



# Annual Financial Report

City of Harmony  
Harmony, Minnesota

For the year ended December 31, 2022



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

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

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

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

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INTRODUCTORY SECTION

CITY OF HARMONY  
HARMONY, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2022

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

**ELECTED**

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

**APPOINTED**

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

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FINANCIAL SECTION  
CITY OF HARMONY  
HARMONY, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2022

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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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

#### Basis for Qualified Opinion

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

#### Qualified Opinion

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

#### Unmodified Opinions

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

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

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

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

## **Auditor's Responsibility**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

## **Other Matters**

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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 17 and the schedule of Employer's Share of the Net Pension Liability, the schedule of Employer's Contributions, the related note disclosures starting on page 76 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



## **Supplementary Information**

Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the City's basic financial statements. The accompanying combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Other Information**

Management is responsible for the other information in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statement do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2023, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



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



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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, 2022.

### Financial Highlights

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

### Overview of the Financial Statements

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

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

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

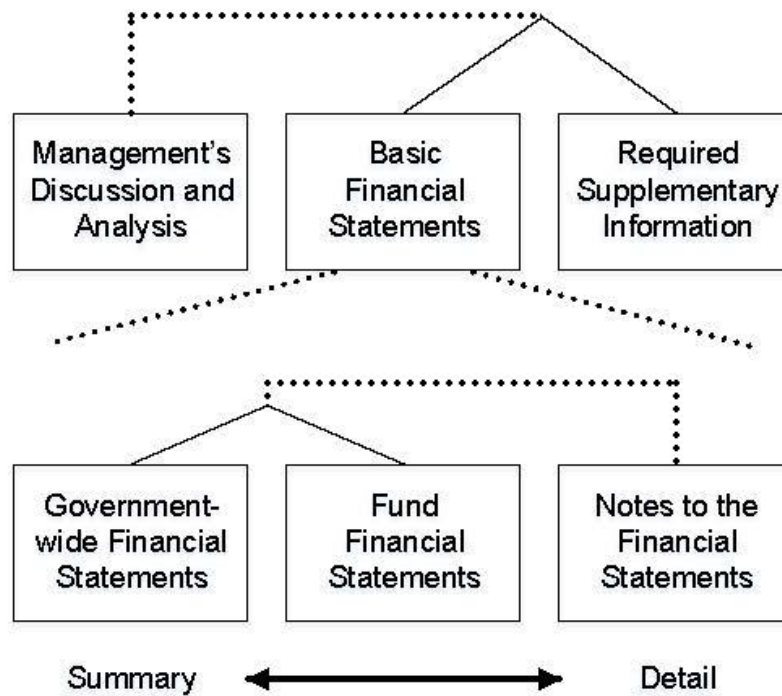


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the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

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

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

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

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

The *statement of activities* presents information showing how the City’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

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

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

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

**Governmental Funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

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

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

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

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

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

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

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

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

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

### Government-wide Financial Analysis

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

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

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

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

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

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

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

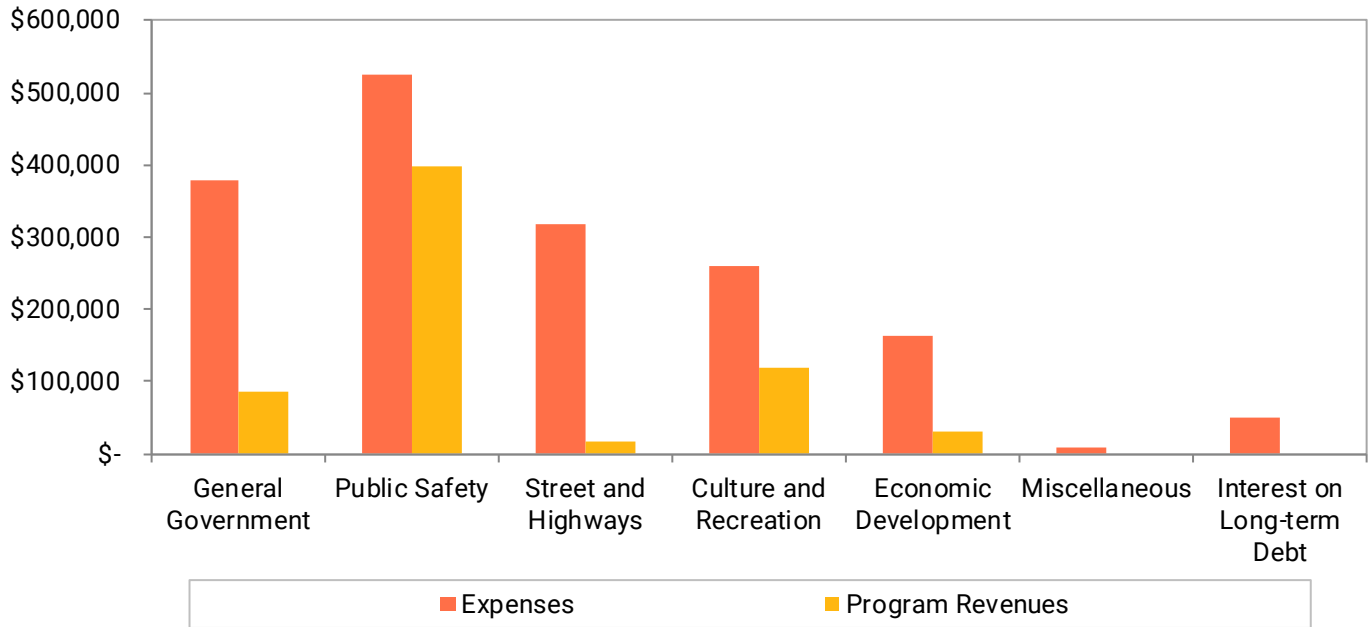
### City of Harmony, Minnesota's Changes in Net Position

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

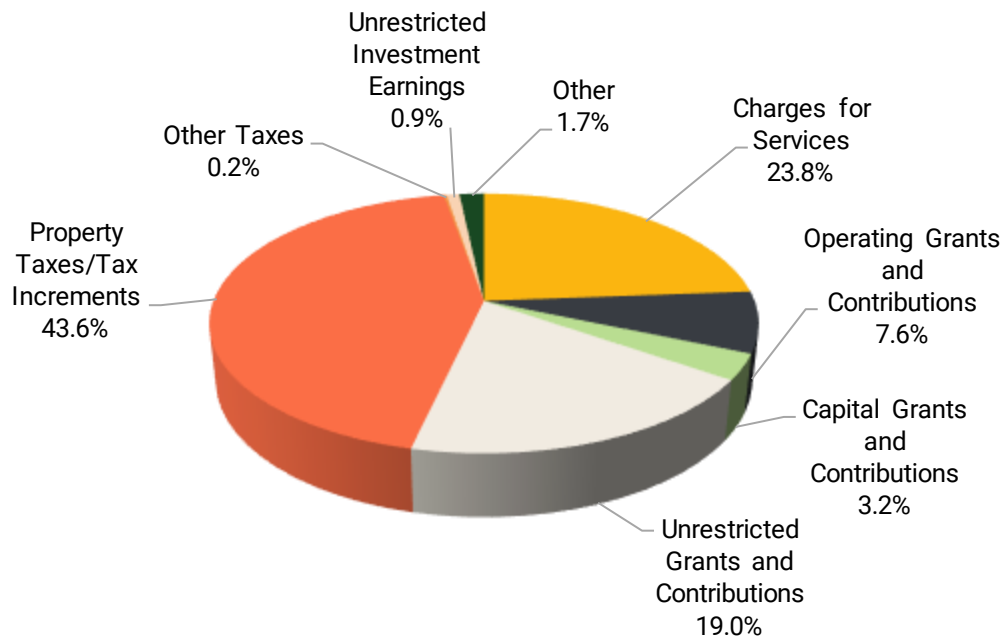
Property tax levies increased 3.7 percent during the year.

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

### Expenses and Program Revenues - Governmental Activities

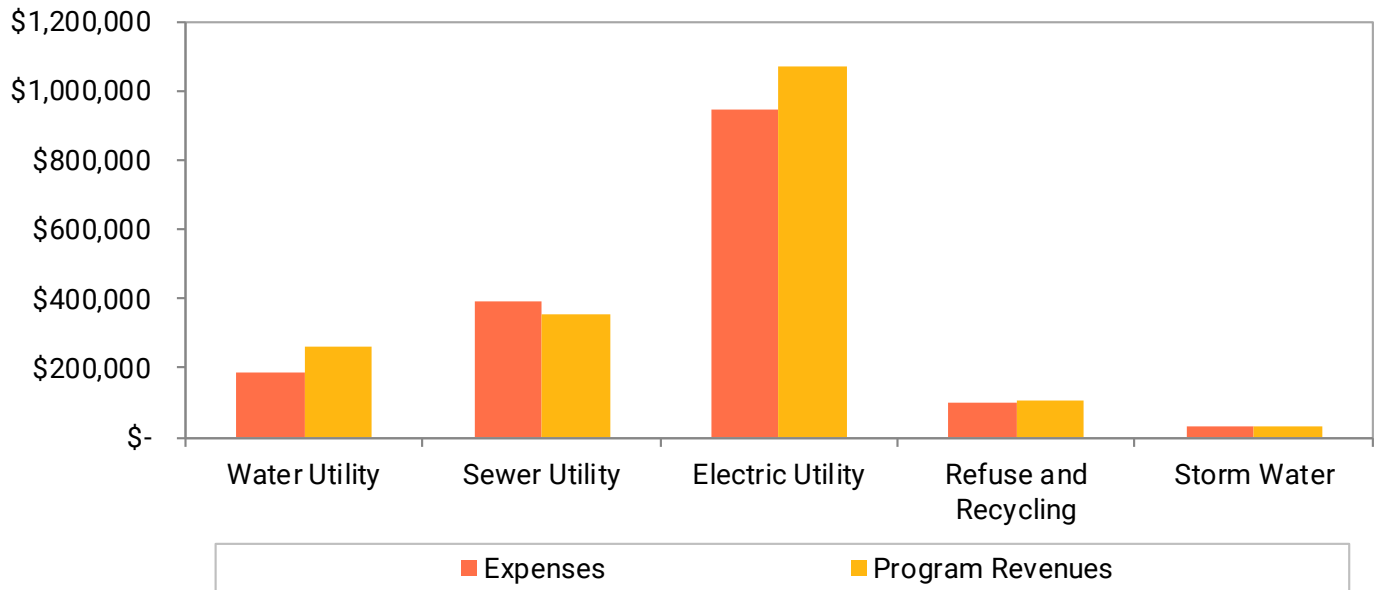


### Revenues by Source - Governmental Activities

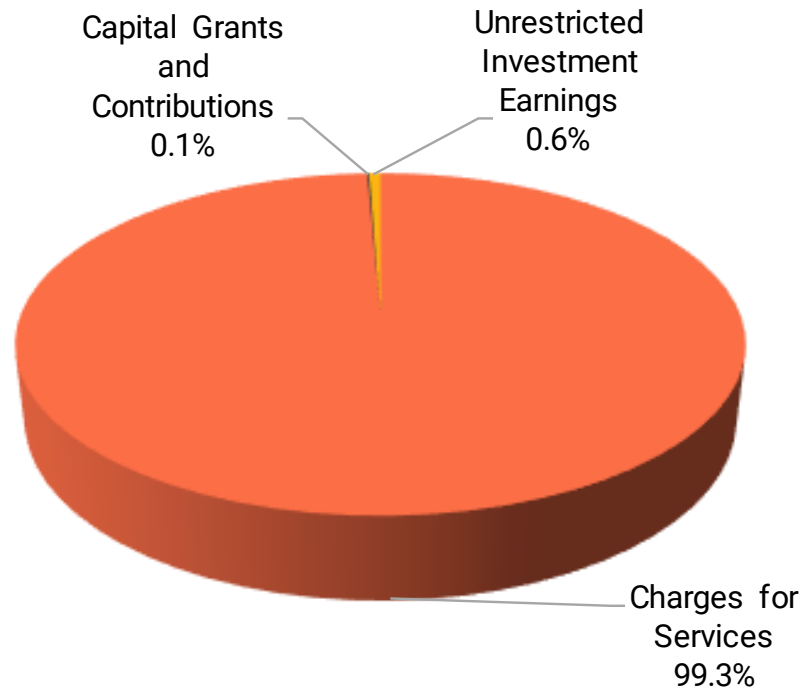


**Business-type Activities.** Business-type activities increased the City's net position by \$559,679.

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



### Revenues by Source - Business-type Activities





## Financial Analysis of the City's Funds

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

**Governmental Funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

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

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

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

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

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

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

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

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

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

## General Fund Budgetary Highlights

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

## Capital Asset and Debt Administration

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### Requests for Information

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

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF HARMONY  
HARMONY, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2022

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

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and temporary investments	\$ 2,901,690	\$ 1,329,260	\$ 4,230,950
Receivables			
Interest	5,798	-	5,798
Delinquent taxes	16,565	-	16,565
Accounts, net of allowances	80,773	158,961	239,734
Special assessments	546,984	119,328	666,312
Loans	374,098	-	374,098
Intergovernmental	4,935	-	4,935
Internal balances	(34,574)	34,574	-
Inventories	-	28,134	28,134
Prepaid items	35,725	18,011	53,736
Capital assets			
Nondepreciable land and construction in progress	420,168	36,415	456,583
Depreciable assets (net of accumulated depreciation)	5,228,641	5,968,392	11,197,033
Total Assets	<u>9,580,803</u>	<u>7,693,075</u>	<u>17,273,878</u>
<b>Deferred Outflows of Resources</b>			
Deferred pension resources	<u>74,311</u>	<u>41,459</u>	<u>115,770</u>
<b>Liabilities and Net Position</b>			
<b>Liabilities</b>			
Accounts payable	48,449	7,710	56,159
Deposits payable	-	13,484	13,484
Due to other governments	64,979	13,985	78,964
Accrued interest payable	17,022	3,115	20,137
Accrued salaries payable	13,528	1,512	15,040
Unearned revenue	107,861	-	107,861
Noncurrent liabilities			
Due within one year			
Long-term liabilities	320,900	102,333	423,233
Due in more than one year			
Long-term liabilities	2,465,800	676,214	3,142,014
Net pension liability	244,016	136,146	380,162
Total Liabilities	<u>3,282,555</u>	<u>954,499</u>	<u>4,237,054</u>
<b>Deferred Inflows of Resources</b>			
Deferred pension resources	<u>8,428</u>	<u>4,701</u>	<u>13,129</u>
<b>Net Position</b>			
Net investment in capital assets	3,257,009	5,233,607	8,490,616
Restricted			
Economic development	80,751	-	80,751
Future capital	22,000	-	22,000
Debt service	914,895	-	914,895
Unrestricted	<u>2,089,476</u>	<u>1,541,727</u>	<u>3,631,203</u>
Total Net Position	<u>\$ 6,364,131</u>	<u>\$ 6,775,334</u>	<u>\$ 13,139,465</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, 2022

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

General Revenues

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

Transfers

Capital Contributions

Total General Revenues, Transfers and Contributions

Change in Net Position

Net Position, January 1

Net Position, December 31

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



Net (Expense) Revenue and  
Changes in Net Position

---

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (290,699)		\$ (290,699)
(129,148)		(129,148)
(299,652)		(299,652)
(140,706)		(140,706)
(132,849)		(132,849)
(8,720)		(8,720)
(50,175)		(50,175)
<u>(1,051,949)</u>		<u>(1,051,949)</u>
	\$ 75,415	75,415
	(38,364)	(38,364)
	123,166	123,166
	5,199	5,199
	(33)	(33)
	<u>165,383</u>	<u>165,383</u>
<u>(1,051,949)</u>	<u>165,383</u>	<u>(886,566)</u>
278,984	-	278,984
355,408	-	355,408
169,195	-	169,195
16,738	-	16,738
3,375	-	3,375
356,684	-	356,684
16,714	11,116	27,830
31,530	69	31,599
98,941	(98,941)	-
(482,052)	482,052	-
<u>845,517</u>	<u>394,296</u>	<u>1,239,813</u>
(206,432)	559,679	353,247
<u>6,570,563</u>	<u>6,215,655</u>	<u>12,786,218</u>
<u>\$ 6,364,131</u>	<u>\$ 6,775,334</u>	<u>\$ 13,139,465</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, 2022

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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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, 2022

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

Net Change in Fund Balances - Governmental Funds	\$ (118,855)
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense.</p>	
Capital outlay	570,598
Depreciation expense	(417,999)
Contribution of capital assets to enterprise funds	(428,658)
<p>The net effect of various miscellaneous transactions involving capital assets.</p>	
Book value of disposal of capital assets	(24,370)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.</p>	
Principal repayments	318,608
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>	
	4,443
<p>Long-term pension activity is not reported in governmental funds.</p>	
Negative pension expense	(5,968)
Direct aid contributions	1,060
<p>Delinquent property taxes receivable will be collected this year, but is not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.</p>	
	6,871
<p>Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.</p>	
Special assessments	(67,498)
Contribution of special assessments to enterprise funds	(53,394)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	
Compensated absences	8,730
Change in Net Position - Governmental Activities	\$ (206,432)

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

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

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

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

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

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

City of Harmony, Minnesota

Statement of Net Position

Proprietary Funds

December 31, 2022

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

## Note 1: Summary of Significant Accounting Policies

### A. Reporting Entity

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The City reports the following major governmental funds:

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

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

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

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

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

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

The City reports the following major proprietary funds:

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

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

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

Additionally, the City reports the following fund types:

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

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

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

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

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

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

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

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

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

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

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

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

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

***Investment Policy***

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

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

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

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

***Property Taxes***

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

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

***Accounts Receivable***

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

***Special Assessments***

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

***Interfund Receivables and Payables***

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

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

***Inventories and Prepaid Items***

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

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

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

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

**Capital Assets**

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

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

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

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

**Compensated Absences**

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



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

***Deferred Inflows of Resources***

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

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

***Long-term Obligations***

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

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

***Pensions***

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

The total pension expense for the GERP is as follows:

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

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

### ***Fund Balance***

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

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

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

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

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

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

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

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

### ***Net Position***

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

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

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

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

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

**A. Budgetary Information**

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

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

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

**B. Excess Expenditures Over Appropriations**

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

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

**C. Deficit Fund Equity**

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

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

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

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

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

**A. Deposits and Investments**

***Deposits***

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

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

Authorized collateral in lieu of a corporate surety bond includes:

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

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

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

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

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

**Investments**

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

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

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

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

N/A Indicates not applicable or available.

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

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

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

**Cash on Hand**

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

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

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

***Cash and Investments Summary***

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

Deposits	\$ 2,799,681
Investments	1,441,541
Cash on Hand	<u>165</u>
 Total Cash and Temporary Investments	 <u>\$ 4,241,387</u>
 Cash and Temporary Investments	 \$ 4,230,950
Fiduciary Fund Cash	<u>10,437</u>
 Total	 <u><u>\$ 4,241,387</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, 2022 was \$242,858. Additionally, EDA commercial revitalization loans, which are forgivable in 10 years, totaled \$80,000.

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

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

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

**C. Capital Assets**

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

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

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

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

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

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

**Governmental Activities**

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

**Business-type Activities**

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



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

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

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

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

**Advances to/from Other Funds**

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

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

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

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

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

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

**Interfund Transfers**

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

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

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

**E. Long-term Debt**

General Obligation Bonds

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

G.O. Improvement Bonds

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

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

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

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

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

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

G.O. Tax Abatement Bonds

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

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

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

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

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

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

G.O. Tax Increment Notes

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

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

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

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

G.O. Revenue Bonds

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

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

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

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

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

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

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

Changes in Long-term Liabilities

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

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

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

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

**A. Plan Description**

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

General Employees Retirement Plan

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

**B. Benefits Provided**

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

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

General Employee Plan Benefits

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

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

**C. Contributions**

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

General Employees Fund Contributions

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

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

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

**D. Pension Costs**

General Employees Fund Pension Costs

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

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

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

At December 31, 2022, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources, related to pensions from the following sources:

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

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

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

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

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

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

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

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

**F. Actuarial Assumptions**

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

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

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

General Employees Fund

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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



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

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

**G. Discount Rate**

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

**H. Pension Liability Sensitivity**

The following presents the City’s proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

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

**I. Pension Plan Fiduciary Net Position**

Detailed information about each pension plan’s fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

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

**A. Plan Description**

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

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

**B. Benefits Provided**

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

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

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

**C. Contributions**

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

**Note 6: Other Information**

**A. Risk Management**

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

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

**B. Legal Debt Margin**

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

**C. Concentrations**

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

**D. Tax Increment Districts**

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

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARMONY  
HARMONY, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2022

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

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

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

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

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

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

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

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

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

Changes in Actuarial Assumptions

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

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

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

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

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

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

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

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

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

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

Changes in Plan Provisions

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

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

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

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

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

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

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

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

COMBINING AND INDIVIDUAL FUND FINANCIAL  
STATEMENTS AND SCHEDULES

CITY OF HARMONY  
HARMONY, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2022

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

City of Harmony, Minnesota

Debt Service Funds

Combining Balance Sheet

December 31, 2022

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

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

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

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

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

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



OTHER REQUIRED REPORTS

CITY OF HARMONY  
HARMONY, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2022

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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, 2022, and the notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated May 10, 2023.

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

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



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

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

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

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

**Internal Control Over Financial Reporting**

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

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

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

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

## Compliance and Other Matters

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

## The City's Response to Findings

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

## Purpose of this Report

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



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



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

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

**Internal Control Over Payroll**

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

*Management Response:*

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

*Updated Progress from Prior Year:*

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

**Internal Control Over Cash Disbursements**

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

*Management Response:*

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

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

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

**Internal Control Over Cash Receipts**

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

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

*Management Response:*

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

*Updated Progress from Prior Year:*

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

**Internal Control Over Utility Billing**

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

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

*Management Response:*

The Administrator will review procedures for future audits.

*Updated Progress from Prior Year:*

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

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

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

*Management Response:*

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



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

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

*Management Response:*

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