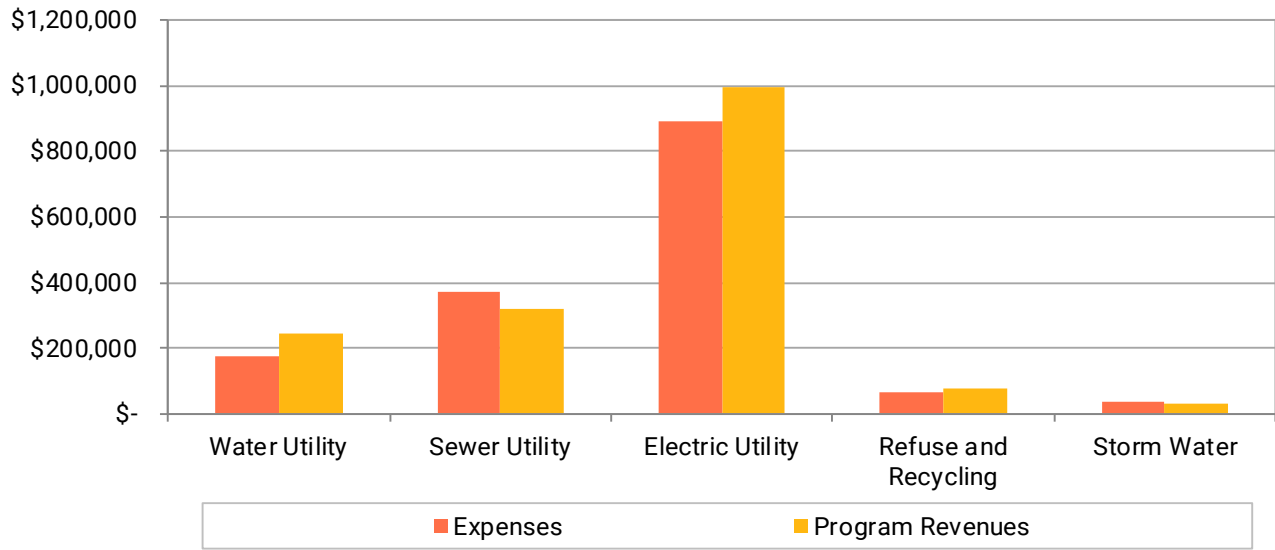


Revenues by Source - Governmental Activities

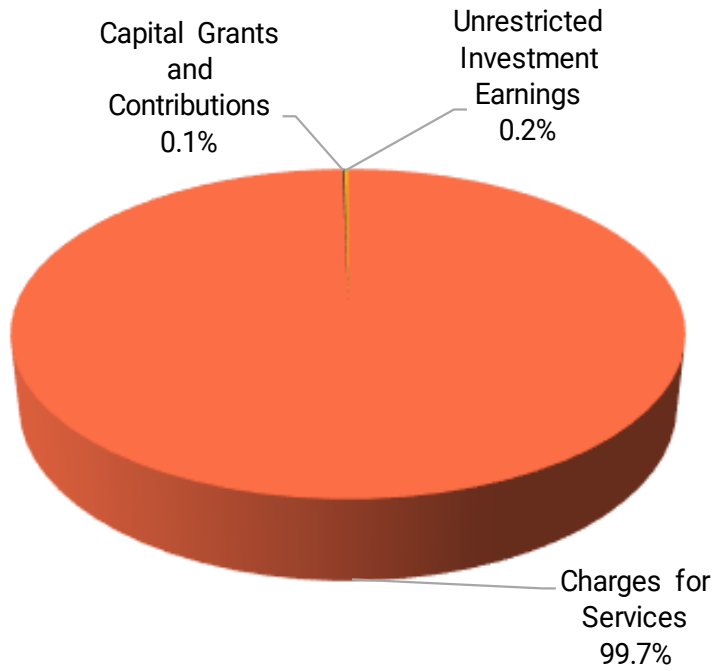


Business-type Activities. Business-type activities increased the City's net position by \$11,852.

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 \$3,252,483, an increase of \$20,485 in comparison with the prior year. Approximately 22.6 percent of the total amount, \$736,603, 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 (\$32,542) 2) restricted (\$952,545), 3) committed (\$827,821), or 4) assigned (\$702,972).

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 \$802,228, \$753,366 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 153.9 percent of fund expenditures.

The fund balance of the City's General fund increased by \$85,170 during the current fiscal year. The key factor in this increase was mainly related to unanticipated state aids, donations and other miscellaneous revenues combined with less than expected street and highway expenditures.

The Ambulance fund has a total fund balance of \$152,995 of which \$2,422 is nonspendable and the remainder assigned for ambulance services. The net decrease in fund balance during the current year in this fund was \$21,798. This was mostly due to transfers out of the fund of \$25,000 to the Capital Projects fund.

The Debt Service fund has a total fund balance of \$690,222. The net increase in fund balance during the current year was \$275,124 mainly due to refunding bond activity and the closing of various capital project funds.

The Capital Projects fund has a total fund balance of \$732,865, all of which is committed for future capital outlay. The net decrease in fund balance during the current year in this fund was \$262,601 mainly due to public safety capital purchases in the amount of \$395,337.

The Economic Development Authority fund has a total fund balance of \$169,082. The net increase in fund balance during the current year in this fund was \$41,723 mainly due a transfer in of \$15,000 from various enterprise funds.

The TIF District #7 fund has a total fund balance of \$33,483 which is restricted for capital projects after a bond issuance and development costs incurred within the district.

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 \$1,232,016. The total growth in net position for the funds was \$11,852. 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 \$85,870 from a combination of unanticipated state aid and other miscellaneous contributions, donations, refunds and reimbursements. Expenditures were under budget by \$90,510 in 2021 mainly due to less than anticipated expenditures in the streets and highway and police departments. Transfers out were over budget by \$86,780 to finance the prepayment of the 2013B G.O. tax abatement bonds. The General fund budgeted for an increase in reserves by \$570.

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, 2021, amounts to \$11,799,877 (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 7.8 percent (a 18.3 percent increase for governmental activities and a 1.1 percent decrease for business-type activities).

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

- Costs associated with sewer pump, sewer equipment and electric poles/fixtures in the amount of \$175,144.
- The purchase of rescue truck equipment in the amount of \$65,897.
- Costs associated with the 2020 ambulance and power cot in the amount of \$144,446.
- The purchase of a F550 RAM truck in the amount of \$50,682.
- The purchase of a fire truck in the amount of \$290,000.
- Completion of the 2020 Street and utility Improvement Project in the amount of \$1,439,348.
- Costs associated with the Dairyland TIF project totaling \$534,302.

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

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

	Governmental Activities			Business-type Activities		
	2021	2020	Increase (Decrease)	2021	2020	Increase (Decrease)
Land	\$ 424,743	\$ 424,743	\$ -	\$ 36,415	\$ 36,415	\$ -
Construction in Progress	562,217	1,275,263	(713,046)	-	545,998	(545,998)
Buildings and Improvements	487,912	521,299	(33,387)	919,338	997,716	(78,378)
Systems and Infrastructure	2,950,862	1,658,638	1,292,224	3,508,388	2,976,431	531,957
Equipment and Machinery	592,831	566,021	26,810	1,386,498	1,362,136	24,362
Vehicles	930,673	583,770	346,903	-	-	-
Total	\$ 5,949,238	\$ 5,029,734	\$ 919,504	\$ 5,850,639	\$ 5,918,696	\$ (68,057)

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

City of Harmony, Minnesota's Outstanding Debt

	Governmental Activities			Business-type Activities		
	2021	2020	Increase (Decrease)	2021	2020	Increase (Decrease)
G.O. Improvement Bonds	\$ 2,686,000	\$ 2,770,000	\$ (84,000)	\$ -	\$ -	\$ -
G.O. Tax Abatement Bonds	48,000	178,000	(130,000)	-	-	-
G.O. Revenue Bonds	-	-	-	867,000	950,000	(83,000)
Total	<u>\$ 2,734,000</u>	<u>\$ 2,948,000</u>	<u>\$ (214,000)</u>	<u>\$ 867,000</u>	<u>\$ 950,000</u>	<u>\$ (83,000)</u>

The City's total debt decreased by \$297,000, or 7.6 percent during the current fiscal year. This was attributable to regularly scheduled debt service payments and the prepayment of the 2013B G.O. tax abatement bond, net of three bond issuances during the year.

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 \$2,024,004. 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 3.6 percent, which is a decrease from a rate of 3.9 percent a year ago. This compares favorably to the State's average unemployment rate of 3.0 percent and to the national average rate of 3.9 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 2022 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, 2021

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City of Harmony, Minnesota
Statement of Net Position
December 31, 2021

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and temporary investments	\$ 3,040,546	\$ 1,143,555	\$ 4,184,101
Receivables			
Interest	4,772	-	4,772
Delinquent taxes	9,694	-	9,694
Accounts, net of allowances	93,782	77,373	171,155
Special assessments	667,876	79,390	747,266
Loans	274,069	-	274,069
Intergovernmental	12,118	4,318	16,436
Internal balances	(43,218)	43,218	-
Inventories	-	28,725	28,725
Prepaid items	32,542	17,150	49,692
Capital assets			
Nondepreciable land and construction in progress	986,960	36,415	1,023,375
Depreciable assets (net of accumulated depreciation)	4,962,278	5,814,224	10,776,502
Total Assets	<u>10,041,419</u>	<u>7,244,368</u>	<u>17,285,787</u>
Deferred Outflows of Resources			
Deferred pension resources	<u>89,356</u>	<u>45,023</u>	<u>134,379</u>
Liabilities and Net Position			
Liabilities			
Accounts payable	71,947	34,523	106,470
Deposits payable	-	12,914	12,914
Due to other governments	30,541	6,565	37,106
Accrued interest payable	21,465	3,628	25,093
Accrued salaries payable	5,709	2,411	8,120
Unearned revenue	53,931	-	53,931
Noncurrent liabilities			
Due within one year			
Long-term liabilities	338,411	102,537	440,948
Due in more than one year			
Long-term liabilities	2,775,627	778,857	3,554,484
Net pension liability	130,626	65,815	196,441
Total Liabilities	<u>3,428,257</u>	<u>1,007,250</u>	<u>4,435,507</u>
Deferred Inflows of Resources			
Deferred pension resources	<u>131,955</u>	<u>66,486</u>	<u>198,441</u>
Net Position			
Net investment in capital assets	3,263,238	4,983,639	8,246,877
Restricted			
Small cities assistance	27,628	-	27,628
Economic development	96,712	-	96,712
Capital projects	137,983	-	137,983
Debt service	1,065,555	-	1,065,555
Unrestricted	<u>1,979,447</u>	<u>1,232,016</u>	<u>3,211,463</u>
Total Net Position	<u>\$ 6,570,563</u>	<u>\$ 6,215,655</u>	<u>\$ 12,786,218</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, 2021

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General government	\$ 301,364	\$ 36,570	\$ -	\$ 104,500
Public safety	483,798	251,956	24,519	144,928
Streets and highways	268,105	7,961	27,628	20,847
Culture and recreation	212,177	3,831	47,340	-
Economic development	123,531	36,257	-	234,137
Miscellaneous	2,414	-	-	-
Interest and other costs	78,697	-	-	-
Total Governmental Activities	<u>1,470,086</u>	<u>336,575</u>	<u>99,487</u>	<u>504,412</u>
Business-type Activities				
Water utility	198,580	266,085	-	1,965
Sewer utility	371,360	321,195	-	190
Electric utility	894,095	982,890	10,027	-
Refuse and recycling	67,139	76,633	-	-
Storm water	34,153	29,557	-	-
Total Business-type Activities	<u>1,565,327</u>	<u>1,676,360</u>	<u>10,027</u>	<u>2,155</u>
Total	<u>\$ 3,035,413</u>	<u>\$ 2,012,935</u>	<u>\$ 109,514</u>	<u>\$ 506,567</u>

General Revenues

- Property taxes, levied for general purposes
- Property taxes, levied for specific purposes
- Property taxes, levied for debt service
- Tax increments
- Franchise taxes
- Grants and contributions not restricted to specific programs
- Unrestricted investment earnings
- Gain on sale of capital assets
- Contribution of capital assets
- Transfers
- Total General Revenues, Contributions 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
\$ (160,294)		\$ (160,294)
(62,395)		(62,395)
(211,669)		(211,669)
(161,006)		(161,006)
146,863		146,863
(2,414)		(2,414)
(78,697)		(78,697)
<u>(529,612)</u>		<u>(529,612)</u>
	\$ 69,470	69,470
	(49,975)	(49,975)
	98,822	98,822
	9,494	9,494
	(4,596)	(4,596)
	<u>123,215</u>	<u>123,215</u>
<u>(529,612)</u>	<u>123,215</u>	<u>(406,397)</u>
272,718	-	272,718
317,518	-	317,518
182,779	-	182,779
16,637	-	16,637
7,075	-	7,075
355,776	-	355,776
7,979	3,651	11,630
9,253	-	9,253
(21,486)	21,486	-
136,500	(136,500)	-
<u>1,284,749</u>	<u>(111,363)</u>	<u>1,173,386</u>
755,137	11,852	766,989
<u>5,815,426</u>	<u>6,203,803</u>	<u>12,019,229</u>
<u>\$ 6,570,563</u>	<u>\$ 6,215,655</u>	<u>\$ 12,786,218</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, 2021

City of Harmony, Minnesota

Balance Sheet
Governmental Funds
December 31, 2021

	101	223	620	300's
	General	Ambulance	Economic Development Authority	Debt Service
Assets				
Cash and temporary investments	\$ 894,325	\$ 96,173	\$ 160,943	\$ 683,112
Receivables				
Interest	4,772	-	-	-
Delinquent taxes	7,486	-	-	2,208
Accounts, net of allowances	3,099	57,548	12,000	-
Special assessments	-	-	225,286	442,590
Loans	-	-	-	-
Intergovernmental	2,351	-	884	7,110
Advances to other funds	-	-	3,834	-
Prepaid items	21,234	2,422	51	-
	<u>\$ 933,267</u>	<u>\$ 156,143</u>	<u>\$ 402,998</u>	<u>\$ 1,135,020</u>
Liabilities				
Accounts payable	\$ 36,528	\$ 2,431	\$ 8,306	\$ -
Due to other governments	29,926	-	-	-
Accrued salaries payable	3,168	717	324	-
Advances from other funds	-	-	-	-
Unearned revenue	53,931	-	-	-
Total Liabilities	<u>123,553</u>	<u>3,148</u>	<u>8,630</u>	<u>-</u>
Deferred Inflows of Resources				
Unavailable revenue				
Property taxes	7,486	-	-	2,208
Special assessments	-	-	225,286	442,590
Total Deferred Inflows of Resources	<u>7,486</u>	<u>-</u>	<u>225,286</u>	<u>444,798</u>
Fund Balances				
Nonspendable				
Prepaid items	21,234	2,422	51	-
Restricted				
Economic development	-	-	-	-
Capital projects	-	-	-	-
Debt service	-	-	-	690,222
Small cities assistance	27,628	-	-	-
Committed				
Capital outlay	-	-	-	-
Loans	-	-	-	-
Assigned				
Economic development	-	-	169,031	-
Park and recreation	-	-	-	-
Public safety	-	150,573	-	-
Unassigned	753,366	-	-	-
Total Fund Balances	<u>802,228</u>	<u>152,995</u>	<u>169,082</u>	<u>690,222</u>
	<u>\$ 933,267</u>	<u>\$ 156,143</u>	<u>\$ 402,998</u>	<u>\$ 1,135,020</u>

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

401	425	Other	
Capital Projects	TIF District #7	Governmental Funds	Total
\$ 732,865	\$ 35,074	\$ 438,054	\$ 3,040,546
-	-	-	4,772
-	-	-	9,694
-	15,235	5,900	93,782
-	-	-	667,876
-	-	274,069	274,069
-	-	1,773	12,118
-	-	12,929	16,763
-	-	8,835	32,542
<u>\$ 732,865</u>	<u>\$ 50,309</u>	<u>\$ 741,560</u>	<u>\$ 4,152,162</u>
\$ -	\$ 16,826	\$ 7,856	\$ 71,947
-	-	615	30,541
-	-	1,500	5,709
-	-	59,981	59,981
-	-	-	53,931
<u>-</u>	<u>16,826</u>	<u>69,952</u>	<u>222,109</u>
-	-	-	9,694
-	-	-	667,876
<u>-</u>	<u>-</u>	<u>-</u>	<u>677,570</u>
-	-	8,835	32,542
-	-	96,712	96,712
104,500	33,483	-	137,983
-	-	-	690,222
-	-	-	27,628
628,365	-	-	628,365
-	-	199,456	199,456
-	-	-	-
-	-	175,826	344,857
-	-	155,432	155,432
-	-	52,110	202,683
-	-	(16,763)	736,603
<u>732,865</u>	<u>33,483</u>	<u>671,608</u>	<u>3,252,483</u>
<u>\$ 732,865</u>	<u>\$ 50,309</u>	<u>\$ 741,560</u>	<u>\$ 4,152,162</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, 2021

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

Total Fund Balances - Governmental Funds	\$ 3,252,483
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds.	5,949,238
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	(48,955)
Bonds payable	(3,065,083)
Pension liability	(130,626)
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	9,694
Special assessments receivable	667,876
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	89,356
Deferred inflows of pension resources	(131,955)
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(21,465)</u>
Total Net Position - Governmental Activities	<u><u>\$ 6,570,563</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, 2021

	101	223	620	300's
	General	Ambulance	Economic Development Authority	Debt Service
Revenues				
Taxes	\$ 298,439	\$ -	\$ 105,884	\$ 187,306
Special assessments	4,687	-	-	102,676
Licenses and permits	7,440	-	-	-
Intergovernmental	401,223	50,646	-	-
Fines and forfeits	838	-	-	-
Charges for services	7,138	170,877	-	-
Investment earnings	1,639	274	337	1,214
Miscellaneous	42,458	5,319	18,086	-
Total Revenues	<u>763,862</u>	<u>227,116</u>	<u>124,307</u>	<u>291,196</u>
Expenditures				
Current				
General government	175,714	-	-	-
Government buildings	101,207	-	-	-
Public safety	122,942	182,985	-	-
Streets and highways	87,141	-	-	-
Culture and recreation	14,067	-	-	-
Economic development	3,399	-	97,584	-
Miscellaneous	2,414	-	-	-
Capital outlay				
General government	5,528	-	-	-
Public safety	-	40,929	-	-
Streets and highways	9,000	-	-	-
Culture and recreation	-	-	-	-
Economic development	-	-	-	-
Debt service				
Principal	-	-	-	874,000
Interest and other costs	-	-	-	62,672
Total Expenditures	<u>521,412</u>	<u>223,914</u>	<u>97,584</u>	<u>936,672</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>242,450</u>	<u>3,202</u>	<u>26,723</u>	<u>(645,476)</u>
Other Financing Sources (Uses)				
Bond proceeds	-	-	-	660,000
Gain on sale of fixed asset	-	-	-	-
Sale of capital assets	3,000	-	-	-
Transfers in	10,000	-	15,000	260,600
Transfers out	(170,280)	(25,000)	-	-
Total Other Financing Sources (Uses)	<u>(157,280)</u>	<u>(25,000)</u>	<u>15,000</u>	<u>920,600</u>
Net Change in Fund Balances	85,170	(21,798)	41,723	275,124
Fund Balances, January 1	<u>717,058</u>	<u>174,793</u>	<u>127,359</u>	<u>415,098</u>
Fund Balances, December 31	<u>\$ 802,228</u>	<u>\$ 152,995</u>	<u>\$ 169,082</u>	<u>\$ 690,222</u>

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

401	425	Other	
Capital Projects	TIF District #7	Governmental Funds	Total
\$ -	\$ -	\$ 228,271	\$ 819,900
-	-	-	107,363
-	-	-	7,440
-	234,137	125,070	811,076
-	-	242	1,080
-	-	54,253	232,268
1,833	79	2,603	7,979
104,500	-	42,877	213,240
<u>106,333</u>	<u>234,216</u>	<u>453,316</u>	<u>2,200,346</u>
-	-	-	175,714
-	-	-	101,207
-	-	112,167	418,094
50,682	-	-	137,823
-	-	175,312	189,379
-	-	20,605	121,588
-	-	-	2,414
37,915	-	-	43,443
395,337	-	25,434	461,700
-	-	185,082	194,082
-	-	12,673	12,673
-	526,766	-	526,766
-	-	-	874,000
-	5,050	341	68,063
<u>483,934</u>	<u>531,816</u>	<u>531,614</u>	<u>3,326,946</u>
<u>(377,601)</u>	<u>(297,600)</u>	<u>(78,298)</u>	<u>(1,126,600)</u>
-	331,083	-	991,083
-	-	16,502	16,502
-	-	-	3,000
153,000	-	33,000	471,600
(38,000)	-	(101,820)	(335,100)
<u>115,000</u>	<u>331,083</u>	<u>(52,318)</u>	<u>1,147,085</u>
(262,601)	33,483	(130,616)	20,485
<u>995,466</u>	<u>-</u>	<u>802,224</u>	<u>3,231,998</u>
<u>\$ 732,865</u>	<u>\$ 33,483</u>	<u>\$ 671,608</u>	<u>\$ 3,252,483</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, 2021

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

Net Change in Fund Balances - Governmental Funds	\$ 20,485
<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	1,347,464
Depreciation expense	(396,225)
Contribution of capital assets to enterprise funds	(21,486)
<p>The net effect of various miscellaneous transactions involving capital assets.</p>	
Book value of disposal of capital assets	(10,249)
<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	(991,083)
Principal repayments	874,000
<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>	
	(10,634)
<p>Long-term pension activity is not reported in governmental funds.</p>	
Negative pension expense	47,619
Direct aid contributions	319
<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>	
	(17,855)
<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	(81,829)
<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	(5,389)
Change in Net Position - Governmental Activities	<u>\$ 755,137</u>

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, 2021

	General			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 283,816	\$ 283,816	\$ 298,439	\$ 14,623
Special assessments	-	-	4,687	4,687
Licenses and permits	5,000	5,000	7,440	2,440
Intergovernmental	370,776	370,776	401,223	30,447
Charges for services	4,650	4,650	7,138	2,488
Fines and forfeits	750	750	838	88
Investment earnings	4,000	4,000	1,639	(2,361)
Miscellaneous	9,000	9,000	42,458	33,458
Total Revenues	<u>677,992</u>	<u>677,992</u>	<u>763,862</u>	<u>85,870</u>
Expenditures				
Current				
General government	115,781	115,781	175,714	(59,933)
Government buildings	156,790	156,790	101,207	55,583
Public safety	147,211	147,211	122,942	24,269
Streets and highways	156,305	156,305	87,141	69,164
Culture and recreation	6,500	6,500	14,067	(7,567)
Economic development	5,500	5,500	3,399	2,101
Miscellaneous	7,335	7,335	2,414	4,921
Capital outlay				
General government	1,500	1,500	5,528	(4,028)
Public safety	-	-	-	-
Streets and highways	12,500	12,500	9,000	3,500
Economic development	2,500	2,500	-	2,500
Total Expenditures	<u>611,922</u>	<u>611,922</u>	<u>521,412</u>	<u>90,510</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>66,070</u>	<u>66,070</u>	<u>242,450</u>	<u>176,380</u>
Other Financing Sources (Uses)				
Sale of capital assets	8,000	8,000	3,000	(5,000)
Transfers in	10,000	10,000	10,000	-
Transfers out	(83,500)	(83,500)	(170,280)	(86,780)
Total Other Financing Sources (Uses)	<u>(65,500)</u>	<u>(65,500)</u>	<u>(157,280)</u>	<u>(91,780)</u>
Net Change in Fund Balances	570	570	85,170	84,600
Fund Balances, January 1	<u>717,058</u>	<u>717,058</u>	<u>717,058</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 717,628</u>	<u>\$ 717,628</u>	<u>\$ 802,228</u>	<u>\$ 84,600</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	\$ 105,884	\$ 884
-	-	-	-	1,750	1,750	-	(1,750)
-	-	-	-	-	-	-	-
24,752	24,752	50,646	25,894	-	-	-	-
182,500	182,500	170,877	(11,623)	-	-	-	-
-	-	-	-	-	-	-	-
500	500	274	(226)	-	-	337	337
2,500	2,500	5,319	2,819	-	-	18,086	18,086
<u>210,252</u>	<u>210,252</u>	<u>227,116</u>	<u>16,864</u>	<u>106,750</u>	<u>106,750</u>	<u>124,307</u>	<u>17,557</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
192,904	192,904	182,985	9,919	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	124,694	124,694	97,584	27,110
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
5,000	5,000	40,929	(35,929)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>197,904</u>	<u>197,904</u>	<u>223,914</u>	<u>(26,010)</u>	<u>124,694</u>	<u>124,694</u>	<u>97,584</u>	<u>27,110</u>
-	-	-	-	-	-	-	-
12,348	12,348	3,202	(9,146)	(17,944)	(17,944)	26,723	44,667
-	-	-	-	-	-	-	-
-	-	-	-	15,000	15,000	15,000	-
(37,500)	(37,500)	(25,000)	12,500	-	-	-	-
<u>(37,500)</u>	<u>(37,500)</u>	<u>(25,000)</u>	<u>12,500</u>	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	<u>-</u>
(25,152)	(25,152)	(21,798)	3,354	(2,944)	(2,944)	41,723	44,667
174,793	174,793	174,793	-	127,359	127,359	127,359	-
<u>\$ 149,641</u>	<u>\$ 149,641</u>	<u>\$ 152,995</u>	<u>\$ 3,354</u>	<u>\$ 124,415</u>	<u>\$ 124,415</u>	<u>\$ 169,082</u>	<u>\$ 44,667</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, 2021

	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	\$ 393,982	\$ (56,703)	\$ 706,890	\$ 99,386	\$ 1,143,555
Receivables					
Accounts	16,393	19,970	37,276	3,734	77,373
Special assessments	5,830	1,458	4,649	-	11,937
Intergovernmental	3,454	864	-	-	4,318
Advance to other funds - current	-	-	58,644	-	58,644
Inventories	10,713	-	18,012	-	28,725
Prepaid items	4,302	5,052	7,099	697	17,150
Total Current Assets	434,674	(29,359)	832,570	103,817	1,341,702
Noncurrent Assets					
Special assessments - noncurrent	53,963	13,490	-	-	67,453
Advance to other funds - noncurrent	-	-	34,574	-	34,574
Capital assets					
Land	17,015	14,400	5,000	-	36,415
Buildings and improvements	-	2,351,348	187,008	-	2,538,356
Systems and infrastructure	1,856,541	1,012,144	2,099,475	796,103	5,764,263
Equipment and machinery	1,361,682	270,868	39,723	144,904	1,817,177
Vehicles	-	-	28,700	-	28,700
Less accumulated depreciation	(629,050)	(1,879,025)	(1,370,558)	(455,639)	(4,334,272)
Total Capital Assets	2,606,188	1,769,735	989,348	485,368	5,850,639
(Net of Accumulated Depreciation)					
Total Noncurrent Assets	2,660,151	1,783,225	1,023,922	485,368	5,952,666
Total Assets	3,094,825	1,753,866	1,856,492	589,185	7,294,368
Deferred Outflows of Resources					
Deferred pension resources	14,021	19,657	7,614	3,731	45,023
Liabilities					
Current Liabilities					
Accounts payable	20,233	11,429	2,861	-	34,523
Deposits payable	-	-	12,914	-	12,914
Due to other governments	837	4,634	1,094	-	6,565
Advances from other funds - current	-	50,000	-	-	50,000
Accrued interest payable	3,217	411	-	-	3,628
Accrued salaries payable	1,114	482	593	222	2,411
Bonds payable - current	58,000	37,800	-	-	95,800
Compensated absences payable - current	2,453	1,680	1,331	1,273	6,737
Total Current Liabilities	85,854	106,436	18,793	1,495	212,578
Noncurrent Liabilities					
Net pension liability	20,496	28,735	11,130	5,454	65,815
Compensated absences payable - noncurrent	2,514	1,931	1,674	1,538	7,657
Bonds payable - noncurrent	719,000	52,200	-	-	771,200
Total Noncurrent Liabilities	742,010	82,866	12,804	6,992	844,672
Total Liabilities	827,864	189,302	31,597	8,487	1,057,250
Deferred Inflows of Resources					
Deferred pension resources	20,705	29,027	11,244	5,510	66,486
Net Position					
Net investment in capital assets	1,829,188	1,679,735	989,348	485,368	4,983,639
Unrestricted	431,089	(124,541)	831,917	93,551	1,232,016
Total Net Position	\$ 2,260,277	\$ 1,555,194	\$ 1,821,265	\$ 578,919	\$ 6,215,655

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

City of Harmony, Minnesota
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2021

Business-type Activities - Enterprise Funds

	Water Utility	Sewer Utility	Electric Utility	Nonmajor Proprietary Funds	Total
Operating Revenues					
Charges for services	\$ 243,306	\$ 320,196	\$ 982,863	\$ 106,176	\$ 1,652,541
Other income	22,779	999	10,054	14	33,846
Total Operating Revenues	<u>266,085</u>	<u>321,195</u>	<u>992,917</u>	<u>106,190</u>	<u>1,686,387</u>
Operating Expenses					
Personal services	67,897	83,603	35,297	13,537	200,334
Supplies	9,746	43,341	(162)	392	53,317
Other services and charges	14,718	45,596	32,214	53,383	145,911
Insurance	5,118	5,629	9,720	769	21,236
Utilities	16,783	59,676	13,728	-	90,187
Purchased power	-	-	687,950	-	687,950
Repairs and maintenance	10,841	11,504	62,667	3,453	88,465
Depreciation	63,644	120,637	52,681	29,758	266,720
Total Operating Expenses	<u>188,747</u>	<u>369,986</u>	<u>894,095</u>	<u>101,292</u>	<u>1,554,120</u>
Operating Income (Loss)	<u>77,338</u>	<u>(48,791)</u>	<u>98,822</u>	<u>4,898</u>	<u>132,267</u>
Nonoperating Revenues (Expenses)					
Investment earnings	1,226	5	2,143	277	3,651
Interest and other expense	(9,833)	(1,374)	-	-	(11,207)
Total Nonoperating Revenues (Expenses)	<u>(8,607)</u>	<u>(1,369)</u>	<u>2,143</u>	<u>277</u>	<u>(7,556)</u>
Income (Loss) Before Contributions	68,731	(50,160)	100,965	5,175	124,711
Capital Contributions	7,716	13,770	-	-	21,486
Special Assessments	1,965	190	-	-	2,155
Transfers Out	(66,000)	(39,000)	(28,000)	(3,500)	(136,500)
Change in Net Position	12,412	(75,200)	72,965	1,675	11,852
Net Position, January 1	<u>2,247,865</u>	<u>1,630,394</u>	<u>1,748,300</u>	<u>577,244</u>	<u>6,203,803</u>
Net Position, December 31	<u>\$ 2,260,277</u>	<u>\$ 1,555,194</u>	<u>\$ 1,821,265</u>	<u>\$ 578,919</u>	<u>\$ 6,215,655</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, 2021

Business-type Activities - Enterprise Funds

	Water Utility	Sewer Utility	Electric Utility	Nonmajor Proprietary Funds	Total
Cash Flows from Operating Activities					
Receipts from customers	\$ 250,941	\$ 326,380	\$ 1,009,352	\$ 110,840	\$ 1,697,513
Payments to suppliers and vendors	(92,221)	(165,121)	(880,362)	(60,818)	(1,198,522)
Payments to and on behalf of employees	(60,516)	(74,063)	(26,924)	(12,418)	(173,921)
Other receipts	22,779	999	10,054	14	33,846
Net Cash Provided (Used) by Operating Activities	<u>120,983</u>	<u>88,195</u>	<u>112,120</u>	<u>37,618</u>	<u>358,916</u>
Cash Flows from Noncapital Financing Activities					
Principal received (paid) on advances from (to) other funds	-	-	8,644	-	8,644
Transfers from other funds	16,091	4,622	-	-	20,713
Transfers to other funds	(66,000)	(39,000)	(28,000)	(3,500)	(136,500)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(49,909)</u>	<u>(34,378)</u>	<u>(19,356)</u>	<u>(3,500)</u>	<u>(107,143)</u>
Cash Flows from Capital and Related Financing Activities					
Special assessments received	16,479	4,120	-	-	20,599
Acquisition of capital assets	(17,580)	(88,436)	(93,173)	-	(199,189)
Principal paid on bonds and notes payable	(124,000)	(36,000)	-	-	(160,000)
Interest and fees paid on bonds and notes payable	(10,914)	(1,557)	-	-	(12,471)
Proceeds from bonds and notes issued	77,000	-	-	-	77,000
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(59,015)</u>	<u>(121,873)</u>	<u>(93,173)</u>	<u>-</u>	<u>(274,061)</u>
Cash Flows from Investing Activities					
Interest received on cash and temporary investments	1,226	5	2,143	277	3,651
Net Increase (Decrease) in Cash and Temporary Investments	13,285	(68,051)	1,734	34,395	(18,637)
Cash and Temporary Investments, January 1	380,697	11,348	705,156	64,991	1,162,192
Cash and Temporary Investments, December 31	<u>\$ 393,982</u>	<u>\$ (56,703)</u>	<u>\$ 706,890</u>	<u>\$ 99,386</u>	<u>\$ 1,143,555</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating income (loss)	\$ 77,338	\$ (48,791)	\$ 98,822	\$ 4,898	\$ 132,267
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities					
Depreciation	63,644	120,637	52,681	29,758	266,720
(Increase) decrease in assets					
Accounts receivable	7,635	6,184	30,235	4,664	48,718
Special assessments	-	-	(3,746)	-	(3,746)
Intergovernmental	-	(864)	-	-	(864)
Inventories	1,894	-	(2,933)	-	(1,039)
(Increase) decrease in deferred outflows of resources					
Deferred pension resources	(11,857)	(16,580)	(6,853)	(3,070)	(38,360)
Prepaid items	(294)	(323)	(349)	(71)	(1,037)
Increase (decrease) in liabilities					
Accounts payable	(36,010)	2,079	(69,765)	(2,750)	(106,446)
Due to other governments	(605)	(267)	(298)	-	(1,170)
Deposits payable	-	-	(900)	-	(900)
Accrued salaries payable	(88)	48	322	(240)	42
Net pension liability	590	425	4,126	(630)	4,511
Compensated absences payable	815	579	513	400	2,307
Increase (decrease) in deferred inflows of resources					
Deferred pension resources	17,921	25,068	10,265	4,659	57,913
Net Cash Provided (Used) by Operating Activities	<u>\$ 120,983</u>	<u>\$ 88,195</u>	<u>\$ 112,120</u>	<u>\$ 37,618</u>	<u>\$ 358,916</u>
Schedule of Noncash Investing, Capital and Financing Activities					
Capital assets contributed by (to) other funds	<u>\$ 7,716</u>	<u>\$ 13,770</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,486</u>

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

City of Harmony, Minnesota
Statement of Fiduciary Net Position
Trust Fund
December 31, 2021

	851
	Investment Trust Fund
	<hr/>
Assets	
Cash and Cash Equivalents	<u>\$ 10,400</u>
Net Position	
Restricted	<u>\$ 10,400</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, 2021

	851 Investment Trust Fund <hr style="border: 0.5px solid black;"/>
Revenues	
Investment income	<hr style="border: 0.5px solid black;"/> \$ 1,334
Change in Net Position	1,334
Net Position, January 1	<hr style="border: 0.5px solid black;"/> 9,066
Net Position, December 31	<hr style="border: 1.5px solid black;"/> \$ 10,400

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

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

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

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

B. Government-wide and Fund Financial Statements

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

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

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 1: Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

The City reports the following major governmental funds:

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

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

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

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

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

The *TIF District #7 fund* for the activity related to the newly developed tax increment district within the City.

Note 1: Summary of Significant Accounting Policies (Continued)

The City reports the following major proprietary funds:

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

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

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

Additionally, the City reports the following fund types:

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

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

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

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

Deposits and Investments

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

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

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

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

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 1: Summary of Significant Accounting Policies (Continued)

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

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

Investment Policy

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

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

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2021

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 2021. 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, 2021 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.

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 1: Summary of Significant Accounting Policies (Continued)

Capital Assets

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

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

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

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

Compensated Absences

It is the government's policy to permit employees to accumulate a limited amount of earned but unused paid time off. Select employees also have earned but unused sick leave earned prior to the implementation of a paid time off policy. All personal time off up to a maximum limit is accrued when incurred in the government-wide and proprietary fund financial statements. Employees with 20 years or more of service with the City receive 10 percent of the accumulated sick leave upon termination. A liability for these amounts has been accrued in the government-wide and proprietary fund financial statements. The total amount of compensated absences accrued for 2021 was \$63,349. The General fund is typically used to liquidate governmental compensated absences payable.

Note 1: Summary of Significant Accounting Policies (Continued)

Deferred Inflows of Resources

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

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

Long-term Obligations

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

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA’s fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA’s fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The General fund is typically used to liquidate the governmental net pension liability.

The total pension expense for the GERP is as follows:

	Public Employees Retirement Association of Minnesota (PERA)
	GERP
Pension Expense	\$ 2,275

Note 1: Summary of Significant Accounting Policies (Continued)

Fund Balance

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

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

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

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

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

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

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

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

Net Position

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

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

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

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 2: Stewardship, Compliance and Accountability

A. Budgetary Information

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

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

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

B. Excess Expenditures Over Appropriations

Fund	Budget	Actual	Excess of Expenditures Over Appropriations
Ambulance	\$ 197,904	\$ 223,914	\$ 26,010
Nonmajor Special Revenue			
Fire	63,058	137,601	74,543

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, 2021:

Fund	Amount
Nonmajor Capital Projects	
TIF District #6	\$ 10,807
TIF District #8	5,956

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

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on All Funds

A. Deposits and Investments

Deposits

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

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

Authorized collateral in lieu of a corporate surety bond includes:

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

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the government entity.

At year end, the City's carrying amount of deposits was \$2,773,669 and the bank balance was \$2,848,054. Of the bank balance, \$500,000 was covered by federal depository insurance. The remaining balance of \$2,348,054 was collateralized with securities held by the pledging financial institution's trust department in the City's name and a letter of credit.

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on All Funds (Continued)

Investments

As of December 31, 2021, the City had the following investments that are insured or registered, or securities held by the City or its agent in the City's name.

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Fair Value and Carrying Amount
Pooled Investments at Amortized Costs			
Minnesota Municipal Money Market (4M) Fund	N/A	less than 6 months	<u>\$ 1,420,667</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.

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

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

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

Cash on Hand

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

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on All Funds (Continued)

Cash and Investments Summary

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

Deposits	\$ 2,773,669
Investments	1,420,667
Cash on Hand	<u>165</u>
 Total Cash and Temporary Investments	 <u><u>\$ 4,194,501</u></u>
 Cash and Temporary Investments	 \$ 4,184,101
Fiduciary Fund Cash	<u>10,400</u>
 Total	 <u><u>\$ 4,194,501</u></u>

B. Loans Receivable

The City has made various economic development loans to businesses through its revolving loan program. These loans are receivable by the City over three to ten year periods with varying interest rates at 3 percent to 7 percent per annum. These loans are secured by equipment and other assets. The receivable balances in this fund at December 31, 2021 was \$199,456.

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, 2021 is \$74,613.

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on All Funds (Continued)

C. Capital Assets

Capital asset activity for the City for the year ended December 31, 2021 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 424,743	\$ -	\$ -	\$ 424,743
Construction in progress	1,275,263	726,302	(1,439,348)	562,217
Total Capital Assets Not Being Depreciated	<u>1,700,006</u>	<u>726,302</u>	<u>(1,439,348)</u>	<u>986,960</u>
Capital Assets Being Depreciated				
Buildings and improvements	1,237,968	-	-	1,237,968
Systems and infrastructure	4,190,840	1,439,348	-	5,630,188
Equipment and machinery	1,209,442	121,957	-	1,331,399
Vehicles	1,375,456	477,719	(146,810)	1,706,365
Total Capital Assets Being Depreciated	<u>8,013,706</u>	<u>2,039,024</u>	<u>(146,810)</u>	<u>9,905,920</u>
Less Accumulated Depreciation For				
Buildings and improvements	(716,669)	(33,387)	-	(750,056)
Systems and infrastructure	(2,532,202)	(147,124)	-	(2,679,326)
Equipment and machinery	(643,421)	(95,147)	-	(738,568)
Vehicles	(791,686)	(120,567)	136,561	(775,692)
Total Accumulated Depreciation	<u>(4,683,978)</u>	<u>(396,225)</u>	<u>136,561</u>	<u>(4,943,642)</u>
Total Capital Assets Being Depreciated, Net	<u>3,329,728</u>	<u>1,642,799</u>	<u>(10,249)</u>	<u>4,962,278</u>
Governmental Activities Capital Assets, Net	<u>\$ 5,029,734</u>	<u>\$ 2,369,101</u>	<u>\$ (1,449,597)</u>	<u>\$ 5,949,238</u>

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2021

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	545,998	-	(545,998)	-
Total Capital Assets Not Being Depreciated	<u>582,413</u>	<u>-</u>	<u>(545,998)</u>	<u>36,415</u>
Capital Assets Being Depreciated				
Buildings and improvements	2,538,356	-	-	2,538,356
Systems and infrastructure	5,103,606	660,657	-	5,764,263
Equipment and machinery	1,733,173	84,004	-	1,817,177
Vehicles	28,700	-	-	28,700
Total Capital Assets Being Depreciated	<u>9,403,835</u>	<u>744,661</u>	<u>-</u>	<u>10,148,496</u>
Less Accumulated Depreciation For				
Buildings and improvements	(1,540,640)	(78,378)	-	(1,619,018)
Systems and infrastructure	(2,127,175)	(128,700)	-	(2,255,875)
Equipment and machinery	(371,037)	(59,642)	-	(430,679)
Vehicles	(28,700)	-	-	(28,700)
Total Accumulated Depreciation	<u>(4,067,552)</u>	<u>(266,720)</u>	<u>-</u>	<u>(4,334,272)</u>
Total Capital Assets Being Depreciated, Net	<u>5,336,283</u>	<u>477,941</u>	<u>-</u>	<u>5,814,224</u>
Business-type Activities Capital Assets, Net	<u>\$ 5,918,696</u>	<u>\$ 477,941</u>	<u>\$ (545,998)</u>	<u>\$ 5,850,639</u>

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

Governmental Activities

General government	\$ 36,608
Public safety	147,726
Streets and highways	183,631
Culture and recreation	28,062
Economic development	198
Total Depreciation Expense - Governmental Activities	<u>\$ 396,225</u>

Business-type Activities

Water utility	\$ 63,644
Sewer utility	120,637
Refuse and recycling	990
Electric utility	52,681
Storm water utility	28,768
Total Depreciation Expense - Business-type Activities	<u>\$ 266,720</u>

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on All Funds (Continued)

Construction Commitments

The City has active construction projects as of December 31, 2021. 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
Splash Pad	\$ 37,915	\$ 12,085
Dairyland Project	425,000	100,000
Total	<u>\$ 462,915</u>	<u>\$ 112,085</u>

D. Interfund Receivables, Payables and Transfers

The composition of interfund balances at December 31, 2021 is as follows:

Advances to/from Other Funds

Receivable Fund	Payable Fund	Amount
Electric Utility	Sewer Utility	\$ 50,000
	Nonmajor governmental	
	Fire	43,218
EDA	Nonmajor governmental	
	TIF District #6	3,834
Nonmajor Governmental	Nonmajor governmental	
	TIF District #6	6,973
	TIF District #8	5,956
Total		<u>\$ 109,981</u>

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, 2021 were \$6,973 and \$3,834, respectively. The Revolving Loan fund advanced \$5,956 to the TIF District #8 fund during 2021 to cover TIF planning costs.

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, 2021 was \$43,218.

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, 2021 was \$50,000.

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on All Funds (Continued)

Interfund Transfers

In the year ended December 31, 2021, the City made the following transfers:

Fund	Transfers In					Total
	General	Economic Development Authority	Debt Service	Capital Projects	Other Governmental Funds	
Transfers Out						
Governmental						
General	\$ -	\$ -	\$ 86,780	\$ 83,500	\$ -	\$ 170,280
Ambulance	-	-	-	25,000	-	25,000
Capital Projects	5,000	-	-	-	33,000	38,000
Nonmajor Governmental	-	-	70,820	31,000	-	101,820
Business-type						
Water Utility	1,000	-	65,000	-	-	66,000
Sewer Utility	1,000	-	38,000	-	-	39,000
Electric Utility	2,000	15,000	-	11,000	-	28,000
Nonmajor Enterprise	1,000	-	-	2,500	-	3,500
Total	\$ 10,000	\$ 15,000	\$ 260,600	\$ 153,000	\$ 33,000	\$ 471,600

During the year, transfers are used to 1) move General fund resources to provide an annual savings for future capital spending to the capital projects fund, 2) move special revenue resources in the ambulance fund to provide for its share of annual operating expenditures to the fire fund, 3) move resources from the Electric Utility fund to the Economic Development Authority to cover operating expenditures, 4) move funds from the various utility funds to the General fund related to PILOT and 5) move funds from the various utility funds to the Debt Service fund to cover bond payments. Additionally, the General transferred \$86,780 to the Debt Service fund to pay off the 2013B G.O. tax abatement bond and \$70,820 from nonmajor capital projects to the Debt Service fund upon the completion of various projects.

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.

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on All Funds (Continued)

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	\$ 26,000
G.O. Improvement Notes of 2020	1,648,000	1.95	06/01/20	02/01/31	2,000,000
G.O. Improvement Refunding Note of 2021C	660,000	1.30	07/12/21	02/01/28	660,000
Total General Obligation Improvement Bonds					<u>\$ 2,686,000</u>

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

Year Ending December 31	Governmental Activities		
	Principal	Interest	Total
2022	\$ 294,200	\$ 45,988	\$ 340,188
2023	279,200	40,485	319,685
2024	283,200	35,606	318,806
2025	289,200	30,634	319,834
2026	293,200	25,576	318,776
2027 - 2031	<u>1,247,000</u>	<u>54,516</u>	<u>1,301,516</u>
Total	<u>\$ 2,686,000</u>	<u>\$ 232,805</u>	<u>\$ 2,918,805</u>

G.O. Tax Abatement Bonds

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

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Tax Abatement Bonds, 2013A	\$ 313,000	2.20 %	01/14/13	10/01/24	<u>\$ 48,000</u>

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on All Funds (Continued)

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
2022	\$ 16,000	\$ 1,056	\$ 17,056
2023	16,000	704	16,704
2024	16,000	352	16,352
Total	<u>\$ 48,000</u>	<u>\$ 2,112</u>	<u>\$ 50,112</u>

G.O. Tax Increment Notes

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

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Taxable G.O. Tax Increment Notes, 2021A	\$ 84,083	- %	11/01/21	11/01/31	\$ 84,083
Taxable G.O. Tax Increment Notes, 2021B	247,000	1.80	11/01/21	02/01/32	<u>247,000</u>
Total General Obligation Tax Increment Notes					<u>\$ 331,083</u>

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

Year Ending December 31	G.O. Tax Increment Notes Governmental Activities		
	Principal	Interest	Total
2022	\$ 8,408	\$ 3,335	\$ 11,743
2023	8,408	4,446	12,854
2024	33,408	4,221	37,629
2025	34,408	3,762	38,170
2026	34,408	3,294	37,702
2027 - 2031	182,043	9,108	191,151
2032	30,000	270	30,270
Total	<u>\$ 331,083</u>	<u>\$ 28,436</u>	<u>\$ 359,519</u>

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on All Funds (Continued)

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	\$ 72,000
2015 Public Facilities Authority Bonds	857,100	1.00	11/10/15	08/20/35	620,000
G.O. Improvement Notes of 2020	450,000	1.95	06/01/20	02/01/31	98,000
G.O. Utility Revenue Refunding Notes of 2021C	77,000	1.30	07/12/21	02/01/28	77,000
Total G.O. Revenue Bonds					<u>\$ 867,000</u>

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

	<u>Water Utility</u>	<u>Sewer Utility</u>
Revenues	\$ 266,085	\$ 321,195
Principal and Interest	51,914	37,557
Percentage of Revenues	19.5%	11.7%

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		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 95,800	\$ 9,732	\$ 105,532
2023	97,800	8,596	106,396
2024	62,800	7,493	70,293
2025	64,800	6,741	71,541
2026	63,800	5,975	69,775
2027 - 2031	295,000	18,872	313,872
2032 - 2035	187,000	4,710	191,710
Total	<u>\$ 867,000</u>	<u>\$ 62,119</u>	<u>\$ 929,119</u>

Bond Refunding

On July 12, 2021, the City issued \$737,000 of General Obligation Improvement and Utility Revenue Refunding Note, Series 2021C which refunded the City's General Obligation Improvement and Utility Revenue Note, Series 2017A. As a result of the refunding issue, the City will save \$20,161 in debt service payments and achieve an economic gain (the present value of the difference between the old and the new debt service) of \$19,307.

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on All Funds (Continued)

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2021, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities					
Bonds Payable					
G.O. Improvement Bonds	\$ 2,770,000	\$ 660,000	\$ (744,000)	\$ 2,686,000	\$ 294,200
G.O. Tax Abatement Bonds	178,000	-	(130,000)	48,000	16,000
G.O. Tax Increment Bonds	-	331,083	-	331,083	8,408
Total Bonds Payable	<u>2,948,000</u>	<u>991,083</u>	<u>(874,000)</u>	<u>3,065,083</u>	<u>318,608</u>
Compensated Absences Payable	<u>43,566</u>	<u>22,898</u>	<u>(17,509)</u>	<u>48,955</u>	<u>19,803</u>
Governmental Activities Long-term Liabilities	<u><u>\$ 2,991,566</u></u>	<u><u>\$ 1,013,981</u></u>	<u><u>\$ (891,509)</u></u>	<u><u>\$ 3,114,038</u></u>	<u><u>\$ 338,411</u></u>
Business-type Activities					
Bonds Payable					
G.O. Revenue Bonds	\$ 950,000	\$ 77,000	\$ (160,000)	\$ 867,000	\$ 95,800
Compensated Absences Payable	<u>12,087</u>	<u>9,138</u>	<u>(6,831)</u>	<u>14,394</u>	<u>6,737</u>
Business-type Activities Long-term Liabilities	<u><u>\$ 962,087</u></u>	<u><u>\$ 86,138</u></u>	<u><u>\$ (166,831)</u></u>	<u><u>\$ 881,394</u></u>	<u><u>\$ 102,537</u></u>

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.

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

General Employee Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent for average salary for all years of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989 normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

C. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2021 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, 2021, 2020 and 2019 were \$38,195, \$35,736 and \$39,716, respectively. The City's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2021, the City reported a liability of \$196,441 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 \$5,948. The net pension liability was measured as of June 30, 2021, 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, 2020 through June 30, 2021 relative to the total employer contributions received from all of PERA's participating employers. The City's proportion was 0.0046 percent which was the same percentage as its proportion measured as of June 30, 2020.

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2021

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

City's Proportionate Share of the Net Pension Liability	\$ 196,441
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the City	<u>5,948</u>
Total	<u>\$ 202,389</u>

For the year ended December 31, 2021, the City recognized pension expense of \$1,795 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized \$480 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, 2021, 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	\$ 1,338	\$ 6,011
Changes in Actuarial Assumptions	119,943	4,495
Net Difference Between Projected and Actual Earnings on Plan Investments	-	170,869
Changes in Proportion	-	17,066
Contributions Paid to PERA Subsequent to the Measurement Date	<u>13,098</u>	<u>-</u>
Total	<u>\$ 134,379</u>	<u>\$ 198,441</u>

The \$13,098 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, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2022	\$ (18,568)
2023	(10,660)
2024	(1,530)
2025	(46,402)

E. Actuarial Assumptions

The total pension liability in the June 30, 2021, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.5 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.5 percent was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25 percent for the General Employees Plan and 2.25 percent for the Police and Fire Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan. The Police and Fire Plan benefit increase is fixed at 1 percent per year and that increase was used in the valuation.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 29 years of service and 6.0 percent per year thereafter. In the Police and Fire Plan, salary growth assumptions range from 11.75 percent after one year of service to 3.0 percent after 24 years of service.

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2021

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

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. Mortality rates for the Police and Fire Plan is based on the Pub-2010 Public Safety Employee Mortality tables. The tables are adjusted slightly to fit PERA's experience.

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

General Employees Fund

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

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

F. Discount Rate

The discount rate used to measure the total pension liability in 2021 was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund 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.

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2021

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

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 one percentage point lower or one percentage point higher than the current discount rate:

	City Proportionate Share of NPL		
	1 Percent Decrease (5.50%)	Current (6.50%)	1 Percent Increase (7.50%)
	General Employees Fund	\$ 400,639	\$ 196,441

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, 2021, the plan covered 26 active firefighters and 4 vested terminated firefighters whose pension benefits are deferred. The plan is a single employer retirement plan and is established and administered in accordance with Minnesota statute, chapter 69.

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

B. Benefits Provided

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

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 \$17,819 in fire state aid and supplemental aid to the plan on behalf of the City Fire Department for the year ended December 31, 2021, 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, 2021 were \$17,819. The City's contributions were equal to the required contributions as set by state statute. In addition, the City made voluntary contributions of \$9,500 to the plan.

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2021

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

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	\$	27,319
Contributions Made		
City (voluntary)		9,500
State aid		17,819
Actuarial Valuation Date		12/31/21
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

Three Year Trend Information

Year Ending			Annual Pension Cost (APC)	Percentage of APC Contributed			Net Pension Obligation
12/31/21	\$	27,319	100.0	%	\$	-	
12/31/20		26,275	100.0			-	
12/31/19		24,155	100.0			-	
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
12/31/21	\$ 549,358	\$ 435,948	\$ 113,410	126.01	%	\$ 1,050	
12/31/20	476,273	414,013	62,260	115.04		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	

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2021

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

There were no instances of related party transactions in 2021.

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 \$67,466,800 at December 31, 2021 for a limit of \$2,024,004. The City currently has no general obligation debt subject to this limit. Debt financed partially or entirely by special assessments or by operations of enterprise funds is excluded from this computation by statute.

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 2021 was \$355,592 for LGA. This accounted for 46.6 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.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARMONY
HARMONY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

City of Harmony, Minnesota
Required Supplementary Information
December 31, 2021

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
06/30/21	0.0046 %	\$ 196,441	\$ 5,948	\$ 202,389	\$ 504,837	38.9 %	87.0 %
06/30/20	0.0046	275,791	8,429	284,220	495,514	55.7	79.0
06/30/19	0.0051	281,968	8,666	290,634	501,289	56.2	80.2
06/30/18	0.0052	288,475	-	288,475	477,481	60.4	79.5
06/30/17	0.0049	312,813	-	312,813	449,515	69.6	75.9
06/30/16	0.0051	414,095	-	414,095	447,499	92.5	68.9
06/30/15	0.0052	269,491	-	269,491	431,436	62.5	78.2

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

Schedule of Employer's PERA Contributions - General Employees Fund

Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/21	\$ 38,195	\$ 38,195	\$ -	\$ 509,269	7.5 %
12/31/20	35,736	35,736	-	476,476	7.5
12/31/19	39,716	39,716	-	529,545	7.5
12/31/18	36,290	36,290	-	483,866	7.5
12/31/17	34,438	34,438	-	459,170	7.5
12/31/16	33,960	33,960	-	452,797	7.5
12/31/15	32,852	32,852	-	438,033	7.5

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

City of Harmony, Minnesota
Required Supplementary Information (Continued)
December 31, 2021

Notes to the Required Supplementary Information - General Employees Fund

Changes in Actuarial Assumptions

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

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

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

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

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

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

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

City of Harmony, Minnesota
Required Supplementary Information (Continued)
December 31, 2021

Notes to the Required Supplementary Information - General Employees Fund

Changes in Plan Provisions

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

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

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

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

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

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

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

COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES

CITY OF HARMONY
HARMONY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

City of Harmony, Minnesota
Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2021

	Special Revenue			
	201	202	211	222
	Revolving Loan	Small Cities Grant	Library Fund	Fire
Assets				
Cash and temporary investments	\$ 150,897	\$ 34,099	\$ 33,622	\$ 90,925
Receivables				
Accounts, net of allowances	-	-	-	5,900
Loans	199,456	74,613	-	-
Intergovernmental	-	-	795	360
Advances to other funds	12,929	-	-	-
Prepaid items	-	-	371	5,180
Total Assets	<u>\$ 363,282</u>	<u>\$ 108,712</u>	<u>\$ 34,788</u>	<u>\$ 102,365</u>
Liabilities				
Accounts payable	\$ -	\$ -	\$ 4,391	\$ 1,520
Due to other governments	-	-	-	335
Accrued salaries payable	-	-	1,403	2
Advances from other funds	-	-	-	43,218
Total Liabilities	<u>-</u>	<u>-</u>	<u>5,794</u>	<u>45,075</u>
Fund Balances				
Nonspendable				
Prepaid items	-	-	371	5,180
Restricted				
Economic development	-	96,712	-	-
Committed				
Loans	199,456	-	-	-
Assigned				
Economic development	163,826	12,000	-	-
Culture and recreation	-	-	28,623	-
Public safety	-	-	-	52,110
Unassigned				
Total Fund Balances	<u>363,282</u>	<u>108,712</u>	<u>28,994</u>	<u>57,290</u>
Total Liabilities and Fund Balances	<u>\$ 363,282</u>	<u>\$ 108,712</u>	<u>\$ 34,788</u>	<u>\$ 102,365</u>

Special Revenue		Capital Project					
251	261	420	410	421	424	426	Total
Park Fund	Arts Fund	TIF District #6	Trailhead Project	First Ave SW Project	2020 Street and Utility Project	TIF District #8	
\$ 115,959	\$ 12,414	\$ -	\$ 138	\$ -	\$ -	\$ -	\$ 438,054
-	-	-	-	-	-	-	5,900
-	-	-	-	-	-	-	274,069
568	50	-	-	-	-	-	1,773
-	-	-	-	-	-	-	12,929
3,284	-	-	-	-	-	-	8,835
<u>\$ 119,811</u>	<u>\$ 12,464</u>	<u>\$ -</u>	<u>\$ 138</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 741,560</u>
\$ 1,000	\$ 945	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,856
280	-	-	-	-	-	-	615
95	-	-	-	-	-	-	1,500
-	-	10,807	-	-	-	5,956	59,981
1,375	945	10,807	-	-	-	5,956	69,952
3,284	-	-	-	-	-	-	8,835
-	-	-	-	-	-	-	96,712
-	-	-	-	-	-	-	199,456
-	-	-	-	-	-	-	175,826
115,152	11,519	-	138	-	-	-	155,432
-	-	-	-	-	-	-	52,110
-	-	(10,807)	-	-	-	(5,956)	(16,763)
118,436	11,519	(10,807)	138	-	-	(5,956)	671,608
<u>\$ 119,811</u>	<u>\$ 12,464</u>	<u>\$ -</u>	<u>\$ 138</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 741,560</u>

City of Harmony, Minnesota
 Nonmajor Governmental Funds
 Combining Statement of Revenues, Expenditures and
 Changes in Fund Balances
 For the Year Ended December 31, 2021

	Special Revenue			
	201	202	211	222
	Revolving Loan	Small Cities Grant	Library Fund	Fire
Revenues				
Taxes				
Property taxes	\$ -	\$ -	\$ 95,656	\$ 43,360
Tax increments	-	-	-	-
Intergovernmental	-	-	31,070	94,000
Fines and forfeits	-	-	242	-
Charges for services	-	-	781	51,544
Investment earnings	472	98	68	395
Miscellaneous				
Contributions and donations	-	-	520	25,234
Loan interest	6,830	-	-	-
Other	7,579	-	70	1,834
Total Revenues	<u>14,881</u>	<u>98</u>	<u>128,407</u>	<u>216,367</u>
Expenditures				
Current				
Public safety	-	-	-	112,167
Culture and recreation	-	-	117,007	-
Economic development	284	14,365	-	-
Capital outlay				
Public safety	-	-	-	25,434
Streets and highways	-	-	-	-
Culture and recreation	-	-	6,673	-
Debt service				
Interest and other costs	-	-	-	-
Total Expenditures	<u>284</u>	<u>14,365</u>	<u>123,680</u>	<u>137,601</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>14,597</u>	<u>(14,267)</u>	<u>4,727</u>	<u>78,766</u>
Other Financing Sources (Uses)				
Transfers in	-	-	-	-
Transfers out	-	-	-	(25,000)
Sale of capital assets	-	-	-	16,502
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,498)</u>
Net Change in Fund Balances	14,597	(14,267)	4,727	70,268
Fund Balances, January 1	<u>348,685</u>	<u>122,979</u>	<u>24,267</u>	<u>(12,978)</u>
Fund Balances, December 31	<u>\$ 363,282</u>	<u>\$ 108,712</u>	<u>\$ 28,994</u>	<u>\$ 57,290</u>

Special Revenue		Capital Project					
251	261	420	410	421	424	426	Total
Park Fund	Arts Fund	TIF District #6	Trailhead Project	First Ave SW Project	2020 Street and Utility Project	TIF District #8	
\$ 66,568	\$ 6,050	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 211,634
-	-	16,637	-	-	-	-	16,637
-	-	-	-	-	-	-	125,070
-	-	-	-	-	-	-	242
1,928	-	-	-	-	-	-	54,253
258	33	30	33	4	1,212	-	2,603
750	-	-	-	-	-	-	26,504
-	-	-	-	-	-	-	6,830
60	-	-	-	-	-	-	9,543
<u>69,564</u>	<u>6,083</u>	<u>16,667</u>	<u>33</u>	<u>4</u>	<u>1,212</u>	<u>-</u>	<u>453,316</u>
-	-	-	-	-	-	-	112,167
55,098	3,207	-	-	-	-	-	175,312
-	-	-	-	-	-	5,956	20,605
-	-	-	-	-	-	-	25,434
-	-	-	-	-	185,082	-	185,082
6,000	-	-	-	-	-	-	12,673
-	-	341	-	-	-	-	341
<u>61,098</u>	<u>3,207</u>	<u>341</u>	<u>-</u>	<u>-</u>	<u>185,082</u>	<u>5,956</u>	<u>531,614</u>
<u>8,466</u>	<u>2,876</u>	<u>16,326</u>	<u>33</u>	<u>4</u>	<u>(183,870)</u>	<u>(5,956)</u>	<u>(78,298)</u>
33,000	-	-	-	-	-	-	33,000
(6,000)	-	-	-	(1,372)	(69,448)	-	(101,820)
-	-	-	-	-	-	-	16,502
<u>27,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,372)</u>	<u>(69,448)</u>	<u>-</u>	<u>(52,318)</u>
35,466	2,876	16,326	33	(1,368)	(253,318)	(5,956)	(130,616)
82,970	8,643	(27,133)	105	1,368	253,318	-	802,224
<u>\$ 118,436</u>	<u>\$ 11,519</u>	<u>\$ (10,807)</u>	<u>\$ 138</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (5,956)</u>	<u>\$ 671,608</u>

City of Harmony, Minnesota
Statement of Net Position
Nonmajor Proprietary Funds
December 31, 2021

	Business-type Activities - Enterprise Funds		
	603	605	
	Refuse and Recycling	Storm Water	Total
Assets			
Current Assets			
Cash and temporary investments	\$ 41,544	\$ 57,842	\$ 99,386
Receivables			
Accounts	2,722	1,012	3,734
Prepaid items	100	597	697
Total Current Assets	<u>44,366</u>	<u>59,451</u>	<u>103,817</u>
Noncurrent Assets			
Capital assets			
Systems and infrastructure	-	796,103	796,103
Equipment and machinery	4,952	139,952	144,904
Less accumulated depreciation	<u>(4,456)</u>	<u>(451,183)</u>	<u>(455,639)</u>
Total Capital Assets (Net of Accumulated Depreciation)	<u>496</u>	<u>484,872</u>	<u>485,368</u>
Total Assets	<u>44,862</u>	<u>544,323</u>	<u>589,185</u>
Deferred Outflows of Resources			
Deferred pension resources	<u>2,330</u>	<u>1,401</u>	<u>3,731</u>
Liabilities			
Current Liabilities			
Accrued salaries payable	184	38	222
Compensated absences payable - current	963	310	1,273
Total Current Liabilities	<u>1,147</u>	<u>348</u>	<u>1,495</u>
Noncurrent Liabilities			
Net pension liability	3,406	2,048	5,454
Compensated absences payable - noncurrent	1,241	297	1,538
Total Noncurrent Liabilities	<u>4,647</u>	<u>2,345</u>	<u>6,992</u>
Total Liabilities	<u>5,794</u>	<u>2,693</u>	<u>8,487</u>
Deferred Inflows of Resources			
Deferred pension resources	<u>3,441</u>	<u>2,069</u>	<u>5,510</u>
Net Position			
Net investment in capital assets	496	484,872	485,368
Unrestricted	<u>37,461</u>	<u>56,090</u>	<u>93,551</u>
Total Net Position	<u>\$ 37,957</u>	<u>\$ 540,962</u>	<u>\$ 578,919</u>

City of Harmony, Minnesota
Statement of Revenues, Expenses and Changes in Fund Net Position
Nonmajor Proprietary Funds
For the Year Ended December 31, 2021

	Business-type Activities - Enterprise Funds		
	603 Refuse and Recycling	605 Storm Water	Total
Operating Revenues			
Charges for services	\$ 76,624	\$ 29,552	\$ 106,176
Miscellaneous income	9	5	14
Total Operating Revenues	<u>76,633</u>	<u>29,557</u>	<u>106,190</u>
Operating Expenses			
Personal services	9,014	4,523	13,537
Supplies	392	-	392
Other services and charges	53,383	-	53,383
Insurance	-	769	769
Repairs and maintenance	3,360	93	3,453
Depreciation	990	28,768	29,758
Total Operating Expenses	<u>67,139</u>	<u>34,153</u>	<u>101,292</u>
Operating Income (Loss)	9,494	(4,596)	4,898
Nonoperating Revenues (Expenses)			
Investment earnings	<u>116</u>	<u>161</u>	<u>277</u>
Income (Loss) Before Transfers	9,610	(4,435)	5,175
Transfers Out	<u>(1,000)</u>	<u>(2,500)</u>	<u>(3,500)</u>
Change in Net Position	8,610	(6,935)	1,675
Net Position, January 1	<u>29,347</u>	<u>547,897</u>	<u>577,244</u>
Net Position, December 31	<u>\$ 37,957</u>	<u>\$ 540,962</u>	<u>\$ 578,919</u>

City of Harmony, Minnesota
Statement of Cash Flows
Nonmajor Proprietary Funds
For the Year Ended December 31, 2021

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Refuse and Recycling</u>	<u>Storm Water</u>	<u>Total</u>
Cash Flows from Operating Activities			
Receipts from customers	\$ 79,985	\$ 30,855	\$ 110,840
Payments to suppliers and vendors	(59,902)	(916)	(60,818)
Payments to and on behalf of employees	(8,023)	(4,395)	(12,418)
Other receipts	9	5	14
	<u>12,069</u>	<u>25,549</u>	<u>37,618</u>
Net Cash Provided (Used) by Operating Activities	12,069	25,549	37,618
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	116	161	277
	<u>116</u>	<u>161</u>	<u>277</u>
Net Increase (Decrease) in Cash and Temporary Investments	11,185	23,210	34,395
Cash and Temporary Investments, January 1	<u>30,359</u>	<u>34,632</u>	<u>64,991</u>
Cash and Temporary Investments, December 31	<u>\$ 41,544</u>	<u>\$ 57,842</u>	<u>\$ 99,386</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating income (loss)	\$ 9,494	\$ (4,596)	\$ 4,898
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	990	28,768	29,758
(Increase) decrease in assets			
Accounts receivable	3,361	1,303	4,664
(Increase) decrease in deferred outflows of resources			
Deferred pension resources	(1,951)	(1,119)	(3,070)
Prepaid items	(17)	(54)	(71)
Increase (decrease) in liabilities			
Accounts payable	(2,750)	-	(2,750)
Accrued salaries payable	(245)	5	(240)
Accrued interest payable			
Net pension liability	(81)	(549)	(630)
Compensated absences payable	315	85	400
Increase (decrease) in deferred inflows of resources			
Deferred pension resources	2,953	1,706	4,659
	<u>2,953</u>	<u>1,706</u>	<u>4,659</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 12,069</u>	<u>\$ 25,549</u>	<u>\$ 37,618</u>

City of Harmony, Minnesota
 Fire Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balances -
 Budget and Actual
 For the Year Ended December 31, 2021
 (With Comparative Actual Amounts for Year Ended December 31, 2020)

	2021				2020
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Property taxes	\$ 43,000	\$ 43,000	\$ 43,360	\$ 360	\$ 41,550
Intergovernmental	-	-	94,000	94,000	20,750
Charges for services	51,000	51,000	51,544	544	54,941
Investment earnings	-	-	395	395	85
Miscellaneous					
Contributions and donations	-	-	25,234	25,234	25,000
Other	6,500	6,500	1,834	(4,666)	1,774
Total Revenues	<u>100,500</u>	<u>100,500</u>	<u>216,367</u>	<u>115,867</u>	<u>144,100</u>
Expenditures					
Current					
Public safety					
Personal services	19,808	19,808	20,407	(599)	31,084
Supplies	13,350	13,350	71,959	(58,609)	10,919
Other services	20,650	20,650	10,934	9,716	15,021
Other charges	9,250	9,250	8,867	383	10,301
Capital outlay					
Public safety					
Fire	-	-	25,434	(25,434)	37,420
Total Expenditures	<u>63,058</u>	<u>63,058</u>	<u>137,601</u>	<u>(74,543)</u>	<u>104,745</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>37,442</u>	<u>37,442</u>	<u>78,766</u>	<u>41,324</u>	<u>39,355</u>
Other Financing Sources (Uses)					
Sale of capital assets	-	-	16,502	16,502	-
Transfers out	(35,000)	(35,000)	(25,000)	10,000	(25,000)
Total Other Financing Sources (Uses)	<u>(35,000)</u>	<u>(35,000)</u>	<u>(8,498)</u>	<u>26,502</u>	<u>(25,000)</u>
Net Change in Fund Balances	2,442	2,442	70,268	67,826	14,355
Fund Balances, January 1	<u>(12,978)</u>	<u>(12,978)</u>	<u>(12,978)</u>	-	<u>(27,333)</u>
Fund Balances, December 31	<u>\$ (10,536)</u>	<u>\$ (10,536)</u>	<u>\$ 57,290</u>	<u>\$ 67,826</u>	<u>\$ (12,978)</u>

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, 2021
 (With Comparative Actual Amounts for Year Ended December 31, 2020)

	2021				2020
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Investment earnings	\$ -	\$ -	\$ 472	\$ 472	\$ 841
Miscellaneous					
Loan interest	61,250	61,250	6,830	(54,420)	4,608
Other	300	300	7,579	7,279	955
Total Revenues	<u>61,550</u>	<u>61,550</u>	<u>14,881</u>	<u>(46,669)</u>	<u>6,404</u>
Expenditures					
Current					
Economic development					
Other services	1,500	1,500	284	1,216	-
Loans made	25,000	25,000	-	25,000	-
Total Expenditures	<u>26,500</u>	<u>26,500</u>	<u>284</u>	<u>26,216</u>	<u>-</u>
Net Change in Fund Balances	35,050	35,050	14,597	(20,453)	6,404
Fund Balances, January 1	<u>348,685</u>	<u>348,685</u>	<u>348,685</u>	<u>-</u>	<u>342,281</u>
Fund Balances, December 31	<u>\$ 383,735</u>	<u>\$ 383,735</u>	<u>\$ 363,282</u>	<u>\$ (20,453)</u>	<u>\$ 348,685</u>

City of Harmony, Minnesota
 General Fund
 Comparative Balance Sheets
 December 31, 2021 and 2020

	2021	2020
Assets		
Cash and temporary investments	\$ 894,325	\$ 746,046
Receivables		
Interest	4,772	2,753
Delinquent taxes	7,486	20,740
Accounts	3,099	436
Intergovernmental	2,351	12,741
Prepaid items	21,234	20,420
Total Assets	\$ 933,267	\$ 803,136
Liabilities		
Accounts payable	\$ 36,528	\$ 31,867
Accrued salaries payable	3,168	2,014
Due to other governments	29,926	31,457
Unearned revenue	53,931	-
Total Liabilities	123,553	65,338
Deferred Inflows of Resources		
Unavailable revenue		
Property taxes	7,486	20,740
Fund Balances		
Nonspendable		
Prepaid items	21,234	20,420
Restricted		
Small cities assistance	27,628	-
Unassigned	753,366	696,638
Total Fund Balances	802,228	717,058
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 933,267	\$ 803,136

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, 2021
(With Comparative Actual Amounts for Year Ended December 31, 2020)

	2021				2020
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Taxes					
Property	\$ 276,316	\$ 276,316	\$ 287,602	\$ 11,286	\$ 262,496
Franchise	4,000	4,000	7,075	3,075	-
Lodging	3,500	3,500	3,762	262	1,436
Total Taxes	<u>283,816</u>	<u>283,816</u>	<u>298,439</u>	<u>14,623</u>	<u>263,932</u>
Special assessments	-	-	4,687	4,687	6,433
Licenses and permits					
Business	2,000	2,000	3,365	1,365	2,842
Nonbusiness	3,000	3,000	4,075	1,075	2,681
Total Licenses and Permits	<u>5,000</u>	<u>5,000</u>	<u>7,440</u>	<u>2,440</u>	<u>5,523</u>
Intergovernmental					
Federal					
CARES	-	-	-	-	33,572
State					
Local government aid	355,592	355,592	355,592	-	352,289
Property tax credits and aids	184	184	184	-	202
Fire aid	15,000	15,000	17,819	2,819	18,775
Other State aids	-	-	27,628	27,628	-
Total State	<u>370,776</u>	<u>370,776</u>	<u>401,223</u>	<u>30,447</u>	<u>371,266</u>
Total Intergovernmental	<u>370,776</u>	<u>370,776</u>	<u>401,223</u>	<u>30,447</u>	<u>404,838</u>
Charges for services					
General government	150	150	59	(91)	165
Streets and highways	500	500	3,199	2,699	3,305
Rents	4,000	4,000	3,880	(120)	4,418
Total Charges for Services	<u>4,650</u>	<u>4,650</u>	<u>7,138</u>	<u>2,488</u>	<u>7,888</u>
Fines and forfeits	750	750	838	88	1,021
Investment earnings	4,000	4,000	1,639	(2,361)	8,362
Miscellaneous					
Contributions and donations	4,000	4,000	15,750	11,750	6,935
Refunds and reimbursements	5,000	5,000	16,482	11,482	7,230
Other	-	-	10,226	10,226	11,996
Total Miscellaneous	<u>9,000</u>	<u>9,000</u>	<u>42,458</u>	<u>33,458</u>	<u>26,161</u>
Total Revenues	<u>677,992</u>	<u>677,992</u>	<u>763,862</u>	<u>85,870</u>	<u>724,158</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, 2021
 (With Comparative Actual Amounts for Year Ended December 31, 2020)

	2021			Variance with Final Budget	2020
	Budgeted Amounts		Actual		Actual
	Original	Final	Amounts		Amounts
Expenditures					
Current					
General Government					
Mayor and Council					
Personal services	\$ 7,686	\$ 7,686	\$ 7,533	\$ 153	\$ 7,434
Materials and supplies	350	350	584	(234)	352
Other services and charges	1,750	1,750	29	1,721	533
Total Mayor and Council	<u>9,786</u>	<u>9,786</u>	<u>8,146</u>	<u>1,640</u>	<u>8,319</u>
Finance and administration					
Personal services	74,395	74,395	124,211	(49,816)	119,431
Materials and supplies	7,150	7,150	5,775	1,375	6,133
Printing and publication	3,300	3,300	3,824	(524)	8,624
Training	650	650	375	275	250
Repairs and maintenance	1,500	1,500	1,359	141	1,543
Professional fees	7,750	7,750	16,520	(8,770)	22,359
Miscellaneous	2,750	2,750	9,154	(6,404)	32,702
Total Finance and Administration	<u>97,495</u>	<u>97,495</u>	<u>161,218</u>	<u>(63,723)</u>	<u>191,042</u>
Elections	-	-	-	-	2,413
Professional services					
Legal	8,500	8,500	6,350	2,150	8,980
Total General Government	<u>115,781</u>	<u>115,781</u>	<u>175,714</u>	<u>(59,933)</u>	<u>210,754</u>
Government Buildings					
Visitor center					
Personal services	11,159	11,159	10,830	329	10,319
Materials and supplies	2,750	2,750	1,870	880	2,175
Insurance	2,075	2,075	2,336	(261)	1,854
Repairs and maintenance	4,250	4,250	680	3,570	4,210
Utilities	6,150	6,150	6,102	48	4,970
Total Visitor Center	<u>26,384</u>	<u>26,384</u>	<u>21,818</u>	<u>4,566</u>	<u>23,528</u>
Community center					
Personal services	46,856	46,856	29,557	17,299	29,981
Materials and supplies	6,700	6,700	5,940	760	8,857
Insurance	18,100	18,100	17,597	503	15,862
Repairs and maintenance	25,500	25,500	3,920	21,580	1,909
Utilities	33,150	33,150	22,375	10,775	26,558
Miscellaneous	100	100	-	100	20
Total Community Center	<u>130,406</u>	<u>130,406</u>	<u>79,389</u>	<u>51,017</u>	<u>83,187</u>
Total Government Buildings	<u>156,790</u>	<u>156,790</u>	<u>101,207</u>	<u>55,583</u>	<u>106,715</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, 2021
 (With Comparative Actual Amounts for Year Ended December 31, 2020)

	2021			Variance with Final Budget	2020
	Budgeted Amounts		Actual		Actual
	Original	Final	Amounts		Amounts
Expenditures (Continued)					
Current (continued)					
Public safety					
Police					
Contracted services	\$ 110,350	\$ 110,350	\$ 84,792	\$ 25,558	\$ 102,261
Vehicle expense	1,875	1,875	3,163	(1,288)	5,790
Materials and supplies	650	650	-	650	60
Insurance	550	550	1,258	(708)	1,276
Repairs and maintenance	400	400	229	171	1,001
Miscellaneous	775	775	485	290	729
Total Police	<u>114,600</u>	<u>114,600</u>	<u>89,927</u>	<u>24,673</u>	<u>111,117</u>
Fire					
Firemen's relief	<u>24,500</u>	<u>24,500</u>	<u>27,319</u>	<u>(2,819)</u>	<u>27,275</u>
Civil defense					
Personal services	646	646	646	-	646
Repairs and maintenance	750	750	-	750	375
Other charges	1,950	1,950	1,945	5	2,135
Total Civil Defense	<u>3,346</u>	<u>3,346</u>	<u>2,591</u>	<u>755</u>	<u>3,156</u>
Animal control					
Personal services	3,965	3,965	2,829	1,136	3,069
Materials and supplies	400	400	276	124	192
Other services	400	400	-	400	195
Total Animal and Pest Control	<u>4,765</u>	<u>4,765</u>	<u>3,105</u>	<u>1,660</u>	<u>3,456</u>
Total Public Safety	<u>147,211</u>	<u>147,211</u>	<u>122,942</u>	<u>24,269</u>	<u>145,004</u>
Streets and Highways					
Personal services	24,463	24,463	7,337	17,126	12,327
Vehicle expenses	2,000	2,000	2,854	(854)	2,155
Materials and supplies	20,100	20,100	6,783	13,317	15,575
Insurance	2,250	2,250	2,472	(222)	2,232
Repairs and maintenance	35,500	35,500	19,360	16,140	5,191
Snow and ice	42,782	42,782	32,418	10,364	21,266
Building maintenance	29,210	29,210	15,917	13,293	16,316
Total Streets and Highways	<u>156,305</u>	<u>156,305</u>	<u>87,141</u>	<u>69,164</u>	<u>75,062</u>
Culture and recreation					
Community events	<u>6,500</u>	<u>6,500</u>	<u>14,067</u>	<u>(7,567)</u>	<u>11,244</u>
Economic development					
Lodging tax	5,000	5,000	3,349	1,651	862
Community development	500	500	-	500	447
Repairs and maintenance	-	-	50	(50)	12,600
Total Economic Development	<u>5,500</u>	<u>5,500</u>	<u>3,399</u>	<u>2,101</u>	<u>13,909</u>
Unallocated					
Miscellaneous	5,000	5,000	-	5,000	5,465
Insurance	2,335	2,335	2,414	(79)	2,268
Total Miscellaneous	<u>7,335</u>	<u>7,335</u>	<u>2,414</u>	<u>4,921</u>	<u>7,733</u>
Total Current	<u>595,422</u>	<u>595,422</u>	<u>506,884</u>	<u>88,538</u>	<u>570,421</u>
Capital outlay					
Finance and administration	1,500	1,500	5,528	(4,028)	1,698
Economic development	2,500	2,500	-	2,500	13,155
Streets and highways	12,500	12,500	9,000	3,500	-
Total Capital Outlay	<u>16,500</u>	<u>16,500</u>	<u>14,528</u>	<u>1,972</u>	<u>14,853</u>
Total Expenditures	<u>611,922</u>	<u>611,922</u>	<u>521,412</u>	<u>90,510</u>	<u>585,274</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, 2021
 (With Comparative Actual Amounts for Year Ended December 31, 2020)

	2021			Variance with Final Budget	2020
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 66,070	\$ 66,070	\$ 242,450	\$ 176,380	\$ 138,884
Other Financing Sources (Uses)					
Sale of capital assets	8,000	8,000	3,000	(5,000)	-
Transfers in	10,000	10,000	10,000	-	10,000
Transfers out	(83,500)	(83,500)	(170,280)	(86,780)	(83,500)
Total Other Financing Sources (Uses)	(65,500)	(65,500)	(157,280)	(91,780)	(73,500)
Net Change in Fund Balances	570	570	85,170	84,600	65,384
Fund Balances, January 1	717,058	717,058	717,058	-	651,674
Fund Balances, December 31	\$ 717,628	\$ 717,628	\$ 802,228	\$ 84,600	\$ 717,058

City of Harmony, Minnesota
Debt Service Funds
Combining Balance Sheet
December 31, 2021

	314	315	316
	2010 G.O.	2013A G.O	2013B G.O.
	Improvement	Tax Abatement	Tax Abatement
	Bonds	Bonds	Bonds
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash and temporary investments	\$ -	\$ 35,872	\$ -
Receivables			
Delinquent taxes	-	276	-
Special assessments	-	-	-
Intergovernmental	-	180	-
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u><u>\$ -</u></u>	<u><u>\$ 36,328</u></u>	<u><u>\$ -</u></u>
Deferred Inflows of Resources			
Unavailable revenue			
Property taxes	\$ -	\$ 276	\$ -
Special assessments	-	-	-
Total Deferred Inflows of Resources	<u> </u>	<u> </u>	<u> </u>
	-	276	-
Fund Balances			
Restricted			
Debt service	-	36,052	-
	<u> </u>	<u> </u>	<u> </u>
Total Deferred Inflows of Resources and Fund Balances	<u><u>\$ -</u></u>	<u><u>\$ 36,328</u></u>	<u><u>\$ -</u></u>

317 2014A G.O. Improvement Bonds	318 2017A G.O. Improvement Bonds	319 2020A G.O. Improvement Bonds	Total
\$ 50,395	\$ 194,856	\$ 401,989	\$ 683,112
229	989	714	2,208
64,453	118,188	259,949	442,590
880	659	5,391	7,110
<u>\$ 115,957</u>	<u>\$ 314,692</u>	<u>\$ 668,043</u>	<u>\$ 1,135,020</u>

\$ 229	\$ 989	\$ 714	\$ 2,208
64,453	118,188	259,949	442,590
<u>64,682</u>	<u>119,177</u>	<u>260,663</u>	<u>444,798</u>

<u>51,275</u>	<u>195,515</u>	<u>407,380</u>	<u>690,222</u>
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<u>\$ 115,957</u>	<u>\$ 314,692</u>	<u>\$ 668,043</u>	<u>\$ 1,135,020</u>
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City of Harmony, Minnesota
Debt Service Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2021

	314 2010 G.O. Improvement Bonds	315 2013A G.O. Tax Abatement Bonds	316 2013B G.O. Tax Abatement Bonds
Revenues			
Property taxes	\$ 113	\$ 19,195	\$ 1,198
Special assessments	-	-	-
Investment earnings	154	96	-
Total Revenues	<u>267</u>	<u>19,291</u>	<u>1,198</u>
Expenditures			
Debt service			
Principal	-	16,000	114,000
Interest and other costs	-	1,408	2,565
Total Expenditures	<u>-</u>	<u>17,408</u>	<u>116,565</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>267</u>	<u>1,883</u>	<u>(115,367)</u>
Other Financing Sources (Uses)			
Bond proceeds	-	-	-
Transfers in	-	1,372	86,780
Transfers out	<u>(51,928)</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(51,928)</u>	<u>1,372</u>	<u>86,780</u>
Net Change in Fund Balances	(51,661)	3,255	(28,587)
Fund Balances, January 1	<u>51,661</u>	<u>32,797</u>	<u>28,587</u>
Fund Balances, December 31	<u>\$ -</u>	<u>\$ 36,052</u>	<u>\$ -</u>

317 2014A G.O. Improvement Bonds	318 2017A G.O. Improvement Bonds	319 2020A G.O. Improvement Bonds	Total
\$ 18,163	\$ 80,588	\$ 68,049	\$ 187,306
12,138	25,331	65,207	102,676
118	334	512	1,214
<u>30,419</u>	<u>106,253</u>	<u>133,768</u>	<u>291,196</u>
25,000	719,000	-	874,000
866	39,763	18,070	62,672
<u>25,866</u>	<u>758,763</u>	<u>18,070</u>	<u>936,672</u>
4,553	(652,510)	115,698	(645,476)
-	660,000	-	660,000
-	51,928	172,448	312,528
-	-	-	(51,928)
<u>-</u>	<u>711,928</u>	<u>172,448</u>	<u>920,600</u>
4,553	59,418	288,146	275,124
46,722	136,097	119,234	415,098
<u>\$ 51,275</u>	<u>\$ 195,515</u>	<u>\$ 407,380</u>	<u>\$ 690,222</u>

City of Harmony, Minnesota
 Summary Financial Report
 Revenues and Expenditures for General Operations -
 Governmental Funds
 For the Years Ended December 31, 2021 and 2020

	Total 2021	Total 2020	Percent Increase (Decrease)	
Revenues				
Taxes	\$ 819,900	\$ 757,317	8.26	%
Special assessments	107,363	169,262	(36.57)	
Licenses and permits	7,440	5,523	34.71	
Intergovernmental	811,076	521,307	55.59	
Charges for services	232,268	221,294	4.96	
Fines and forfeits	1,080	1,098	(1.64)	
Investment earnings	7,979	17,829	(55.25)	
Miscellaneous	213,240	108,825	95.95	
Total Revenues	<u>\$ 2,200,346</u>	<u>\$ 1,802,455</u>	22.07	%
Per Capita	<u>\$ 2,110</u>	<u>\$ 1,769</u>	19.27	%
Expenditures				
Current				
General government	\$ 276,921	\$ 317,469	(12.77)	%
Public safety	418,094	374,380	11.68	
Streets and highways	137,823	75,062	83.61	
Culture and recreation	189,379	170,241	11.24	
Economic development	648,354	160,420	304.16	
Miscellaneous	2,414	7,733	(68.78)	
Capital outlay				
General government	43,443	1,698	2,458.48	
Public safety	461,700	41,717	1,006.74	
Streets and highways	194,082	1,696,059	(88.56)	
Culture and recreation	12,673	15,889	(20.24)	
Economic development	-	13,155	(100.00)	
Debt service				
Principal	874,000	142,500	513.33	
Interest and other charges	68,063	83,731	(18.71)	
Total Expenditures	<u>\$ 3,326,946</u>	<u>\$ 3,100,054</u>	7.32	%
Per Capita	<u>\$ 3,190</u>	<u>\$ 3,042</u>	4.85	%
Total Long-term Indebtedness	\$ 2,686,000	\$ 2,770,000	(3.03)	%
Per Capita	2,575	2,718	(5.26)	
General Fund Balance - December 31	\$ 802,228	\$ 717,058	11.88	%
Per Capita	769	704	9.30	

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, 2021

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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, 2021, and the notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 18, 2022.

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

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



Abdo
Mankato, Minnesota
April 18, 2022

**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, 2021, 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 18, 2022.

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 2021-001 and 2021-002 that we consider to be a significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses item 2021-003 to be a material weakness.

Compliance and Other Matters

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

The City's Response to Findings

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

Purpose of this Report

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



Abdo
Mankato, Minnesota
April 18, 2022



City of Harmony, Minnesota
Schedule of Findings and Responses
For the Year Ended December 31, 2021

<u>Finding</u>	<u>Description</u>
2021-001	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

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

Management Response:

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

Updated Progress from Prior Year:

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

Internal Control Over Cash Disbursements

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

Management Response:

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

City of Harmony, Minnesota
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2021

Finding Description

2021-001 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, 2021

<u>Finding</u>	<u>Description</u>
2021-002	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.

Management Response:

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

City of Harmony, Minnesota
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2021

<u>Finding</u>	<u>Description</u>
2021-003	Material Audit Adjustments
<i>Condition:</i>	During our audit, adjustments were needed to record various material transactions and to properly state amounts for the current year.
<i>Criteria:</i>	Such adjustments should be detected and made by the City's personnel.
<i>Cause:</i>	City staff has not prepared a year-end trial balance reflecting all necessary accruals and year-end adjustments without auditor assistance.
<i>Effect:</i>	It is likely that if a misstatement were to occur, it would not be detected by the City's system of internal control.
<i>Recommendation:</i>	We recommend management review the related journal entries, obtain an understanding of why the entries were necessary and modify current procedure to ensure that future corrections are not needed.

Management Response:

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