

Annual Financial Report

City of Harmony
Harmony, Minnesota

For the Year Ended
December 31, 2019

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City of Harmony, Minnesota
 Annual Financial Report
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 For the Year Ended December 31, 2019

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INTRODUCTORY SECTION

CITY OF HARMONY
HARMONY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2019

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City of Harmony, Minnesota
Elected and Appointed Officials
For the Year Ended December 31, 2019

ELECTED

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

APPOINTED

Jerome Illg	Administrator
Eileen Schansberg	Deputy Clerk

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FINANCIAL SECTION
CITY OF HARMONY
HARMONY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2019

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Harmony, Minnesota, Minnesota (the City), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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

Basis for Qualified Opinion

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

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, 2019, 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General, Ambulance and Economic Development fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Change in Accounting Standards

As described in Note 7 to the financial statements, the City adopted the provisions of Governmental Accounting Standard Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27 and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement 68*, for the year ended June 30, 2019. Adoption of the provisions of these statements results in significant change to the classification of the components of the financial Statements.

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.

Other Information

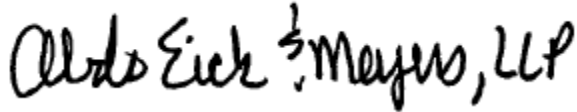
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City’s basic financial statements. The introductory section, combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are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

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
March 30, 2020

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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, 2019.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$11,292,788 (net position). Of this amount \$3,048,533 (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 \$2,496,097, a decrease of \$42,673 in comparison with the prior year. Approximately 22.6 percent of the total amount, \$563,799, 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 (\$28,941) 2) restricted (\$385,569), 3) committed (\$1,043,207), or 4) assigned (\$474,581).
- At the end of the current fiscal year, unassigned fund balance for the General fund was \$632,747, or 99.5 percent of total General fund expenditures.
- The City's total debt decreased by \$231,500, or 10.2 percent during the current fiscal year. This was attributable to the retirement of debt through principal payments. Debt retirements during the year totaled \$231,500.

Overview of the Financial Statements

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

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

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

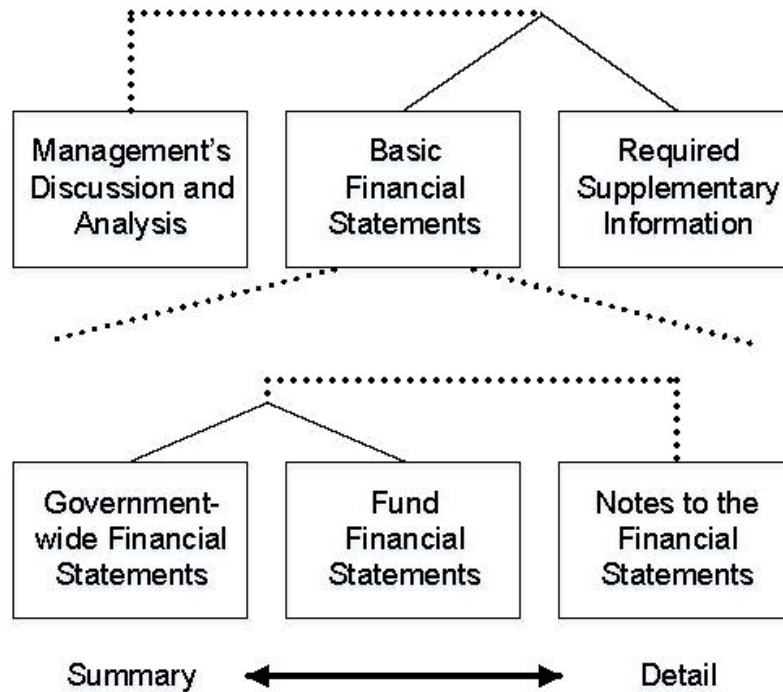


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the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

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

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

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

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

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

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

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

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

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

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

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

The City maintains 18 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 Capital Projects fund, the Economic Development Authority, 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 which 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.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to financial statements. Combining and individual fund financial statements and schedules can be found starting on page 80 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 \$11,292,788 at the close of the most recent fiscal year.

A large portion of the City’s net position (69.4 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		
	2019	2018	Increase (Decrease)	2019	2018	Increase (Decrease)
Current and Other Assets	\$ 3,133,553	\$ 3,228,688	\$ (95,135)	\$ 1,199,883	\$ 1,292,043	\$ (92,160)
Capital Assets	4,062,976	4,086,927	(23,951)	5,582,953	5,529,295	53,658
Total Assets	<u>7,196,529</u>	<u>7,315,615</u>	<u>(119,086)</u>	<u>6,782,836</u>	<u>6,821,338</u>	<u>(38,502)</u>
Deferred Outflows of Resources	29,829	-	29,829	10,239	-	10,239
Long-term Liabilities Outstanding	1,361,896	1,294,118	67,778	1,033,775	1,043,839	(10,064)
Other Liabilities	152,441	283,548	(131,107)	118,833	297,575	(178,742)
Total Liabilities	<u>1,514,337</u>	<u>1,577,666</u>	<u>(63,329)</u>	<u>1,152,608</u>	<u>1,341,414</u>	<u>(188,806)</u>
Deferred Inflows of Resources	44,443	-	44,443	15,257	-	15,257
Net Investment in Capital Assets	3,191,476	3,127,927	63,549	4,645,953	4,508,295	137,658
Restricted	406,826	363,366	43,460	-	-	-
Unrestricted	<u>2,069,276</u>	<u>2,246,656</u>	<u>(177,380)</u>	<u>979,257</u>	<u>971,629</u>	<u>7,628</u>
Total Net Position	<u>\$ 5,667,578</u>	<u>\$ 5,737,949</u>	<u>\$ (25,928)</u>	<u>\$ 5,625,210</u>	<u>\$ 5,479,924</u>	<u>\$ 160,543</u>

An additional portion of the City’s net assets (3.6 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (27.0 percent) may be used to meet the City’s ongoing obligations to citizens and creditors.

The City’s net position increased by \$372,708 during the current fiscal year. The majority of this increase is attributable to capital grants and contributions for the governmental and business-type activities related to programs and activities including, but not limited to, special assessments and capital grants.

Governmental activities. Governmental activities increased the City's net position by \$148,646. Key elements of this increase are as follows:

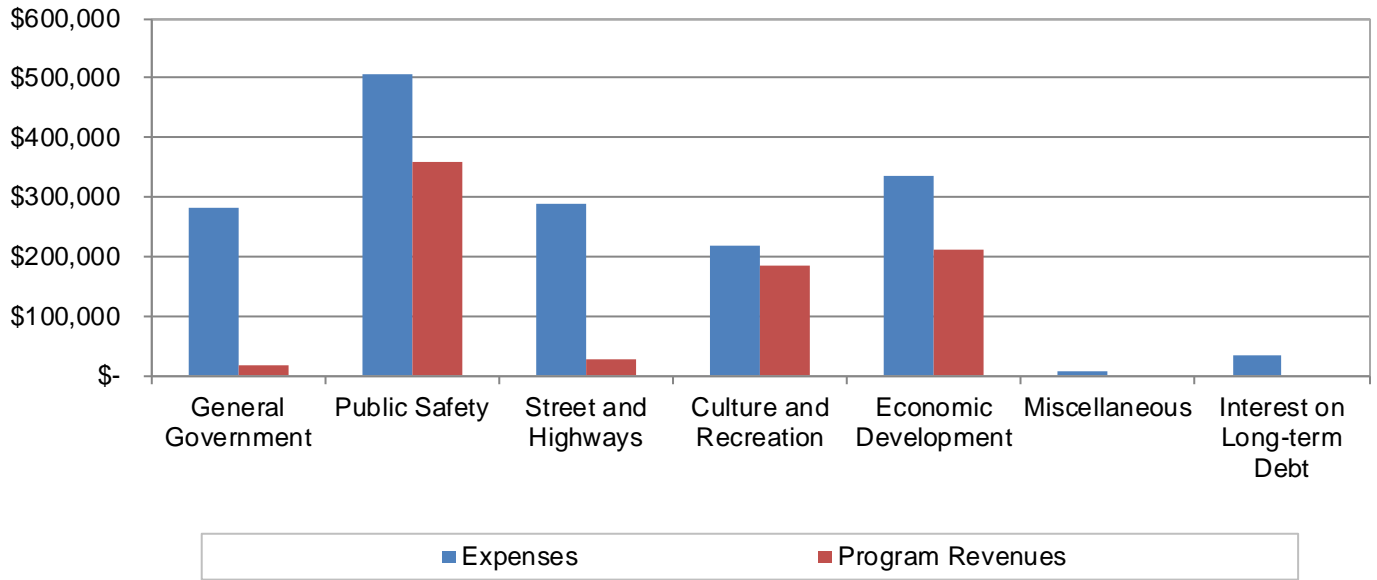
City of Harmony, Minnesota's Changes in Net Position

	Governmental Activities			Business-type Activities		
	2019	2018	Increase (Decrease)	2019	2018	Increase (Decrease)
Revenues						
Program Revenues						
Charges for services	\$ 337,737	\$ 337,356	\$ 381	\$ 1,701,466	\$ 1,658,047	\$ 43,419
Operating grants and contributions	269,507	74,201	195,306	13,233	25,297	(12,064)
Capital grants and contributions	194,213	335,730	(141,517)	33,946	43,161	(9,215)
General revenues						
Property taxes/tax increments	709,429	684,084	25,345	-	-	-
Other taxes	4,276	4,361	(85)	-	-	-
Grants and contributions not restricted to specific programs	347,575	347,202	373	-	-	-
Unrestricted						
investment earnings	32,485	17,496	14,989	14,772	7,262	7,510
Gain on sale of fixed assets	20,000	55,194	(35,194)	-	-	-
Total Revenues	<u>1,915,222</u>	<u>1,855,624</u>	<u>59,598</u>	<u>1,763,417</u>	<u>1,733,767</u>	<u>29,650</u>
Expenses						
General government	280,771	282,646	(1,875)	-	-	-
Public safety	507,000	524,353	(17,353)	-	-	-
Streets and highways	289,989	307,772	(17,783)	-	-	-
Culture and recreation	217,610	205,113	12,497	-	-	-
Economic development	336,407	193,117	143,290	-	-	-
Miscellaneous	8,117	7,611	506	-	-	-
Interest on long-term debt	36,182	44,983	(8,801)	-	-	-
Water utility	-	-	-	187,695	171,785	15,910
Sewer utility	-	-	-	365,367	317,170	48,197
Electric utility	-	-	-	962,500	962,673	(173)
Refuse and recycling	-	-	-	67,492	62,691	4,801
Storm water	-	-	-	46,801	36,821	9,980
Total Expenses	<u>1,676,076</u>	<u>1,565,595</u>	<u>110,481</u>	<u>1,629,855</u>	<u>1,551,140</u>	<u>78,715</u>
Increase (Decrease) in Net						
Assets before Transfers	239,146	290,029	(50,883)	133,562	182,627	(49,065)
Transfers	<u>(90,500)</u>	<u>33,500</u>	<u>(124,000)</u>	<u>90,500</u>	<u>(33,500)</u>	<u>124,000</u>
Change in Net Position	148,646	323,529	(174,883)	224,062	149,127	74,935
Net Position - January 1	5,737,949	5,414,420	323,529	5,479,924	5,330,797	149,127
Change in Accounting Principle	<u>(219,017)</u>	<u>-</u>	<u>(219,017)</u>	<u>(78,776)</u>	<u>-</u>	<u>(78,776)</u>
Net Position - December 31	<u>\$ 5,667,578</u>	<u>\$ 5,737,949</u>	<u>\$ 148,646</u>	<u>\$ 5,625,210</u>	<u>\$ 5,479,924</u>	<u>\$ 224,062</u>

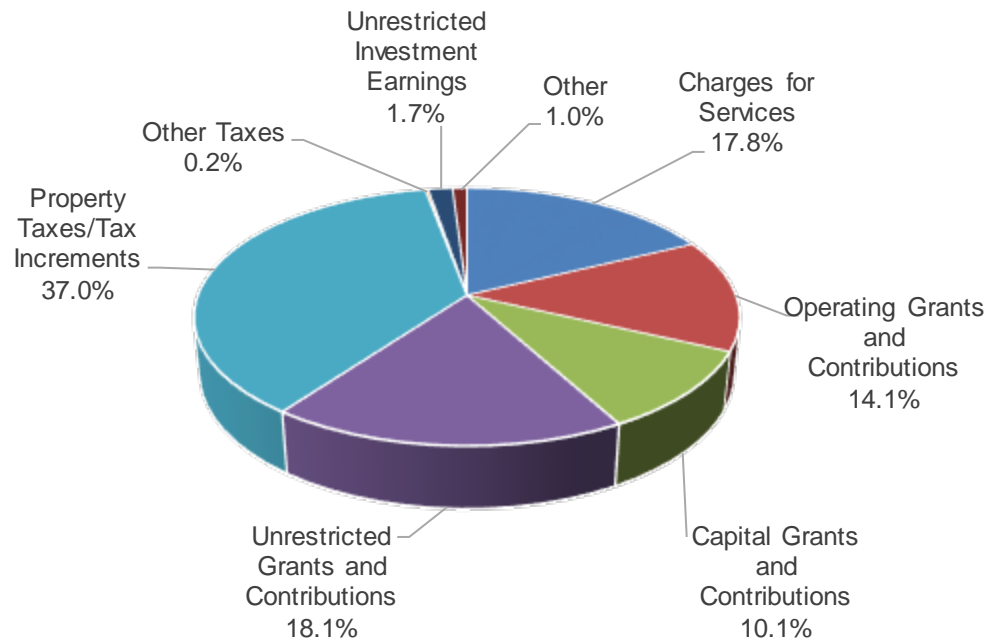
Property tax levies increased 7.3 percent during the year.

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

Expenses and Program Revenues - Governmental Activities

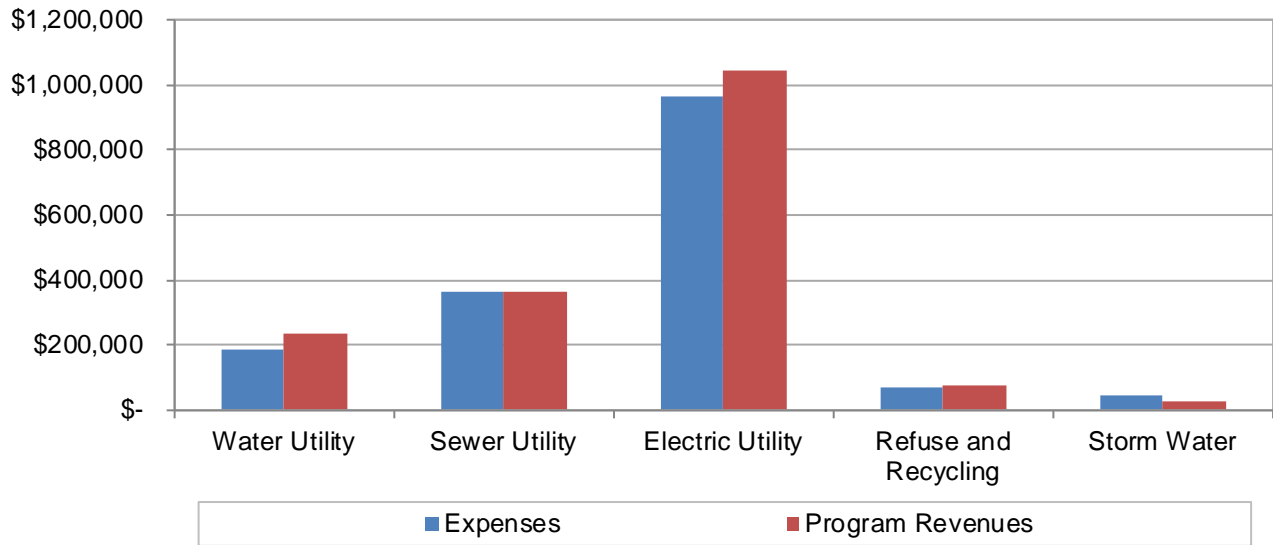


Revenues by Source - Governmental Activities

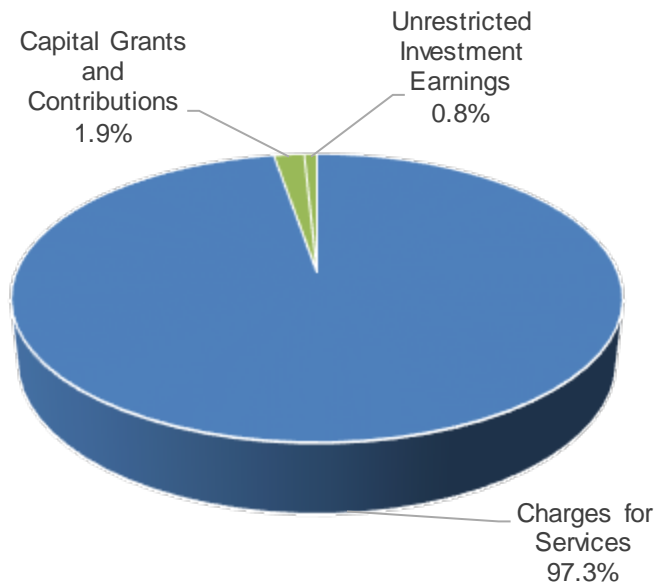


Business-type activities. Business-type activities increased the City's net position by \$224,062.

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 \$2,496,097, a decrease of \$42,673 in comparison with the prior year. Approximately 22.6 percent of the total amount, \$563,799, 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 (\$28,941) 2) restricted (\$385,569), 3) committed (\$1,043,207), or 4) assigned (\$474,581).

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 \$651,674, \$632,747 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 102.5 percent of fund expenditures.

The fund balance of the City's General fund decreased by \$59,495 during the current fiscal year. The key factor in this decrease was mainly related to capital outlay for streets and highways.

The Ambulance fund has a total fund balance of \$160,443 of which \$2,700 is nonspendable and the remainder assigned for ambulance services. The net increase in fund balance during the current year in this fund was \$23,258. This was mostly due to expenditures being under budget by \$33,681.

The Debt Service fund has a total fund balance of \$256,693. The net increase in fund balance during the current year was \$44,873 mainly due to taxes and assessments exceeding retirement of debt of \$147,500 across all debt service funds.

The Capital Projects fund has a total fund balance of \$859,621, all of which is committed for future capital outlay. The net increase in fund balance during the current year in this fund was \$27,817 due to donations to the funds.

The Economic Development Authority fund has a total fund balance of \$92,135. The net decrease in fund balance during the current year in this fund was \$70,491 due to additional capital outlay of \$115,000 for industrial park improvements.

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 \$979,257. The total growth in net position for the funds was \$224,062. 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 \$31,433 while expenditures were over budget by \$63,405 in 2019. The General fund budgeted for an increase in reserves by \$20,227.

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, 2019, amounts to \$9,645,929 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges. The total increase in the City's investment in capital assets for the current fiscal year was 0.3 percent (a 0.6 percent decrease for governmental activities and a 1.0 percent increase for business-type activities).

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

- The purchase of a street sweeper in the amount of \$135,000.
- The purchase of a skid loader totaling \$30,000.
- Improvements on the industrial park land-phase 3 project amounted to \$115,000.
- Costs associated with underground electric loop work amounted to \$241,798.

Additional information on the City's capital assets can be found in Note 3C starting on pages 61 of this report.

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

	Governmental Activities			Business-type Activities		
	2019	2018	Increase (Decrease)	2019	2018	Increase (Decrease)
Land	\$ 424,743	\$ 331,567	\$ 93,176	\$ 36,415	\$ 36,415	\$ -
Construction in Progress	93,227	36,024	57,203	36,088	134,692	(98,604)
Buildings and Improvements	554,686	563,744	(9,058)	1,076,094	1,154,472	(78,378)
Systems and Infrastructure	1,782,392	1,870,544	(88,152)	3,099,487	2,949,034	150,453
Equipment and Machinery	519,169	491,300	27,869	1,334,869	1,254,682	80,187
Vehicles	688,759	793,748	(104,989)	-	-	-
Total	\$ 4,062,976	\$ 4,086,927	\$ (23,951)	\$ 5,582,953	\$ 5,529,295	\$ 53,658

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$2,027,500, 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		
	2019	2018	Increase (Decrease)	2019	2018	Increase (Decrease)
G.O. Improvement Bonds	\$ 871,500	\$ 959,000	\$ (87,500)	\$ -	\$ -	\$ -
G.O. Tax Abatement Bonds	219,000	279,000	(60,000)	-	-	-
G.O. Revenue Bonds	-	-	-	937,000	1,021,000	(84,000)
Total	<u>\$ 1,090,500</u>	<u>\$ 1,238,000</u>	<u>\$ (147,500)</u>	<u>\$ 937,000</u>	<u>\$ 1,021,000</u>	<u>\$ (84,000)</u>

The City's total debt decreased by \$231,500, or 10.2 percent during the current fiscal year. This was attributable to the debt retirements during the year totaling \$231,500.

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

Additional information on the City's long-term debt can be found in Note 3E starting on page 65 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Fillmore County is currently 3.8 percent, which is an increase from a rate of 3.7 percent a year ago. This compares unfavorably to the State's average unemployment rate of 3.5 percent and to the national average rate of 3.4 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 2020 fiscal year.

Property tax levies will increase by approximately 6.51 percent. The increase is due to repayment of debt issued for the 2017 street and utility project.

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 modified utility rates in 2019 and will continue to review rates annually.

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, 2019

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City of Harmony, Minnesota
Statement of Net Position
December 31, 2019

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and temporary investments	\$ 2,009,177	\$ 907,914	\$ 2,917,091
Receivables			
Interest	5,511	-	5,511
Delinquent taxes	21,299	-	21,299
Accounts, net of allowances	128,339	154,380	282,719
Special assessments	477,601	962	478,563
Loans	312,267	-	312,267
Intergovernmental	210,924	33,946	244,870
Internal balances	(60,506)	60,506	-
Inventories	-	27,399	27,399
Prepaid items	28,941	14,776	43,717
Capital assets			
Nondepreciable land and construction in progress	517,970	72,503	590,473
Depreciable assets (net of accumulated depreciation)	3,545,006	5,510,450	9,055,456
Total Assets	<u>7,196,529</u>	<u>6,782,836</u>	<u>13,979,365</u>
Deferred Outflows of Resources			
Deferred pension resources	<u>29,829</u>	<u>10,239</u>	<u>40,068</u>
Liabilities and Net Position			
Liabilities			
Accounts payable	105,454	92,068	197,522
Deposits payable	12,000	14,714	26,714
Due to other governments	15,300	5,783	21,083
Accrued interest payable	13,885	3,986	17,871
Accrued salaries payable	5,802	2,282	8,084
Noncurrent liabilities			
Due within one year	183,051	107,210	290,261
Due in more than one year	968,934	854,508	1,823,442
Net Pension Liability	209,911	72,057	281,968
Total Liabilities	<u>1,514,337</u>	<u>1,152,608</u>	<u>2,666,945</u>
Deferred Inflows of Resources			
Deferred pension resources	<u>44,443</u>	<u>15,257</u>	<u>59,700</u>
Net Position			
Net investment in capital assets	3,191,476	4,645,953	7,837,429
Restricted			
Economic development	128,876	-	128,876
Debt service	277,950	-	277,950
Unrestricted	<u>2,069,276</u>	<u>979,257</u>	<u>3,048,533</u>
Total Net Position	<u>\$ 5,667,578</u>	<u>\$ 5,625,210</u>	<u>\$ 11,292,788</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, 2019

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General government	\$ 280,771	\$ 16,085	\$ -	\$ 443
Public safety	507,000	281,061	30,905	48,599
Streets and highways	289,989	4,220	-	23,741
Culture and recreation	217,610	19,590	45,393	120,000
Economic development	336,407	16,781	193,209	1,430
Miscellaneous	8,117	-	-	-
Interest and other costs	36,182	-	-	-
Total Governmental Activities	1,676,076	337,737	269,507	194,213
Business-type Activities				
Water utility	187,695	236,443	-	-
Sewer utility	365,367	329,957	-	33,946
Electric utility	962,500	1,030,157	13,233	-
Refuse and recycling	67,492	76,608	-	-
Storm water	46,801	28,301	-	-
Total Business-type Activities	1,629,855	1,701,466	13,233	33,946
Total	\$ 3,305,931	\$ 2,039,203	\$ 282,740	\$ 228,159

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

- Total General Revenues and Transfers

Change in Net Position

Net Position, January 1

Change in Accounting Principle (See Note 7)

Net Position, January 1, Restated

Net Position, December 31

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

Net (Expense) Revenue and
Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (264,243)		\$ (264,243)
(146,435)		(146,435)
(262,028)		(262,028)
(32,627)		(32,627)
(124,987)		(124,987)
(8,117)		(8,117)
(36,182)		(36,182)
<u>(874,619)</u>		<u>(874,619)</u>
	\$ 48,748	48,748
	(1,464)	(1,464)
	80,890	80,890
	9,116	9,116
	<u>(18,500)</u>	<u>(18,500)</u>
	<u>118,790</u>	<u>118,790</u>
<u>(874,619)</u>	<u>118,790</u>	<u>(755,829)</u>
222,263	-	222,263
302,606	-	302,606
169,927	-	169,927
14,633	-	14,633
4,276	-	4,276
347,575	-	347,575
32,485	14,772	47,257
20,000	-	20,000
(90,500)	90,500	-
<u>1,023,265</u>	<u>105,272</u>	<u>1,128,537</u>
<u>148,646</u>	<u>224,062</u>	<u>372,708</u>
5,737,949	5,479,924	11,217,873
<u>(219,017)</u>	<u>(78,776)</u>	<u>(297,793)</u>
<u>5,518,932</u>	<u>5,401,148</u>	<u>10,920,080</u>
<u>\$ 5,667,578</u>	<u>\$ 5,625,210</u>	<u>\$ 11,292,788</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, 2019

City of Harmony, Minnesota
Balance Sheet
Governmental Funds
December 31, 2019

	101	223	300's	401
	General	Ambulance	Debt Service	Capital Projects
Assets				
Cash and temporary investments	\$ 523,720	\$ 54,762	\$ 251,442	\$ 859,621
Receivables				
Interest	5,511	-	-	-
Delinquent taxes	15,857	-	5,442	-
Accounts, net of allowances	4,632	105,912	-	-
Special assessments	-	1,007	248,700	-
Loans	-	-	-	-
Intergovernmental	27,334	-	5,251	-
Advances to other funds	150,000	-	-	-
Prepaid items	18,927	2,700	-	-
	<u>745,981</u>	<u>164,381</u>	<u>510,835</u>	<u>859,621</u>
Total Assets	\$ 745,981	\$ 164,381	\$ 510,835	\$ 859,621
Liabilities				
Accounts payable	\$ 60,455	\$ 1,590	\$ -	\$ -
Due to other governments	14,894	-	-	-
Accrued salaries payable	3,101	1,341	-	-
Deposits payable	-	-	-	-
Advances from other funds	-	-	-	-
	<u>78,450</u>	<u>2,931</u>	<u>-</u>	<u>-</u>
Total Liabilities	78,450	2,931	-	-
Deferred Inflows of Resources				
Unavailable revenue - property taxes	15,857	-	5,442	-
Unavailable revenue - special assessments	-	1,007	248,700	-
	<u>15,857</u>	<u>1,007</u>	<u>254,142</u>	<u>-</u>
Total Deferred Inflows of Resources	15,857	1,007	254,142	-
Fund Balances				
Nonspendable				
Prepaid items	18,927	2,700	-	-
Restricted				
Economic development	-	-	-	-
Debt service	-	-	256,693	-
Committed				
Capital outlay	-	-	-	859,621
Loans	-	-	-	-
Assigned				
Economic development	-	-	-	-
Park and recreation	-	-	-	-
Public safety	-	157,743	-	-
Unassigned	632,747	-	-	-
	<u>651,674</u>	<u>160,443</u>	<u>256,693</u>	<u>859,621</u>
Total Fund Balances	651,674	160,443	256,693	859,621
	<u>\$ 745,981</u>	<u>\$ 164,381</u>	<u>\$ 510,835</u>	<u>\$ 859,621</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 745,981	\$ 164,381	\$ 510,835	\$ 859,621

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

620 Economic Development Authority	Other Governmental Funds	Totals
\$ 60,155	\$ 259,477	\$ 2,009,177
-	-	5,511
-	-	21,299
12,000	5,795	128,339
226,178	1,716	477,601
-	312,267	312,267
178,209	130	210,924
4,770	32,990	187,760
33	7,281	28,941
<u>\$ 481,345</u>	<u>\$ 619,656</u>	<u>\$ 3,381,819</u>
\$ 823	\$ 42,586	\$ 105,454
-	406	15,300
209	1,151	5,802
12,000	-	12,000
150,000	98,266	248,266
<u>163,032</u>	<u>142,409</u>	<u>386,822</u>
-	-	21,299
226,178	1,716	477,601
<u>226,178</u>	<u>1,716</u>	<u>498,900</u>
33	7,281	28,941
-	128,876	128,876
-	-	256,693
-	-	859,621
-	183,586	183,586
-	-	-
92,102	170,695	262,797
-	54,041	54,041
-	-	157,743
-	(68,948)	563,799
<u>92,135</u>	<u>475,531</u>	<u>2,496,097</u>
<u>\$ 481,345</u>	<u>\$ 619,656</u>	<u>\$ 3,381,819</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, 2019

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

Total Fund Balances - Governmental Funds	\$ 2,496,097
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds.	4,062,976
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	(61,485)
Bonds payable	(1,090,500)
Pension liability	(209,911)
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	21,299
Special assessments receivable	477,601
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	29,829
Deferred inflows of pension resources	(44,443)
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(13,885)</u>
Total Net Position - Governmental Activities	<u><u>\$ 5,667,578</u></u>

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

City of Harmony, Minnesota
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2019

	101	223	300's	401
	General	Ambulance	Debt Service	Capital Projects
Revenues				
Taxes	\$ 229,671	\$ -	\$ 169,901	\$ -
Special assessments	2,443	-	56,590	-
Licenses and permits	5,897	-	-	-
Intergovernmental	375,284	25,177	-	-
Fines and forfeits	1,173	-	-	-
Charges for services	5,891	195,462	-	-
Investment earnings	10,687	1,319	2,472	12,885
Miscellaneous	21,771	20,281	-	43,089
Total Revenues	<u>652,817</u>	<u>242,239</u>	<u>228,963</u>	<u>55,974</u>
Expenditures				
Current				
General government	107,441	-	-	-
Government buildings	128,515	-	-	-
Public safety	129,222	177,055	-	-
Streets and highways	139,588	-	-	-
Culture and recreation	19,267	-	-	-
Economic development	4,414	-	-	-
Miscellaneous	8,117	-	-	-
Capital outlay				
General government	30,502	-	-	-
Public safety	-	4,426	-	8,157
Streets and highways	68,996	-	-	-
Culture and recreation	-	-	-	-
Economic development	-	-	-	-
Debt service				
Principal	-	-	147,500	-
Interest and other costs	-	-	36,590	-
Total Expenditures	<u>636,062</u>	<u>181,481</u>	<u>184,090</u>	<u>8,157</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>16,755</u>	<u>60,758</u>	<u>44,873</u>	<u>47,817</u>
Other Financing Sources (Uses)				
Transfers in	24,000	-	-	153,000
Transfers out	(100,250)	(37,500)	-	(173,000)
Total Other Financing Sources (Uses)	<u>(76,250)</u>	<u>(37,500)</u>	<u>-</u>	<u>(20,000)</u>
Net Change in Fund Balances	(59,495)	23,258	44,873	27,817
Fund Balances, January 1	<u>711,169</u>	<u>137,185</u>	<u>211,820</u>	<u>831,804</u>
Fund Balances, December 31	<u>\$ 651,674</u>	<u>\$ 160,443</u>	<u>\$ 256,693</u>	<u>\$ 859,621</u>

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

620		
Economic Development Authority	Other Governmental Funds	Totals
\$ 102,500	\$ 214,803	\$ 716,875
1,430	-	60,463
-	-	5,897
178,209	29,989	608,659
-	344	1,517
-	52,602	253,955
1,755	3,515	32,633
19,300	33,434	137,875
<u>303,194</u>	<u>334,687</u>	<u>1,817,874</u>
-	-	107,441
-	-	128,515
-	61,893	368,170
-	-	139,588
-	165,916	185,183
290,435	18,621	313,470
-	-	8,117
-	-	30,502
-	25,953	38,536
-	-	68,996
-	81,167	81,167
115,000	-	115,000
-	-	147,500
-	1,272	37,862
<u>405,435</u>	<u>354,822</u>	<u>1,770,047</u>
<u>(102,241)</u>	<u>(20,135)</u>	<u>47,827</u>
31,750	42,500	251,250
-	(31,000)	(341,750)
<u>31,750</u>	<u>11,500</u>	<u>(90,500)</u>
(70,491)	(8,635)	(42,673)
<u>162,626</u>	<u>484,166</u>	<u>2,538,770</u>
<u>\$ 92,135</u>	<u>\$ 475,531</u>	<u>\$ 2,496,097</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, 2019

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

Net Change in Fund Balances - Governmental Funds	\$ (42,673)
<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	334,201
Depreciation expense	(354,252)
<p>The net effect of various miscellaneous transactions involving capital assets.</p>	
Book value of disposal of capital assets	(23,900)
Gain on trade in of capital assets	20,000
<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	147,500
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>	
	1,680
<p>Long-term pension activity is not reported in governmental funds.</p>	
Pension expense	(5,991)
Direct aid contributions	483
<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>	
	868
<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	76,097
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	
Compensated absences	(5,367)
Change in Net Position - Governmental Activities	\$ 148,646

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, 2019

	General			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 235,139	\$ 235,139	\$ 229,671	\$ (5,468)
Special assessments	-	-	2,443	2,443
Licenses and permits	6,920	6,920	5,897	(1,023)
Intergovernmental	362,575	362,575	375,284	12,709
Charges for services	1,500	1,500	5,891	4,391
Fines and forfeits	750	750	1,173	423
Investment earnings	2,500	2,500	10,687	8,187
Miscellaneous	12,000	12,000	21,771	9,771
Total Revenues	<u>621,384</u>	<u>621,384</u>	<u>652,817</u>	<u>31,433</u>
Expenditures				
Current				
General government	245,904	245,904	235,956	9,948
Public safety	121,674	121,674	129,222	(7,548)
Streets and highways	175,042	175,042	139,588	35,454
Culture and recreation	6,305	6,305	19,267	(12,962)
Economic development	8,000	8,000	4,414	3,586
Miscellaneous	7,232	7,232	8,117	(885)
Capital outlay				
General government	1,000	1,000	30,502	(29,502)
Public safety	-	-	-	-
Streets and highways	7,500	7,500	68,996	(61,496)
Economic development	-	-	-	-
Total Expenditures	<u>572,657</u>	<u>572,657</u>	<u>636,062</u>	<u>(63,405)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>48,727</u>	<u>48,727</u>	<u>16,755</u>	<u>(31,972)</u>
Other Financing Sources (Uses)				
Transfers in	55,000	55,000	24,000	(31,000)
Transfers out	(83,500)	(83,500)	(100,250)	(16,750)
Total Other Financing Sources (Uses)	<u>(28,500)</u>	<u>(28,500)</u>	<u>(76,250)</u>	<u>(47,750)</u>
Net Change in Fund Balances	20,227	20,227	(59,495)	(79,722)
Fund Balances, January 1	<u>711,169</u>	<u>711,169</u>	<u>711,169</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 731,396</u>	<u>\$ 731,396</u>	<u>\$ 651,674</u>	<u>\$ (79,722)</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		
\$ -	\$ -	\$ -	\$ -	\$ 102,500	\$ 102,500	\$ 102,500	\$ -
-	-	-	-	1,000	1,000	1,430	430
-	-	-	-	-	-	-	-
24,252	24,252	25,177	925	-	-	178,209	178,209
182,500	182,500	195,462	12,962	-	-	-	-
-	-	-	-	-	-	-	-
500	500	1,319	819	-	-	1,755	1,755
-	-	20,281	20,281	-	-	19,300	19,300
<u>207,252</u>	<u>207,252</u>	<u>242,239</u>	<u>34,987</u>	<u>103,500</u>	<u>103,500</u>	<u>303,194</u>	<u>199,694</u>
-	-	-	-	-	-	-	-
210,162	210,162	177,055	33,107	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	123,612	123,612	290,435	(166,823)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
5,000	5,000	4,426	574	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	115,000	(115,000)
<u>215,162</u>	<u>215,162</u>	<u>181,481</u>	<u>33,681</u>	<u>123,612</u>	<u>123,612</u>	<u>405,435</u>	<u>(281,823)</u>
(7,910)	(7,910)	60,758	68,668	(20,112)	(20,112)	(102,241)	(82,129)
-	-	-	-	-	-	-	-
(37,500)	(37,500)	(37,500)	-	15,000	15,000	31,750	16,750
(37,500)	(37,500)	(37,500)	-	15,000	15,000	31,750	16,750
(45,410)	(45,410)	23,258	68,668	(5,112)	(5,112)	(70,491)	(65,379)
137,185	137,185	137,185	-	162,626	162,626	162,626	-
<u>\$ 91,775</u>	<u>\$ 91,775</u>	<u>\$ 160,443</u>	<u>\$ 68,668</u>	<u>\$ 157,514</u>	<u>\$ 157,514</u>	<u>\$ 92,135</u>	<u>\$ (65,379)</u>

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

City of Harmony, Minnesota
 Statements of Net Position
 Proprietary Funds
 December 31, 2019

Business-type Activities -
 Business-type Activities - Enterprise Funds

	601	602	603	604	605	
	Water Utility	Sewer Utility	Refuse and Recycling	Electric Utility	Storm Water	Totals
Assets						
Current Assets						
Cash and temporary investments	\$ 274,571	\$ 11,421	\$ 12,825	\$ 593,076	\$ 16,021	\$ 907,914
Receivables						
Accounts	28,098	31,816	7,318	84,566	2,582	154,380
Special assessments	89	-	-	873	-	962
Intergovernmental	-	33,946	-	-	-	33,946
Advance to other funds - current	-	-	-	50,000	-	50,000
Inventories	12,795	-	-	14,604	-	27,399
Prepaid items	3,700	4,350	73	6,136	517	14,776
Total Current Assets	<u>319,253</u>	<u>81,533</u>	<u>20,216</u>	<u>749,255</u>	<u>19,120</u>	<u>1,189,377</u>
Noncurrent Assets						
Advance to other funds - noncurrent	-	-	-	60,506	-	60,506
Capital assets						
Land	17,015	14,400	-	5,000	-	36,415
Construction in progress	-	36,088	-	-	-	36,088
Buildings and improvements	-	2,351,348	-	187,008	-	2,538,356
Systems and infrastructure	1,408,664	892,537	-	2,006,302	796,103	5,103,606
Equipment and machinery	1,361,682	105,034	4,952	39,723	139,952	1,651,343
Vehicles	-	-	-	28,700	-	28,700
Less accumulated depreciation	(505,980)	(1,644,288)	(2,476)	(1,266,186)	(392,625)	(3,811,555)
Total Capital Assets (Net of Accumulated Depreciation)	<u>2,281,381</u>	<u>1,755,119</u>	<u>2,476</u>	<u>1,000,547</u>	<u>543,430</u>	<u>5,582,953</u>
Total Noncurrent Assets	<u>2,281,381</u>	<u>1,755,119</u>	<u>2,476</u>	<u>1,061,053</u>	<u>543,430</u>	<u>5,643,459</u>
Total Assets	<u>2,600,634</u>	<u>1,836,652</u>	<u>22,692</u>	<u>1,810,308</u>	<u>562,550</u>	<u>6,832,836</u>
Deferred Outflows of Resources						
Deferred outflows of resources	3,077	4,180	799	1,789	394	10,239
Liabilities						
Current Liabilities						
Accounts payable	1,595	11,214	3,375	75,884	-	92,068
Deposits payable	-	-	-	14,714	-	14,714
Due to other governments	198	-	319	5,266	-	5,783
Advances from other funds - current	-	50,000	-	-	-	50,000
Accrued interest payable	3,509	477	-	-	-	3,986
Accrued salaries payable	725	1,018	183	348	8	2,282
Bonds payable - current	50,000	35,000	-	-	-	85,000
Compensated absences payable - current	4,128	11,187	2,307	4,361	227	22,210
Total Current Liabilities	<u>60,155</u>	<u>108,896</u>	<u>6,184</u>	<u>100,573</u>	<u>235</u>	<u>276,043</u>
Noncurrent Liabilities						
Pension liability	21,652	29,418	5,623	12,591	2,773	72,057
Compensated absences payable - noncurrent	1,071	616	307	453	61	2,508
Bonds payable - noncurrent	744,000	108,000	-	-	-	852,000
Total Noncurrent Liabilities	<u>766,723</u>	<u>138,034</u>	<u>5,930</u>	<u>13,044</u>	<u>2,834</u>	<u>926,565</u>
Total Liabilities	<u>826,878</u>	<u>246,930</u>	<u>12,114</u>	<u>113,617</u>	<u>3,069</u>	<u>1,202,608</u>
Deferred Inflows of Resources						
Deferred inflows of resources	4,584	6,229	1,191	2,666	587	15,257
Net Position						
Net investment in capital assets	1,487,381	1,612,119	2,476	1,000,547	543,430	4,645,953
Unrestricted	284,868	(24,446)	7,710	695,267	15,858	979,257
Total Net Position	<u>\$ 1,772,249</u>	<u>\$ 1,587,673</u>	<u>\$ 10,186</u>	<u>\$ 1,695,814</u>	<u>\$ 559,288</u>	<u>\$ 5,625,210</u>

City of Harmony, Minnesota
 Statements of Revenues, Expenses and Changes in Fund Net Position
 Proprietary Funds
 For the Year Ended December 31, 2019

Business-type Activities -
 Business-type Activities - Enterprise Funds

	601	602	603	604	605	
	Water Utility	Sewer Utility	Refuse and Recycling	Electric Utility	Storm Water	Totals
Operating Revenues						
Charges for services	\$ 236,393	\$ 329,889	\$ 76,595	\$ 1,030,128	\$ 28,295	\$ 1,701,300
Operating Expenses						
Personal services	60,008	78,162	14,735	32,461	6,782	192,148
Supplies	13,392	32,054	138	2,198	1,172	48,954
Other services and charges	11,352	28,802	46,657	14,364	12,217	113,392
Insurance	4,569	5,107	-	8,524	697	18,897
Utilities	15,056	70,516	-	17,406	-	102,978
Purchased power	-	-	-	807,171	-	807,171
Repairs and maintenance	13,037	38,735	4,971	32,079	786	89,608
Depreciation	60,162	110,328	991	48,297	25,147	244,925
Total Operating Expenses	<u>177,576</u>	<u>363,704</u>	<u>67,492</u>	<u>962,500</u>	<u>46,801</u>	<u>1,618,073</u>
Operating Income (Loss)	<u>58,817</u>	<u>(33,815)</u>	<u>9,103</u>	<u>67,628</u>	<u>(18,506)</u>	<u>83,227</u>
Nonoperating Revenues (Expenses)						
Other income	50	68	13	13,262	6	13,399
Investment earnings	3,831	524	110	10,082	225	14,772
Interest and other expense	(10,119)	(1,663)	-	-	-	(11,782)
Total Nonoperating Revenues (Expenses)	<u>(6,238)</u>	<u>(1,071)</u>	<u>123</u>	<u>23,344</u>	<u>231</u>	<u>16,389</u>
Income (Loss) Before Contributions	52,579	(34,886)	9,226	90,972	(18,275)	99,616
Capital grants	-	33,946	-	-	-	33,946
Transfers In	-	-	-	-	124,000	124,000
Transfers Out	(1,000)	(1,000)	(1,000)	(28,000)	(2,500)	(33,500)
Change in Net Position	51,579	(1,940)	8,226	62,972	103,225	224,062
Net Position, January 1 as restated (Note 7)	<u>1,720,670</u>	<u>1,589,613</u>	<u>1,960</u>	<u>1,632,842</u>	<u>456,063</u>	<u>5,401,148</u>
Net Position, December 31	<u>\$ 1,772,249</u>	<u>\$ 1,587,673</u>	<u>\$ 10,186</u>	<u>\$ 1,695,814</u>	<u>\$ 559,288</u>	<u>\$ 5,625,210</u>

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

City of Harmony, Minnesota
 Statements of Cash Flows
 Proprietary Funds
 For the Year Ended December 31, 2019

	Business-type Activities - Business-type Activities - Enterprise Funds					Totals
	601	602	603	604	605	
	Water Utility	Sewer Utility	Refuse and Recycling	Electric Utility	Storm Water Utility	
Cash Flows from Operating Activities						
Receipts from customers	\$ 236,268	\$ 331,093	\$ 76,324	\$ 1,041,760	\$ 27,782	\$ 1,713,227
Payments to suppliers and vendors	(60,254)	(174,195)	(48,352)	(881,870)	(14,880)	(1,179,551)
Payments to and on behalf of employees	(58,440)	(79,534)	(14,379)	(32,339)	(7,153)	(191,845)
Other receipts	50	68	13	13,262	6	13,399
Net Cash Provided (Used) by Operating Activities	<u>117,624</u>	<u>77,432</u>	<u>13,606</u>	<u>140,813</u>	<u>5,755</u>	<u>355,230</u>
Cash Flows from Noncapital Financing Activities						
Principal received (paid) on advances from (to) other funds	-	-	-	8,644	-	8,644
Transfers from other funds	-	-	-	-	124,000	124,000
Transfers to other funds	(1,000)	(1,000)	(1,000)	(28,000)	(2,500)	(33,500)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(1,000)</u>	<u>(1,000)</u>	<u>(1,000)</u>	<u>(19,356)</u>	<u>121,500</u>	<u>99,144</u>
Cash Flows from Capital and Related Financing Activities						
Acquisition of capital assets	(6,000)	(56,896)	-	(292,043)	(123,183)	(478,122)
Principal paid on bonds and notes payable	(49,000)	(35,000)	-	-	-	(84,000)
Interest and fees paid on bonds and notes payable	(10,358)	(1,779)	-	-	-	(12,137)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(65,358)</u>	<u>(93,675)</u>	<u>-</u>	<u>(292,043)</u>	<u>(123,183)</u>	<u>(574,259)</u>
Cash Flows from Investing Activities						
Interest received (paid) on cash and temporary investments	3,831	524	110	10,082	225	14,772
Net Increase (Decrease) in Cash and Temporary Investments	55,097	(16,719)	12,716	(160,504)	4,297	(105,113)
Cash and Temporary Investments, January 1	219,474	28,140	109	753,580	11,724	1,013,027
Cash and Temporary Investments, December 31	<u>\$ 274,571</u>	<u>\$ 11,421</u>	<u>\$ 12,825</u>	<u>\$ 593,076</u>	<u>\$ 16,021</u>	<u>\$ 907,914</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities						
Operating income (loss)	\$ 58,817	\$ (33,815)	\$ 9,103	\$ 67,628	\$ (18,506)	\$ 83,227
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities						
Other income related to operations	50	68	13	13,262	6	13,399
Depreciation	60,162	110,328	991	48,297	25,147	244,925
(Increase) decrease in assets						
Accounts receivable	(36)	468	(271)	11,765	(513)	11,413
Special assessments	(89)	736	-	(133)	-	514
Inventories	(233)	-	-	604	-	371
(Increase) decrease in deferred outflows of resources						
Deferred pension resources	2,149	3,526	633	1,499	412	8,219
Prepaid items	67	205	8	(221)	(8)	51
Increase (decrease) in liabilities						
Accounts payable	(2,707)	814	3,375	(769)	-	713
Due to other governments	25	-	31	358	-	414
Deposits payable	-	-	-	(100)	-	(100)
Accrued salaries payable	131	55	(2)	(56)	(3)	125
Accrued interest payable	-	-	-	-	-	-
Pension Liability	46	(2,442)	(299)	(1,002)	(558)	(4,255)
Compensated absences payable	581	(5)	457	742	104	1,879
Increase (decrease) in deferred inflows of resources						
Deferred pension resources	(1,339)	(2,506)	(433)	(1,061)	(326)	(5,665)
Net Cash Provided (Used) by Operating Activities	<u>\$ 117,624</u>	<u>\$ 77,432</u>	<u>\$ 13,606</u>	<u>\$ 140,813</u>	<u>\$ 5,755</u>	<u>\$ 355,230</u>
Schedule of Noncash Investing, Capital and Financing Activities						
Book value of disposed/traded of capital assets	-	2,672	-	-	23,217	25,889

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, 2019

	851
	Investment Trust Fund
	<hr/>
Assets	
Cash and Cash Equivalents	<u>\$ 8,111</u>
Net Position	
Unrestricted	<u>\$ 8,111</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, 2019

	851 Investment Trust Fund <hr style="border: 0.5px solid black;"/>
Additions	
Contributions and donations	\$ 1,457
Investment income	98
Total Additions	<hr style="border: 0.5px solid black;"/> 1,555 <hr style="border: 0.5px solid black;"/>
Change in Net Position	1,555
Net Position, January 1	<hr style="border: 0.5px solid black;"/> 6,556
Net Position, December 31	<hr style="border: 0.5px solid black;"/> \$ 8,111 <hr style="border: 0.5px solid black;"/>

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

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

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

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

B. Government-wide and Fund Financial Statements

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

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

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

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

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

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

Note 1: Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

The City reports the following major governmental funds:

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

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

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

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

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 *Refuse and Recycling fund* accounts for the costs associated with the City's refuse and recycling collection 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.

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

Note 1: Summary of Significant Accounting Policies (Continued)

Additionally, the City reports the following fund types:

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

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

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

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.

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

Deposits and Investments

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

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

Note 1: Summary of Significant Accounting Policies (Continued)

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

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
9. Guaranteed investment contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

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

Investment Policy

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

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

Note 1: Summary of Significant Accounting Policies (Continued)

Property Taxes

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

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

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2019. 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, 2019 was \$3,500 in the Fire fund and \$400 for Ambulance receivables. All receivables aged greater than two years are deemed uncollectible.

Special Assessments

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

Interfund Receivables and Payables

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

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

Inventories and Prepaid Items

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

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

Capital Assets

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

Note 1: Summary of Significant Accounting Policies (Continued)

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

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:

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 2019 was \$86,203. The General fund is typically used to liquidate governmental compensated absences payable.

Postemployment Benefits Other Than Pensions

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

Deferred Inflows of Resources

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

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

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 1: Summary of Significant Accounting Policies (Continued)

Long-term Obligations

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

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

Pensions

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

The total pension expense for the GERP is as follows:

	Public Employees Retirement Association of Minnesota (PERA)
	GERP
Pension Expense	\$ 45,617

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 50 percent of budgeted operating expenditures for cash-flow timing needs.

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 1: Summary of Significant Accounting Policies (Continued)

Net Position

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

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

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

Note 2: Stewardship, Compliance and Accountability

A. Budgetary Information

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

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

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

B. Excess Expenditures Over Appropriations

Fund	Budget	Actual	Excess of Expenditures Over Appropriations
General	\$ 572,657	\$ 636,062	\$ 63,405
Economic Development Authority	123,612	405,435	281,823
Nonmajor Special Revenue			
Fire	72,019	87,846	15,827

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

C. Deficit Fund Equity

The following funds had fund equity deficits at December 31, 2019:

Fund	Amount
Nonmajor Special Revenue	
Fire	\$ 27,333
TIF District #6	37,523

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

Note 3: Detailed Notes on All Funds

A. Deposits and Investments

Deposits

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

Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The market 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 \$1,510,162 and the bank balance was \$1,516,717. Of the bank balance, \$500,000 was covered by federal depository insurance. The remaining balance of \$1,016,717 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, 2019

Note 3: Detailed Notes on All Funds (Continued)

Investments

As of December 31, 2019, 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>\$ 1,414,875</u>

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

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

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

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

Cash on Hand

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

Cash and Investments Summary

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

Deposits	\$ 1,510,162
Investments	1,414,875
Cash on Hand	<u>165</u>
 Total Cash and Temporary Investments	 <u>\$ 2,925,202</u>
 Cash and Temporary Investments	 \$ 2,917,091
Fiduciary Fund Cash	<u>8,111</u>
 Total	 <u>\$ 2,925,202</u>

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 3: Detailed Notes on All Funds (Continued)

B. Notes Receivable

The City has made various economic development loans to businesses through its revolving loan program. These loans are receivable by the City over three to ten year periods with varying interest rates at 3 percent to 7 percent per annum. These loans are secured by equipment and other assets. The remaining balance at December 31, 2019 is \$183,586.

The Economic Development Authority has also made commercial rehabilitation loans to businesses. The City will collect on these loans only if there is an ownership change of the improved property. Consequently, the loans are reduced annually and eventually forgiven if ownership is retained over the five year period per the loan agreements. There were no receivable balances in this fund at December 31, 2019.

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, 2019 is \$128,681. These loans are secured by equipment and other assets.

C. Capital Assets

Capital asset activity for the City for the year ended December 31, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets not being Depreciated				
Land	\$ 331,567	\$ 115,000	\$ (21,824)	\$ 424,743
Construction in progress	36,024	83,227	(26,024)	93,227
Total Capital Assets being Depreciated	<u>367,591</u>	<u>198,227</u>	<u>(47,848)</u>	<u>517,970</u>
Capital Assets being Depreciated				
Buildings and improvements	1,213,982	23,986	-	1,237,968
Systems and infrastructure	4,155,624	35,216	-	4,190,840
Equipment and machinery	983,511	122,796	(35,294)	1,071,013
Vehicles	1,375,456	-	-	1,375,456
Total Capital Assets being Depreciated	<u>7,728,573</u>	<u>181,998</u>	<u>(35,294)</u>	<u>7,875,277</u>
Less Accumulated Depreciation for				
Buildings and improvements	(650,238)	(33,044)	-	(683,282)
Systems and infrastructure	(2,285,080)	(123,368)	-	(2,408,448)
Equipment and machinery	(492,211)	(92,851)	33,218	(551,844)
Vehicles	(581,708)	(104,989)	-	(686,697)
Total Accumulated Depreciation	<u>(4,009,237)</u>	<u>(354,252)</u>	<u>33,218</u>	<u>(4,330,271)</u>
Total Capital Assets being Depreciated, Net	<u>3,719,336</u>	<u>(172,254)</u>	<u>(2,076)</u>	<u>3,545,006</u>
Governmental Activities Capital Assets, Net	<u>\$ 4,086,927</u>	<u>\$ 25,973</u>	<u>\$ (49,924)</u>	<u>\$ 4,062,976</u>

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 3: Detailed Notes on All Funds (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities				
Capital Assets not being Depreciated				
Land	\$ 36,415	\$ -	\$ -	\$ 36,415
Construction in progress	134,692	36,088	(134,692)	36,088
Total Capital Assets not being Depreciated	<u>171,107</u>	<u>36,088</u>	<u>(134,692)</u>	<u>72,503</u>
Capital Assets being Depreciated				
Buildings and improvements	2,538,356	-	-	2,538,356
Systems and infrastructure	4,834,010	269,596	-	5,103,606
Equipment and machinery	1,542,945	153,480	(45,082)	1,651,343
Vehicles	28,700	-	-	28,700
Total Capital Assets being Depreciated	<u>8,944,011</u>	<u>423,076</u>	<u>(45,082)</u>	<u>9,322,005</u>
Less Accumulated Depreciation For				
Buildings and improvements	(1,383,884)	(78,378)	-	(1,462,262)
Systems and infrastructure	(1,884,976)	(119,143)	-	(2,004,119)
Equipment and machinery	(288,263)	(47,404)	19,193	(316,474)
Vehicles	(28,700)	-	-	(28,700)
Total Accumulated Depreciation	<u>(3,585,823)</u>	<u>(244,925)</u>	<u>19,193</u>	<u>(3,811,555)</u>
Total Capital Assets being Depreciated, Net	<u>5,358,188</u>	<u>178,151</u>	<u>(25,889)</u>	<u>5,510,450</u>
Business-type Activities Capital Assets, Net	<u>\$ 5,529,295</u>	<u>\$ 214,239</u>	<u>\$ (160,581)</u>	<u>\$ 5,582,953</u>

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

Governmental Activities		
General government		\$ 39,535
Public safety		136,792
Streets and highways		149,527
Culture and recreation		28,199
Economic development		199
Total Depreciation Expense - Governmental Activities		<u>\$ 354,252</u>
Business-type Activities		
Water utility		\$ 60,162
Sewer utility		110,328
Refuse and recycling		991
Electric utility		48,297
Storm water utility		25,147
Total Depreciation Expense - Business-type Activities		<u>\$ 244,925</u>

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 3: Detailed Notes on All Funds (Continued)

D. Interfund Receivables, Payables and Transfers

The composition of interfund balances at December 31, 2019 is as follows:

Advances to/from Other Funds

Receivable Fund	Payable Fund	Amount
General	Special Revenue EDA	\$ 150,000
Revolving Loan	Nonmajor governmental TIF District #6	32,990
Electric Utility	Fire	60,506
EDA	Sewer Utility	50,000
	Nonmajor governmental TIF District #6	4,770
Totals		\$ 298,266

The General fund advanced \$150,000 to the EDA fund in order to fund the cash deficit from the preliminary costs of the trail project. The advance will be paid in full when the City receives the LCCMR reimbursement in the amount of \$178,209 for the cost of the trail.

The Revolving Loan fund and EDA fund advanced \$65,000 and \$6,933 to the TIF District #6 in order to fund the initial developer loan for tax increment project costs related to this district. These funds should be repaid through the term of the district by future tax increment revenue. If the future increment does not generate enough dollars to pay back the advance the developer shall pay back any shortfall of the advance. This loan shall be paid back at a fixed interest rate of 3 percent. The outstanding balances as of December 31, 2019 were \$32,990 and \$4,770, respectively.

The Electric Utility fund advanced the Fire fund \$203,394 to assist in the purchase of a fire truck. This advance shall be paid back with annual payments paid by township charges. There is no interest rate on this advance. The outstanding balance as of December 31, 2019 was \$60,506.

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, 2019 was \$50,000.

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 3: Detailed Notes on All Funds (Continued)

Interfund Transfers

In the year ended December 31, 2019, the City made the following transfers:

Fund	Transfers In					Total
	General	Capital Projects	Economic Development Authority	Nonmajor Governmental	Storm Water Utility	
Transfers Out						
Governmental						
General	\$ -	\$ 83,500	\$ 16,750		\$ -	\$ 100,250
Ambulance	-	25,000		12,500	-	37,500
Capital Projects	19,000	-		30,000	124,000	173,000
Nonmajor Governmental	-	31,000	-	-	-	31,000
Business-type						
Water Utility	1,000	-	-	-	-	1,000
Sewer Utility	1,000	-	-	-	-	1,000
Refuse and Recycling	1,000	-	-	-	-	1,000
Electric Utility	2,000	11,000	15,000	-	-	28,000
Storm Water Utility	-	2,500	-	-	-	2,500
Total	\$ 24,000	\$ 153,000	\$ 31,750	\$ 42,500	\$ 124,000	\$ 375,250

During the year, transfers are used to 1) move General fund resources to provide an annual savings for future capital spending to the capital projects fund, 2) move special revenue resources in the ambulance fund to provide for its share of annual operating expenditures to the fire fund, 3) move resources from the Electric Utility fund to the Economic Development Authority to cover operating expenditures, and 4) move funds from the various utility funds to the General fund related to PILOT. Further, during the year ended December 31, 2019, the government made the following one-time transfers:

- Transfers from the Capital Projects fund to the General fund of \$19,000 for the purchase of a skid loader.
- Transfers from the Capital Projects fund to the Storm Utility fund of \$124,000 to fund the purchase of a street sweeper.
- Transfers from the Capital Projects fund to the Fire and Park funds to fund various cement and sidewalk projects.

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 3: Detailed Notes on All Funds (Continued)

E. Long-term Debt

General Obligation Bonds

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

G.O. Improvement Bonds

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

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Improvement Bonds of 2014	\$ 370,000	2.25 %	08/01/14	02/01/22	\$ 75,000
G.O. Improvement Notes of 2017	935,000	3.05	09/01/17	02/01/28	<u>796,500</u>
Total General Obligation Improvement Bonds					<u><u>\$ 871,500</u></u>

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

Year Ending December 31,	G.O. Improvement Bonds Governmental Activities		
	Principal	Interest	Total
2020	\$ 101,500	\$ 24,529	\$ 126,029
2021	105,500	21,568	127,068
2022	108,500	18,509	127,009
2023	85,500	15,654	101,154
2024	88,500	13,001	101,501
2025 - 2028	<u>382,000</u>	<u>23,728</u>	<u>405,728</u>
Total	<u><u>\$ 871,500</u></u>	<u><u>\$ 116,989</u></u>	<u><u>\$ 988,489</u></u>

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 3: Detailed Notes on All Funds (Continued)

G.O. Tax Abatement Bonds

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

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Tax Abatement Bonds, 2013A	\$ 313,000	2.20 %	01/14/13	10/01/24	\$ 79,000
G.O. Tax Abatement Bonds, 2013B	250,000	4.50	08/29/13	02/01/24	<u>140,000</u>
Total General Obligation Tax Abatement Bonds					<u><u>\$ 219,000</u></u>

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

Year Ending December 31,	G.O. Tax Abatement Bonds Governmental Activities		
	Principal	Interest	Total
	2020	\$ 41,000	\$ 7,453
2021	43,000	5,931	48,931
2022	44,000	4,341	48,341
2023	45,000	2,706	47,706
2024	<u>46,000</u>	<u>1,027</u>	<u>47,027</u>
Total	<u><u>\$ 219,000</u></u>	<u><u>\$ 21,458</u></u>	<u><u>\$ 240,458</u></u>

G.O. Revenue Bonds

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

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
2004 Public Facilities Authority Bonds	\$ 625,465	1.00 %	05/13/04	08/20/23	\$ 143,000
2015 Public Facilities Authority Bonds	857,100	1.00	11/10/15	08/20/35	702,000
G.O. Improvement Notes of 2017	100,000	3.05	09/01/17	02/01/28	<u>92,000</u>
Total G.O. Revenue Bonds					<u><u>\$ 937,000</u></u>

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 3: Detailed Notes on All Funds (Continued)

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

	<u>Water Utility</u>	<u>Sewer Utility</u>
Revenues	\$ 236,393	\$ 329,889
Principal and Interest	59,358	36,779
Percentage of Revenues	25.1%	11.1%

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

<u>Year Ending December 31,</u>	G.O. Revenue Bonds		
	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 85,000	\$ 11,119	\$ 96,119
2021	86,000	10,085	96,085
2022	87,000	9,025	96,025
2023	88,000	7,950	95,950
2024	52,000	6,865	58,865
2025 - 2029	262,000	23,105	285,105
2030 - 2034	229,000	9,320	238,320
2035	48,000	480	48,480
Total	<u>\$ 937,000</u>	<u>\$ 77,949</u>	<u>\$ 1,014,949</u>

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2019, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Bonds Payable					
G.O. improvement bonds	\$ 959,000	\$ -	\$ (87,500)	\$ 871,500	\$ 101,500
G.O. tax abatement bonds	279,000	-	(60,000)	219,000	41,000
Total Bonds Payable	1,238,000	-	(147,500)	1,090,500	142,500
Compensated Absences Payable	56,118	30,990	(25,623)	61,485	40,551
Governmental Activities Long-term Liabilities	<u>\$ 1,294,118</u>	<u>\$ 30,990</u>	<u>\$ (173,123)</u>	<u>\$ 1,151,985</u>	<u>\$ 183,051</u>
Business-type Activities					
Bonds Payable					
G.O. revenue bonds	\$ 1,021,000	\$ -	\$ (84,000)	\$ 937,000	\$ 85,000
Compensated Absences Payable	22,839	16,519	(14,640)	24,718	22,210
Business-type Activities Long-term Liabilities	<u>\$ 1,043,839</u>	<u>\$ 16,519</u>	<u>\$ (98,640)</u>	<u>\$ 961,718</u>	<u>\$ 107,210</u>

Note 4: Defined Benefit Pension Plan - Statewide

A. Plan Description

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

General Employees Retirement Plan (GERP)

All full-time and certain part-time employees of the City, are covered by the General Employees Retirement Fund (GERP). GERP members belong to the Coordinated Plan.

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.

GERP Benefits

GERP 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 and Basic 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 for each of the first 10 years of service and 1.7 percent for each additional year. The rates are 2.2 percent and 2.7 percent, respectively, for Basic members. Under Method 2, the accrual rate for Coordinated members is 1.7 percent for all years of service, and 2.7 percent for Basic members. The accrual rates for former MERF members is 2.0 percent for each of the first 10 years of service and 2.5 percent for each additional year. 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.

Beginning January 1, 2019, benefit recipients will receive a future annual increase equal to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

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 2019 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, 2019, 2018 and 2017 were \$39,716, \$36,290 and \$34,438, 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, 2019

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

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2019, the City reported a liability of \$281,968 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 to the fund in 2019. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$8,666. The net pension liability was measured as of June 30, 2019, 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, 2018 through June 30, 2019 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the City's proportion was 0.0051 percent which was a .0001 percent decrease from its proportion measured as of June 30, 2018.

City's proportionate share of the net pension liability	\$ 281,968
State of Minnesota's proportionate share	8,666
Total	<u>\$ 290,634</u>

For the year ended December 31, 2019, the City recognized pension expense of \$44,968 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized \$649 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, 2019, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 8,739	\$ 1,499
Changes in Actuarial Assumptions	1,475	22,861
Net Difference Between Projected and Actual Earnings on Plan Investments	-	27,623
Changes in Proportion	9,661	7,717
Contributions to GERP Subsequent to the Measurement Date	<u>20,193</u>	<u>-</u>
Total	<u>\$ 40,068</u>	<u>\$ 59,700</u>

The \$20,193 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, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2018	\$ (14,572)
2019	(18,253)
2020	(7,453)
2021	453
2022	-

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2019

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

D. Actuarial Assumptions

The total pension liability in the June 30, 2019, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

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

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

Actuarial assumptions used in the June 30, 2019 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. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions and plan provisions occurred in 2019:

General Employees Fund

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- 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.

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	35.5 %	5.10 %
Private Markets	25.0	5.90
Fixed Income	20.0	0.75
International Equity	17.5	5.90
Cash Equivalents	2.0	-
Total	100.00 %	

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2019

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

F. Discount Rate

The discount rate used to measure the total pension liability in 2019 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

The following presents the City's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	City Proportionate Share of NPL		
	1 Percent Decrease (6.50%)	Current (7.50%)	1 Percent Increase (8.50%)
	General Employees Fund	\$ 463,540	\$ 281,968

Note 5: Defined Contribution Plan

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses, therefore, there is no future liability to the employer. Minnesota statutes, chapter 353d.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. The City contributes \$60 per month for each employee who is on call during the month. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2 percent of employer contributions and twenty-five hundredths of 1 percent (.25 percent) of the assets in each member's account annually.

The City's contributions to the PEDCP for the years ended December 31, 2019, 2018 and 2017 were \$12,375, \$9,720 and \$9,780 respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

Note 6: 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, 2019, the plan covered 28 active firefighters and 2 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.

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2019

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

B. Benefits Provided

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

C. Contributions

Minnesota statutes, chapters 424 and 424A authorize pension benefits for volunteer fire relief associations. The plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota statutes and voluntary City contributions (if applicable). The State of Minnesota contributed \$16,655 in fire state aid to the plan on behalf of the City Fire Department for the year ended December 31, 2019, 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, 2019 were \$16,655. The City's contributions were equal to the required contributions as set by state statute. In addition, the City made voluntary contributions of \$7,500 to the plan.

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

Annual Pension Cost	\$	24,155
Contributions Made		
City (voluntary)		7,500
State aid		16,655
Actuarial Valuation Date		12/31/19
Actuarial Cost Method		Entry age normal
Amortization Method		Level dollar closed
Remaining Amortization Period		
Normal cost		20 years
Prior service cost		10 years
Asset Valuation Method		Market
Actuarial Assumptions		
Investment rate of return		5%
Projected salary increases		N/A
Inflation rate		N/A
Cost of living adjustments		None

Three Year Trend Information

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/19	\$ 24,155	100.0 %	\$ -
12/31/18	28,032	100.0	-
12/31/17	23,703	100.0	-

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2019

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

Required Supplementary Information

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

Note 7: Change in Accounting Principle

During fiscal year 2019, the City implemented several accounting pronouncements issued by the Governmental Accounting Standards Board (GASB), including Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*. These standards required a retroactive implementation which resulted in the restatement of beginning balances in the December 31, 2018 financial statements. Changes related to these standards are reflected in the financial statements and schedules and related disclosures are included in Note 4.

As a result of the restatement of beginning balances, the following schedule reconciles the previously reported December 31, 2018 balances to the December 31, 2019 financial statements:

Fund	Net Position January 1, 2019 as Previously Reported	Prior Period Adjustment/ Restatement	Net Position January 1, 2019 as Restated
Governmental activities	\$ 5,737,949	\$ (219,017)	\$ 5,518,932
Business-type activities	\$ 5,479,924	\$ (78,776)	\$ 5,401,148
Business-type activities			
Water Utility	\$ 1,742,973	\$ (22,303)	\$ 1,720,670
Sewer Utility	1,622,502	(32,889)	1,589,613
Refuse and Recycling	8,074	(6,114)	1,960
Electric Utility	1,646,874	(14,032)	1,632,842
Storm Water	459,501	(3,438)	456,063
Total business-type activities	\$ 5,479,924	\$ (78,776)	\$ 5,401,148

Note 8: Other Information

A. Risk Management

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

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

B. Related Party Transactions

The City uses services from a company owned by an immediate relative of a City Council member. Total payments made to the business during 2019 were \$90,573.

C. Legal Debt Margin

The City's statutory debt limit is three percent of estimated taxable market value of real and personal property located in the City. The taxable market value was \$52,638,418 at December 31, 2019 for a limit of \$1,579,153. The City currently has no general obligation debt subject to this limit. Debt financed partially or entirely by special assessments or by operations of enterprise funds is excluded from this computation by statute.

D. Concentrations

The City receives a significant amount of its annual General fund revenues from the State of Minnesota from the Local Government Aid (LGA) program. The amount received in 2019 was \$346,400 for LGA. This accounted for 53.1 percent of General fund revenues.

E. Tax Increment Districts

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

Note 9: Subsequent Event

In December 2019, a novel strain of coronavirus (COVID-19) surfaced. The spread of COVID-19 around the world in the first quarter of 2020 has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, the Company is unable to determine if it will have a material impact to its operations.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARMONY
HARMONY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2019

City of Harmony, Minnesota
Required Supplementary Information
December 31, 2019

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
06/30/19	0.0051 %	\$ 281,968	\$ 8,666	\$ 290,634	\$ 501,289	58.0 %	80.2 %
06/30/18	0.0052	288,475	-	288,475	477,481	60.4	79.5
06/30/17	0.0049	213,813	-	213,813	449,515	47.6	75.9
06/30/16	0.0051	414,095	-	414,095	447,499	92.5	68.9
06/30/15	0.0052	269,491	-	269,491	438,783	61.4	78.2

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

Schedule of Employer's PERA Contributions - General Employees Fund

Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/19	\$ 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, 2019

Notes to the Required Supplementary Information - General Employees Fund

Changes in actuarial assumptions

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

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

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

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

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

Changes in plan provisions

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.

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.

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COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES

CITY OF HARMONY
HARMONY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2019

City of Harmony, Minnesota
 Nonmajor Governmental Funds
 Combining Balance Sheet
 December 31, 2019

	Special Revenue		
	201	202	211
	Revolving Loan	Small Cities Grant	Library Fund
Assets			
Cash and temporary investments	\$ 125,705	\$ 12,195	\$ 16,739
Receivables			
Accounts, net of allowances	-	-	-
Special assessments	-	-	-
Loans	183,586	128,681	-
Intergovernmental	-	-	-
Advances to other funds	32,990	-	-
Prepaid items	-	-	329
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 342,281</u>	<u>\$ 140,876</u>	<u>\$ 17,068</u>
Liabilities			
Accounts payable	\$ -	\$ -	\$ 3,595
Due to other governments	-	-	6
Accrued salaries payable	-	-	1,052
Advances from other funds	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>4,653</u>
Deferred Inflows of Resources			
Unavailable revenue - special assessments	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Fund Balances			
Nonspendable			
Prepaid items	-	-	329
Restricted			
Economic development	-	128,876	-
Committed			
Loans	183,586	-	-
Assigned			
Economic development	158,695	12,000	-
Culture and recreation	-	-	12,086
Unassigned			
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>342,281</u>	<u>140,876</u>	<u>12,415</u>
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 342,281</u>	<u>\$ 140,876</u>	<u>\$ 17,068</u>

Special Revenue			Capital Project	
222	251	261	420	Total
Fire	Park Fund	Arts Fund	TIF District #6	Nonmajor Funds
\$ 24,515	\$ 75,075	\$ 5,141	\$ 107	\$ 259,477
5,795	-	-	-	5,795
1,716	-	-	-	1,716
-	-	-	-	312,267
-	-	-	130	130
-	-	-	-	32,990
4,092	2,860	-	-	7,281
<u>\$ 36,118</u>	<u>\$ 77,935</u>	<u>\$ 5,141</u>	<u>\$ 237</u>	<u>\$ 619,656</u>
\$ 1,227	\$ 37,764	\$ -	\$ -	\$ 42,586
-	-	400	-	406
2	97	-	-	1,151
60,506	-	-	37,760	98,266
<u>61,735</u>	<u>37,861</u>	<u>400</u>	<u>37,760</u>	<u>142,409</u>
1,716	-	-	-	1,716
4,092	2,860	-	-	7,281
-	-	-	-	128,876
-	-	-	-	183,586
-	-	-	-	170,695
-	37,214	4,741	-	54,041
(31,425)	-	-	(37,523)	(68,948)
<u>(27,333)</u>	<u>40,074</u>	<u>4,741</u>	<u>(37,523)</u>	<u>475,531</u>
<u>\$ 36,118</u>	<u>\$ 77,935</u>	<u>\$ 5,141</u>	<u>\$ 237</u>	<u>\$ 619,656</u>

City of Harmony, Minnesota
 Nonmajor Governmental Funds
 Combining Statement of Revenues, Expenditures and
 Changes in Fund Balances
 For the Year Ended December 31, 2019

	Special Revenue		
	201	202	211
	Revolving Loan	Small Cities Grant	Library Fund
Revenues			
Taxes			
Property taxes	\$ -	\$ -	\$ 92,550
Tax increments	-	-	-
Intergovernmental	-	-	29,989
Fines and forfeits	-	-	344
Charges for services	-	-	1,003
Investment earnings	1,657	195	-
Miscellaneous			
Contributions and donations	-	-	77
Loan interest	8,029	-	-
Other	600	-	573
Total Revenues	<u>10,286</u>	<u>195</u>	<u>124,536</u>
Expenditures			
Current			
Public safety	-	-	-
Culture and recreation	-	-	114,697
Economic development	637	17,984	-
Capital outlay			
Public safety	-	-	-
Culture and recreation	-	-	-
Debt service			
Interest and other costs	-	-	-
Total Expenditures	<u>637</u>	<u>17,984</u>	<u>114,697</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>9,649</u>	<u>(17,789)</u>	<u>9,839</u>
Other Financing Sources (Uses)			
Transfers in	-	-	-
Transfers out	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	9,649	(17,789)	9,839
Fund Balances, January 1	<u>332,632</u>	<u>158,665</u>	<u>2,576</u>
Fund Balances, December 31	<u>\$ 342,281</u>	<u>\$ 140,876</u>	<u>\$ 12,415</u>

Special Revenue			Capital Project	
222	251	261	420	Total
Fire	Park Fund	Arts Fund	TIF District #6	Nonmajor Funds
\$ 41,500	\$ 60,056	\$ 6,000	\$ -	\$ 200,106
-	-	-	14,697	14,697
-	-	-	-	29,989
-	-	-	-	344
50,342	1,257	-	-	52,602
600	945	58	60	3,515
1,084	15,436	25	-	16,622
-	-	-	-	8,029
7,325	285	-	-	8,783
<u>100,851</u>	<u>77,979</u>	<u>6,083</u>	<u>14,757</u>	<u>334,687</u>
61,893	-	-	-	61,893
-	45,847	5,372	-	165,916
-	-	-	-	18,621
25,953	-	-	-	25,953
-	81,167	-	-	81,167
-	-	-	1,272	1,272
<u>87,846</u>	<u>127,014</u>	<u>5,372</u>	<u>1,272</u>	<u>354,822</u>
<u>13,005</u>	<u>(49,035)</u>	<u>711</u>	<u>13,485</u>	<u>(20,135)</u>
20,000	22,500	-	-	42,500
(25,000)	(6,000)	-	-	(31,000)
<u>(5,000)</u>	<u>16,500</u>	<u>-</u>	<u>-</u>	<u>11,500</u>
8,005	(32,535)	711	13,485	(8,635)
<u>(35,338)</u>	<u>72,609</u>	<u>4,030</u>	<u>(51,008)</u>	<u>484,166</u>
<u>\$ (27,333)</u>	<u>\$ 40,074</u>	<u>\$ 4,741</u>	<u>\$ (37,523)</u>	<u>\$ 475,531</u>

City of Harmony, Minnesota
Ambulance Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
For the Year Ended December 31, 2019
(With Comparative Actual Amounts for Year Ended December 31, 2018)

	2019				2018
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Intergovernmental	\$ 24,252	\$ 24,252	\$ 25,177	\$ 925	\$ 20,071
Charges for services	182,500	182,500	195,462	12,962	192,553
Investment earnings	500	500	1,319	819	784
Miscellaneous					
Contributions and donations	-	-	4,426	4,426	3,867
Other	-	-	15,855	15,855	7,926
Total Revenues	<u>207,252</u>	<u>207,252</u>	<u>242,239</u>	<u>34,987</u>	<u>225,201</u>
Expenditures					
Current					
Public safety					
Personal services	119,716	119,716	102,882	16,834	112,905
Supplies	13,975	13,975	9,621	4,354	12,845
Other services	22,731	22,731	18,032	4,699	16,620
Other charges	53,740	53,740	46,520	7,220	49,169
Capital outlay					
Public safety	5,000	5,000	4,426	574	3,867
Total Expenditures	<u>215,162</u>	<u>215,162</u>	<u>181,481</u>	<u>33,681</u>	<u>195,406</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(7,910)	(7,910)	60,758	68,668	29,795
Other Financing Sources (Uses)					
Transfers out	<u>(37,500)</u>	<u>(37,500)</u>	<u>(37,500)</u>	-	<u>(37,500)</u>
Net Change in Fund Balances	(45,410)	(45,410)	23,258	68,668	(7,705)
Fund Balances, January 1	<u>137,185</u>	<u>137,185</u>	<u>137,185</u>	-	<u>144,890</u>
Fund Balances, December 31	<u>\$ 91,775</u>	<u>\$ 91,775</u>	<u>\$ 160,443</u>	<u>\$ 68,668</u>	<u>\$ 137,185</u>

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

City of Harmony, Minnesota
Economic Development Authority Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
For the Year Ended December 31, 2019
(With Comparative Actual Amounts for Year Ended December 31, 2018)

	2019			2018	
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Property taxes	\$ 102,500	\$ 102,500	\$ 102,500	\$ -	\$ 100,000
Special assessments	1,000	1,000	1,430	430	1,973
Intergovernmental	-	-	178,209	178,209	-
Investment earnings	-	-	1,755	1,755	756
Miscellaneous					
Contributions and donations	-	-	15,000	15,000	-
Other	-	-	4,300	4,300	-
Total Revenues	<u>103,500</u>	<u>103,500</u>	<u>303,194</u>	<u>199,694</u>	<u>102,729</u>
Expenditures					
Current					
Economic development					
Personal services	17,602	17,602	18,145	(543)	17,998
Supplies	-	-	876	(876)	120
Other services	39,200	39,200	61,359	(22,159)	33,907
Other charges	66,810	66,810	210,055	(143,245)	89,005
Capital outlay					
Economic development	-	-	115,000	(115,000)	-
Total Expenditures	<u>123,612</u>	<u>123,612</u>	<u>405,435</u>	<u>(281,823)</u>	<u>141,030</u>
Excess (Deficiency) of Revenues Over Expenditures	(20,112)	(20,112)	(102,241)	(82,129)	(38,301)
Other Financing Sources (Uses)					
Transfers in	<u>15,000</u>	<u>15,000</u>	<u>31,750</u>	<u>16,750</u>	<u>75,750</u>
Net Change in Fund Balances	(5,112)	(5,112)	(70,491)	(65,379)	37,449
Fund Balances, January 1	<u>162,626</u>	<u>162,626</u>	<u>162,626</u>	<u>-</u>	<u>125,177</u>
Fund Balances, December 31	<u>\$ 157,514</u>	<u>\$ 157,514</u>	<u>\$ 92,135</u>	<u>\$ (65,379)</u>	<u>\$ 162,626</u>

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

City of Harmony, Minnesota
 Fire Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balances -
 Budget and Actual
 For the Year Ended December 31, 2019
 (With Comparative Actual Amounts for Year Ended December 31, 2018)

	2019				2018
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Property taxes	\$ 41,500	\$ 41,500	\$ 41,500	\$ -	\$ 29,550
Charges for services	47,500	47,500	50,342	2,842	52,691
Investment earnings	-	-	600	600	250
Miscellaneous					
Contributions and donations	-	-	1,084	1,084	8,931
Other	6,500	6,500	7,325	825	2,715
Total Revenues	<u>95,500</u>	<u>95,500</u>	<u>100,851</u>	<u>5,351</u>	<u>94,137</u>
Expenditures					
Current					
Public safety					
Personal services	18,604	18,604	17,433	1,171	22,075
Supplies	11,350	11,350	6,928	4,422	7,409
Other services	22,515	22,515	21,672	843	17,306
Other charges	9,550	9,550	15,860	(6,310)	11,502
Capital outlay					
Public safety					
Fire	10,000	10,000	25,953	(15,953)	61,337
Total Expenditures	<u>72,019</u>	<u>72,019</u>	<u>87,846</u>	<u>(15,827)</u>	<u>119,629</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>23,481</u>	<u>23,481</u>	<u>13,005</u>	<u>(10,476)</u>	<u>(25,492)</u>
Other Financing Sources (Uses)					
Transfers in	12,500	12,500	20,000	7,500	56,250
Transfers out	<u>(35,000)</u>	<u>(35,000)</u>	<u>(25,000)</u>	<u>10,000</u>	<u>(25,000)</u>
Total Other Financing Sources (Uses)	<u>(22,500)</u>	<u>(22,500)</u>	<u>(5,000)</u>	<u>17,500</u>	<u>31,250</u>
Net Change in Fund Balances	981	981	8,005	7,024	5,758
Fund Balances, January 1	<u>(35,338)</u>	<u>(35,338)</u>	<u>(35,338)</u>	-	<u>(41,096)</u>
Fund Balances, December 31	<u>\$ (34,357)</u>	<u>\$ (34,357)</u>	<u>\$ (27,333)</u>	<u>\$ 7,024</u>	<u>\$ (35,338)</u>

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

City of Harmony, Minnesota
 Revolving Loan Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balances -
 Budget and Actual
 For the Year Ended December 31, 2019
 (With Comparative Actual Amounts for Year Ended December 31, 2018)

	2019			Variance with Final Budget	2018
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
Revenues					
Investment earnings	\$ -	\$ -	\$ 1,657	\$ 1,657	\$ 690
Miscellaneous					
Loan interest	57,500	57,500	8,029	(49,471)	8,108
Other	300	300	600	300	300
Total Revenues	<u>57,800</u>	<u>57,800</u>	<u>10,286</u>	<u>(47,514)</u>	<u>9,098</u>
Expenditures					
Current					
Economic development					
Other services	1,500	1,500	637	863	219
Loans made	25,000	25,000	-	25,000	-
Total Expenditures	<u>26,500</u>	<u>26,500</u>	<u>637</u>	<u>25,863</u>	<u>219</u>
Net Change in Fund Balances	31,300	31,300	9,649	(21,651)	8,879
Fund Balances, January 1	<u>332,632</u>	<u>332,632</u>	<u>332,632</u>	<u>-</u>	<u>323,753</u>
Fund Balances, December 31	<u>\$ 363,932</u>	<u>\$ 363,932</u>	<u>\$ 342,281</u>	<u>\$ (21,651)</u>	<u>\$ 332,632</u>

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

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City of Harmony, Minnesota
 General Fund
 Comparative Balance Sheets
 December 31, 2019 and 2018

	2019	2018
Assets		
Cash and temporary investments	\$ 523,720	\$ 914,936
Receivables		
Interest	5,511	9,901
Special assessments	-	443
Delinquent taxes	15,857	14,951
Accounts	4,632	6,614
Intergovernmental	27,334	4,992
Advance to other funds	150,000	-
Prepaid items	18,927	18,544
	\$ 745,981	\$ 970,381
Liabilities		
Accounts payable	\$ 60,455	\$ 215,834
Accrued salaries payable	3,101	3,425
Due to other governments	14,894	24,559
Total Liabilities	78,450	243,818
Deferred Inflows of Resources		
Unavailable revenue - property taxes	15,857	14,951
Unavailable revenue - special assessment	-	443
Total Deferred Inflows of Resources	15,857	15,394
Fund Balances		
Nonspendable		
Prepaid items	18,927	18,544
Restricted		
Assigned	-	286,675
Unassigned	632,747	405,950
Total Fund Balances	651,674	711,169
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 745,981	\$ 970,381

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, 2019
(With Comparative Actual Amounts for Year Ended December 31, 2018)

	2019				2018
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Taxes					
Property taxes	\$ 226,639	\$ 226,639	\$ 221,543	\$ (5,096)	\$ 178,760
Franchise taxes	3,500	3,500	4,276	776	4,361
Lodging	5,000	5,000	3,852	(1,148)	5,026
Total Taxes	<u>235,139</u>	<u>235,139</u>	<u>229,671</u>	<u>(5,468)</u>	<u>188,147</u>
Special assessments	-	-	2,443	2,443	-
Licenses and permits					
Business	4,920	4,920	3,115	(1,805)	5,105
Nonbusiness	2,000	2,000	2,782	782	2,548
Total Licenses and Permits	<u>6,920</u>	<u>6,920</u>	<u>5,897</u>	<u>(1,023)</u>	<u>7,653</u>
Intergovernmental					
Federal					
USDA grant	-	-	11,054	11,054	-
State					
Local government aid	346,400	346,400	346,400	-	346,233
Property tax credits and aids	311	311	311	-	105
Fire aid	15,000	15,000	16,655	1,655	20,532
Other State aids	864	864	864	-	13,389
Total State	<u>362,575</u>	<u>362,575</u>	<u>364,230</u>	<u>1,655</u>	<u>380,259</u>
Total Intergovernmental	<u>362,575</u>	<u>362,575</u>	<u>375,284</u>	<u>12,709</u>	<u>380,259</u>
Charges for services					
General government	-	-	229	229	28
Public safety	-	-	-	-	110
Streets and highways	500	500	2,220	1,720	3,595
Rents	1,000	1,000	3,442	2,442	1,453
Total Charges for Services	<u>1,500</u>	<u>1,500</u>	<u>5,891</u>	<u>4,391</u>	<u>5,186</u>
Fines and forfeits	750	750	1,173	423	777
Investment earnings	2,500	2,500	10,687	8,187	6,215
Miscellaneous					
Contributions and donations	4,000	4,000	15,302	11,302	74,959
Refunds and reimbursements	7,500	7,500	2,854	(4,646)	3,019
Other	500	500	3,615	3,115	10,054
Total Miscellaneous	<u>12,000</u>	<u>12,000</u>	<u>21,771</u>	<u>9,771</u>	<u>88,032</u>
Total Revenues	<u>621,384</u>	<u>621,384</u>	<u>652,817</u>	<u>31,433</u>	<u>676,269</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, 2019
(With Comparative Actual Amounts for Year Ended December 31, 2018)

	2019				2018
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Budget			
Expenditures					
Current					
General Government					
Mayor and Council					
Personal services	\$ 7,692	\$ 7,692	\$ 7,526	\$ 166	\$ 7,423
Materials and supplies	350	350	73	277	473
Other services and charges	2,094	2,094	1,277	817	1,243
Total Mayor and Council	<u>10,136</u>	<u>10,136</u>	<u>8,876</u>	<u>1,260</u>	<u>9,139</u>
Finance and administration					
Personal services	65,651	65,651	69,480	(3,829)	66,074
Materials and supplies	7,150	7,150	5,856	1,294	7,765
Printing and publication	3,308	3,308	2,483	825	1,978
Training	1,050	1,050	-	1,050	50
Repairs and maintenance	1,500	1,500	3,099	(1,599)	1,455
Professional fees	7,500	7,500	6,953	547	6,762
Miscellaneous	2,457	2,457	2,689	(232)	2,807
Total Finance and Administration	<u>88,616</u>	<u>88,616</u>	<u>90,560</u>	<u>(1,944)</u>	<u>86,891</u>
Elections	-	-	-	-	1,826
Professional services					
Legal	8,000	8,000	8,005	(5)	4,506
Total General Government	<u>106,752</u>	<u>106,752</u>	<u>107,441</u>	<u>(689)</u>	<u>102,362</u>
Government Buildings					
Visitor center					
Personal services	10,625	10,625	10,272	353	9,894
Materials and supplies	2,600	2,600	1,682	918	1,710
Insurance	1,841	1,841	1,826	15	1,702
Repairs and maintenance	3,750	3,750	7,665	(3,915)	3,173
Utilities	7,650	7,650	5,898	1,752	5,980
Total Visitor Center	<u>26,466</u>	<u>26,466</u>	<u>27,343</u>	<u>(877)</u>	<u>22,459</u>
Community center					
Personal services	44,079	44,079	34,669	9,410	33,216
Materials and supplies	6,750	6,750	6,123	627	6,379
Insurance	15,157	15,157	15,104	53	14,292
Repairs and maintenance	11,000	11,000	13,888	(2,888)	32,747
Utilities	35,600	35,600	31,388	4,212	30,208
Miscellaneous	100	100	-	100	8
Total Community Center	<u>112,686</u>	<u>112,686</u>	<u>101,172</u>	<u>11,514</u>	<u>116,850</u>
Total Government Buildings	<u>139,152</u>	<u>139,152</u>	<u>128,515</u>	<u>10,637</u>	<u>139,309</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, 2019
(With Comparative Actual Amounts for Year Ended December 31, 2018)

Expenditures (Continued)	2019				2018
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Current (continued)					
Public safety					
Police					
Contracted services	\$ 83,500	\$ 83,500	\$ 90,467	\$ (6,967)	\$ 89,424
Vehicle expense	4,500	4,500	4,142	358	5,291
Materials and supplies	600	600	-	600	30
Insurance	477	477	1,168	(691)	663
Repairs and maintenance	1,000	1,000	728	272	1,834
Miscellaneous	775	775	562	213	558
Total Police	<u>90,852</u>	<u>90,852</u>	<u>97,067</u>	<u>(6,215)</u>	<u>97,800</u>
Fire					
Firemen's relief	22,500	22,500	24,155	(1,655)	28,032
Civil defense					
Personal services	646	646	646	-	646
Repairs and maintenance	1,000	1,000	691	309	2,359
Other charges	1,885	1,885	1,965	(80)	1,947
Total Civil Defense	<u>3,531</u>	<u>3,531</u>	<u>3,302</u>	<u>229</u>	<u>4,952</u>
Animal control					
Personal services	4,241	4,241	4,285	(44)	4,270
Materials and supplies	350	350	218	132	372
Other services	200	200	195	5	197
Total Animal and Pest Control	<u>4,791</u>	<u>4,791</u>	<u>4,698</u>	<u>93</u>	<u>4,839</u>
Total Public Safety	<u>121,674</u>	<u>121,674</u>	<u>129,222</u>	<u>(7,548)</u>	<u>135,623</u>
Streets and Highways					
Personal services	22,114	22,114	18,715	3,399	22,526
Vehicle expenses	2,000	2,000	1,803	197	1,625
Materials and supplies	12,900	12,900	19,420	(6,520)	8,942
Insurance	2,197	2,197	2,049	148	1,937
Repairs and maintenance	70,300	70,300	26,207	44,093	95,539
Snow and ice	37,955	37,955	45,652	(7,697)	32,533
Building maintenance	27,576	27,576	25,742	1,834	30,344
Total Streets and Highways	<u>175,042</u>	<u>175,042</u>	<u>139,588</u>	<u>35,454</u>	<u>193,446</u>
Culture and recreation					
Community events	6,305	6,305	19,267	(12,962)	16,894
Economic development					
Lodging tax	5,000	5,000	4,163	837	4,006
Community development	3,000	3,000	251	2,749	2,497
Total Economic Development	<u>8,000</u>	<u>8,000</u>	<u>4,414</u>	<u>3,586</u>	<u>6,503</u>
Unallocated					
Miscellaneous	5,000	5,000	5,930	(930)	5,465
Insurance	2,232	2,232	2,187	45	2,146
Total Miscellaneous	<u>7,232</u>	<u>7,232</u>	<u>8,117</u>	<u>(885)</u>	<u>7,611</u>
Total Current	<u>564,157</u>	<u>564,157</u>	<u>536,564</u>	<u>27,593</u>	<u>601,748</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, 2019
(With Comparative Actual Amounts for Year Ended December 31, 2018)

	2019				2018
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Expenditures (Continued)					
Current (continued)					
Capital outlay					
Finance and administration	\$ 1,000	\$ 1,000	\$ -	\$ 1,000	\$ 2,214
Government buildings	-	-	30,502	(30,502)	-
Streets and highways	7,500	7,500	68,996	(61,496)	239,312
Total Capital Outlay	<u>8,500</u>	<u>8,500</u>	<u>99,498</u>	<u>(90,998)</u>	<u>241,526</u>
Total Expenditures	<u>572,657</u>	<u>572,657</u>	<u>636,062</u>	<u>(63,405)</u>	<u>843,274</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>48,727</u>	<u>48,727</u>	<u>16,755</u>	<u>(31,972)</u>	<u>(167,005)</u>
Other Financing Sources (Uses)					
Transfers in	55,000	55,000	24,000	(31,000)	184,500
Transfers out	<u>(83,500)</u>	<u>(83,500)</u>	<u>(100,250)</u>	<u>(16,750)</u>	<u>(152,416)</u>
Total Other Financing Sources (Uses)	<u>(28,500)</u>	<u>(28,500)</u>	<u>(76,250)</u>	<u>(47,750)</u>	<u>32,084</u>
Net Change in Fund Balances	20,227	20,227	(59,495)	(79,722)	(134,921)
Fund Balances, January 1	<u>711,169</u>	<u>711,169</u>	<u>711,169</u>	<u>-</u>	<u>846,090</u>
Fund Balances, December 31	<u>\$ 731,396</u>	<u>\$ 731,396</u>	<u>\$ 651,674</u>	<u>\$ (79,722)</u>	<u>\$ 711,169</u>

City of Harmony, Minnesota
Debt Service Funds
Combining Balance Sheet
December 31, 2019

	314 2010 G.O. Improvement Bonds	315 2013A G.O. Tax Abatement Bonds	316 2013B G.O. Tax Abatement Bonds	317 2014A G.O. Improvement Bonds	318 2017A G.O. Improvement Bonds	Totals
Assets						
Cash and temporary investments	\$ 46,341	\$ 8,270	\$ 26,102	\$ 41,407	\$ 129,322	\$ 251,442
Delinquent taxes	68	1,254	1,034	731	2,355	5,442
Special assessments	5,914	-	-	87,557	155,229	248,700
Intergovernmental	8	1,230	1,015	538	2,460	5,251
Total Assets	<u>\$ 52,331</u>	<u>\$ 10,754</u>	<u>\$ 28,151</u>	<u>\$ 130,233</u>	<u>\$ 289,366</u>	<u>\$ 510,835</u>
Deferred Inflows of Resources						
Unavailable revenue - property taxes	\$ 68	\$ 1,254	\$ 1,034	\$ 731	\$ 2,355	\$ 5,442
Unavailable revenue - special assessments	5,914	-	-	87,557	155,229	248,700
Total Deferred Inflows of Resources	<u>5,982</u>	<u>1,254</u>	<u>1,034</u>	<u>88,288</u>	<u>157,584</u>	<u>254,142</u>
Fund Balances						
Restricted for debt service	46,349	9,500	27,117	41,945	131,782	256,693
Total Deferred Inflows of Resources and Fund Balances	<u>\$ 52,331</u>	<u>\$ 10,754</u>	<u>\$ 28,151</u>	<u>\$ 130,233</u>	<u>\$ 289,366</u>	<u>\$ 510,835</u>

City of Harmony, Minnesota
Debt Service Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2019

	314 2010 G.O. Improvement Bonds	315 2013A G.O. Tax Abatement Bonds	316 2013B G.O. Tax Abatement	317 2014A G.O. Improvement Bonds	318 2017A G.O. Improvement Bonds	Totals
Revenues						
Property taxes	\$ 63	\$ 39,782	\$ 32,817	\$ 17,725	\$ 79,514	\$ 169,901
Special assessments	5,211	-	-	15,909	35,470	56,590
Investment earnings	686	193	162	390	1,041	2,472
Total Revenues	<u>5,960</u>	<u>39,975</u>	<u>32,979</u>	<u>34,024</u>	<u>116,025</u>	<u>228,963</u>
Expenditures						
Debt service						
Principal	-	36,000	24,000	24,000	63,500	147,500
Interest and other costs	-	2,530	6,840	1,958	25,262	36,590
Total Expenditures	<u>-</u>	<u>38,530</u>	<u>30,840</u>	<u>25,958</u>	<u>88,762</u>	<u>184,090</u>
Net Change in Fund Balances	5,960	1,445	2,139	8,066	27,263	44,873
Fund Balances, January 1	<u>40,389</u>	<u>8,055</u>	<u>24,978</u>	<u>33,879</u>	<u>104,519</u>	<u>211,820</u>
Fund Balances, December 31	<u>\$ 46,349</u>	<u>\$ 9,500</u>	<u>\$ 27,117</u>	<u>\$ 41,945</u>	<u>\$ 131,782</u>	<u>\$ 256,693</u>

City of Harmony, Minnesota
 Summary Financial Report
 Revenues and Expenditures for General Operations -
 Governmental Funds
 For the Years Ended December 31, 2019 and 2018

	Total 2019	Total 2018	Percent Increase (Decrease)
Revenues			
Taxes	\$ 716,875	\$ 689,315	4.00 %
Special assessments	60,463	50,470	19.80
Licenses and permits	5,897	7,653	(22.95)
Intergovernmental	608,659	430,469	41.39
Charges for services	253,955	250,707	1.30
Fines and forfeits	1,517	980	54.80
Investment earnings	32,633	17,496	86.52
Miscellaneous	137,875	370,478	(62.78)
Total Revenues	<u>\$ 1,817,874</u>	<u>\$ 1,817,568</u>	0.02 %
Per Capita	\$ 1,772	\$ 1,768	0.21 %
Expenditures			
Current			
General government	\$ 235,956	\$ 241,671	(2.36) %
Public safety	368,170	385,454	(4.48)
Streets and highways	139,588	193,446	(27.84)
Culture and recreation	185,183	179,213	3.33
Economic development	313,470	193,037	62.39
Miscellaneous	8,117	7,611	6.65
Capital outlay			
General government	30,502	2,214	1,277.69
Public safety	38,536	75,204	(48.76)
Streets and highways	68,996	308,708	(77.65)
Culture and recreation	81,167	38,191	112.53
Economic development	115,000	-	100.00
Debt service			
Principal	147,500	323,000	(54.33)
Interest and other charges	37,862	45,989	(17.67)
Total Expenditures	<u>\$ 1,770,047</u>	<u>\$ 1,993,738</u>	(11.22) %
Per Capita	\$ 1,725	\$ 1,939	(11.05) %
Total Long-term Indebtedness	\$ 871,500	\$ 959,000	(9.12) %
Per Capita	849	933	(8.95)
General Fund Balance - December 31	\$ 651,674	\$ 711,169	(8.37) %
Per Capita	635	692	(8.19)

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

OTHER REQUIRED REPORTS

CITY OF HARMONY
HARMONY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2019

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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, 2019, and the notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 30, 2020.

In connection with our audit, nothing came to our attention that caused us to believe that (*city name*) failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, 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, EICK & MEYERS, LLP
Mankato, Minnesota
March 30, 2020



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, 2019, 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 March 30, 2020.

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) to determine the 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 item 2019-001 that we consider to be a significant deficiency.

Compliance and Other Matters

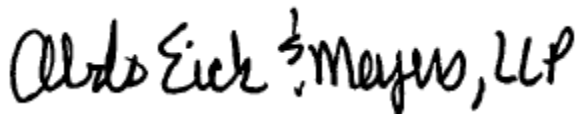
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 Finding

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

Purpose of this Report

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



ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
March 30, 2020

City of Harmony, Minnesota
Schedule of Findings and Responses
For the Year Ended December 31, 2019

<u>Finding</u>	<u>Description</u>
2019-001	Segregation of Duties
<i>Condition:</i>	During our audit we reviewed internal control procedures over payroll, disbursements, cash receipts, utility billing and investments and found the City to have limited segregation of duties in these areas as noted below.
<i>Criteria:</i>	There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.
<i>Effect:</i>	The existence of this limited segregation of duties increases the risk of fraud and misstatement.

Internal Control Over Payroll

<i>Cause:</i>	The Administrator controls and maintains the control over the ACH, sets up employee records, posts activity to the general ledger, prepares payroll tax returns, and maintains the payroll records as well as reconciling the bank statements.
<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 will continue to review the ACH payments along with compensated absences reports and the Deputy Clerk will compare approved payments to the bank reconciliation upon review. It is important that these procedures are document 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, sets up and maintains vendors, prepares checks and enters 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. The Deputy Clerk should enter disbursements and mail disbursements. The Administrator will sign checks.

Management Response:

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

City of Harmony, Minnesota
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2019

Finding Description

2019-001 Segregation of Duties (Continued)

Internal Control Over Cash Receipts

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

Recommendation: We recommend that an individual separate from the Administrator, such as the Deputy Clerk, review bank reconciliations for accuracy and timeliness of preparation. 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 Administrator such as the Deputy Clerk, review bank reconciliations for accuracy and timeliness of preparation. The utility billing adjustment reports should 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 City Administrator will review the utility adjustment report and the Deputy Clerk with review the bank reconciliation.

Updated Progress from Prior Year:

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