

# PRELIMINARY OFFICIAL STATEMENT DATED MAY 2, 2024

In the opinion of Bond Counsel, based on present federal and Minnesota laws, regulations, rulings and decisions, and assuming compliance with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and certain covenants of the City, interest to be paid on the Bonds is not includable in gross income of the recipient for federal income tax purposes or in taxable net income of individuals, estates and trusts for Minnesota income tax purposes, and is not an item of tax preference which is included in alternative minimum taxable income for purposes of the federal alternative minimum tax or the Minnesota alternative minimum tax imposed on individuals, trusts and estates; however, such interest is taken into account in determining the annual adjusted financial statement income of certain corporations for the purpose of computing the federal alternative minimum tax imposed on corporations for tax years beginning after December 31, 2022. Such interest is includable in taxable income for purposes of the Minnesota franchise tax on corporations and financial institutions. See "Tax Matters" herein.

The Bonds will be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended, relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations. No opinion will be expressed regarding other state of federal tax consequences caused by the receipt of accrual of interest on or arising with respect to ownership of the Bonds.

**New Issue**

**Rating Application Made: S&P Global Ratings**

## CITY OF TWO HARBORS, MINNESOTA (Lake County)

(Minnesota City Credit Enhancement Program)

### \$4,605,000\* GENERAL OBLIGATION IMPROVEMENT BONDS, SERIES 2024A

**PROPOSAL OPENING:** May 13, 2024, 10:30 A.M., C.T.

**CONSIDERATION:** May 13, 2024, 6:00 P.M., C.T.

**PURPOSE/AUTHORITY/SECURITY:** The \$4,605,000\* General Obligation Improvement Bonds, Series 2024A (the "Bonds") are being issued pursuant to Minnesota Statutes, Chapters 429 and 475, as amended, by the City of Two Harbors, Minnesota (the "City"), for the purpose of financing various assessable public improvements within the City. The Bonds will be general obligations of the City for which its full faith and credit and taxing powers are pledged. Delivery is subject to receipt of an approving legal opinion of Fryberger, Buchanan, Smith & Frederick, P.A., Duluth, Minnesota.

**DATE OF BONDS:** May 30, 2024

**MATURITY:** February 1 as follows:

Year	Amount*	Year	Amount*	Year	Amount*
2026	\$240,000	2031	\$285,000	2036	\$335,000
2027	250,000	2032	290,000	2037	345,000
2028	260,000	2033	300,000	2038	360,000
2029	265,000	2034	315,000	2039	370,000
2030	275,000	2035	325,000	2040	390,000

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

**TERM BONDS:** See "Term Bond Option" herein.

**INTEREST:** February 1, 2025 and semiannually thereafter.

**OPTIONAL REDEMPTION:** Bonds maturing on February 1, 2035 and thereafter are subject to call for prior optional redemption on February 1, 2034 or any date thereafter, at a price of par plus accrued interest to the date of optional redemption.

**MINIMUM PROPOSAL:** \$4,549,740.

**GOOD FAITH DEPOSIT:** A good faith deposit in the amount of \$92,100 shall be made by the winning bidder by wire transfer of funds.

**PAYING AGENT:** Bond Trust Services Corporation.

**BOND COUNSEL:** Fryberger, Buchanan, Smith & Frederick, P.A..

**MUNICIPAL ADVISOR:** Ehlers and Associates, Inc.

**BOOK-ENTRY-ONLY:** See "Book-Entry-Only System" herein (unless otherwise specified by the purchaser).

This Preliminary Official Statement and the information contained herein are subject to completion and amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy these securities nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. This Preliminary Official Statement is in a form deemed final as of its date for purposes of SEC Rule 15c2-12(b) (1), but is subject to revision, amendment and completion in a Final Official Statement.



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## REPRESENTATIONS

No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representation other than those contained in this Preliminary Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. ***This Preliminary Official Statement does not constitute an offer to sell or a solicitation of an offer to buy any of the Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction.***

This Preliminary Official Statement is not to be construed as a contract with the Underwriter (Syndicate Manager). Statements contained herein which involve estimates or matters of opinion are intended solely as such and are not to be construed as representations of fact. Ehlers and Associates, Inc. prepared this Preliminary Official Statement and any addenda thereto relying on information of the City and other sources for which there is reasonable basis for believing the information is accurate and complete. Bond Counsel has not participated in the preparation of this Preliminary Official Statement and is not expressing any opinion as to the completeness or accuracy of the information contained therein. Compensation of Ehlers and Associates, Inc., payable entirely by the City, is contingent upon the delivery of the Bonds.

## COMPLIANCE WITH S.E.C. RULE 15c2-12

Certain municipal obligations (issued in an aggregate amount over \$1,000,000) are subject to Rule 15c2-12 promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended (the "Rule").

**Preliminary Official Statement:** This Preliminary Official Statement was prepared for the City for dissemination to potential investors. Its primary purpose is to disclose information regarding the Bonds to prospective underwriters in the interest of receiving competitive proposals in accordance with the sale notice contained herein. Unless an addendum is posted prior to the sale, this Preliminary Official Statement shall be deemed nearly final for purposes of the Rule subject to completion, revision and amendment in a Final Official Statement as defined below.

**Review Period:** This Preliminary Official Statement has been distributed to prospective bidders for review. Comments or requests for the correction of omissions or inaccuracies must be submitted to Ehlers and Associates, Inc. at least two business days prior to the sale. Requests for additional information or corrections in the Preliminary Official Statement received on or before this date will not be considered a qualification of a proposal received from an underwriter. If there are any changes, corrections or additions to the Preliminary Official Statement, interested bidders will be informed by an addendum prior to the sale.

**Final Official Statement:** Copies of the Final Official Statement will be delivered to the underwriter (Syndicate Manager) within seven business days following the proposal acceptance.

**Continuing Disclosure:** Subject to certain exemptions, issues in an aggregate amount over \$1,000,000 may be required to comply with provisions of the Rule which require that underwriters obtain from the issuers of municipal securities (or other obligated party) an agreement for the benefit of the owners of the securities to provide continuing disclosure with respect to those securities. This Preliminary Official Statement describes the conditions under which the City is required to comply with the Rule.

## CLOSING CERTIFICATES

Upon delivery of the Bonds, the underwriter (Syndicate Manager) will be furnished with the following items: (1) a certificate of the appropriate officials to the effect that at the time of the sale of the Bonds and all times subsequent thereto up to and including the time of the delivery of the Bonds, this Preliminary Official Statement did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (2) a receipt signed by the appropriate officer evidencing payment for the Bonds; (3) a certificate evidencing the due execution of the Bonds, including statements that (a) no litigation of any nature is pending, or to the knowledge of signers, threatened, restraining or enjoining the issuance and delivery of the Bonds, (b) neither the corporate existence or boundaries of the City nor the title of the signers to their respective offices is being contested, and (c) no authority or proceedings for the issuance of the Bonds have been repealed, revoked or rescinded; and (4) a certificate setting forth facts and expectations of the City which indicates that the City does not expect to use the proceeds of the Bonds in a manner that would cause them to be arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, or within the meaning of applicable Treasury Regulations.

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## **CITY OF TWO HARBORS CITY COUNCIL**

		<u>Term Expires</u>
Lew Conner	Mayor	January 2025
Robin Glaser	President	January 2025
Ben Redden	Vice President	January 2027
Catherine Erickson	Council Member	January 2025
Uriah Hefter	Council Member	January 2027
Mike Kasell	Council Member	January 2027
Derrick Passe	Council Member	January 2025

## **ADMINISTRATION**

Miranda Pietila, Finance Director  
Patricia Nordean, City Administrator

## **PROFESSIONAL SERVICES**

Costley & Morris, P.C., City Attorney, Two Harbors, Minnesota

Fryberger, Buchanan, Smith & Frederick, P.A., Bond Counsel, Duluth, Minnesota

Ehlers and Associates, Inc., Municipal Advisors, Roseville, Minnesota  
*(Other office located in Waukesha, Wisconsin)*

# INTRODUCTORY STATEMENT

This Preliminary Official Statement contains certain information regarding the City of Two Harbors, Minnesota (the "City") and the issuance of its \$4,605,000\* General Obligation Improvement Bonds, Series 2024A (the "Bonds," the "Series 2024A Bonds" or the "Obligations"). Any descriptions or summaries of the Bonds, statutes, or documents included herein are not intended to be complete and are qualified in their entirety by reference to such statutes and documents and the form of the Bonds to be included in the resolution authorizing the issuance and sale of the Bonds ("Award Resolution") to be adopted by the City Council on May 13, 2024.

Inquiries may be directed to Ehlers and Associates, Inc. ("Ehlers" or the "Municipal Advisor"), Roseville, Minnesota, (651) 697-8500, the City's municipal advisor. A copy of this Preliminary Official Statement may be downloaded from Ehlers' web site at [www.ehlers-inc.com](http://www.ehlers-inc.com) by connecting to the Bond Sales link and following the directions at the top of the site.

## THE BONDS

### GENERAL

The Bonds will be issued in fully registered form as to both principal and interest in denominations of \$5,000 each or any integral multiple thereof, and will be dated, as originally issued, as of May 30, 2024. The Bonds will mature on February 1 in the years and amounts set forth on the cover of this Preliminary Official Statement. Interest will be payable on February 1 and August 1 of each year, commencing February 1, 2025, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board ("MSRB"). **The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2026 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.)** All Bonds of the same maturity must bear interest from the date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

Unless otherwise specified by the purchaser, the Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). (See "Book-Entry-Only System" herein.) As long as the Bonds are held under the book-entry system, beneficial ownership interests in the Bonds may be acquired in book-entry form only, and all payments of principal of, premium, if any, and interest on the Bonds shall be made through the facilities of DTC and its participants. If the book-entry system is terminated, principal of, premium, if any, and interest on the Bonds shall be payable as provided in the Award Resolution.

The City has selected Bond Trust Services Corporation, Roseville, Minnesota ("BTSC"), to act as paying agent (the "Paying Agent"). BTSC and Ehlers are affiliate companies. The City will pay the charges for Paying Agent services. The City reserves the right to remove the Paying Agent and to appoint a successor.

\*Preliminary, subject to change.

**OPTIONAL REDEMPTION**

At the option of the City, the Bonds maturing on or after February 1, 2035 shall be subject to optional redemption prior to maturity on February 1, 2034 or any date thereafter, at a price of par plus accrued interest to the date of optional redemption.

Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the selection of the amounts and maturities of the Bonds to be redeemed shall be at the discretion of the City. If only part of the Bonds having a common maturity date are called for redemption, then the City or Paying Agent, if any, will notify DTC of the particular amount of such maturity to be redeemed. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interest in such maturity to be redeemed.

Notice of redemption shall be sent by mail not more than 60 days and not less than 30 days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the registration books.

**AUTHORITY; PURPOSE**

The Bonds are being issued pursuant to Minnesota Statutes, Chapters 429 and 475, as amended, by the City, to finance the construction of the City's 2024 Street Improvement Project: including the replacement of pavement, curb and gutter necessary for the construction of water and sanitary sewer mains and services, and storm sewer.

**ESTIMATED SOURCES AND USES\***

<b>Sources</b>		
Par Amount of Bonds	\$4,605,000	
Planned Issuer Equity Contribution	1,000,000	
County Cash Contribution	<u>2,827,832</u>	
<b>Total Sources</b>		<b>\$8,432,832</b>
<b>Uses</b>		
Total Underwriter's Discount (1.200%)	\$55,260	
Costs of Issuance	66,000	
Capitalized Interest	108,052	
Deposit to Construction Fund	8,198,860	
Rounding Amount	<u>4,661</u>	
<b>Total Uses</b>		<b>\$8,432,832</b>

\*Preliminary, subject to change.

**SECURITY**

The Bonds will be general obligations of the City for which its full faith and credit and taxing powers are pledged without limitation as to rate or amount. The City anticipates that the debt service will be paid from a combination of special assessments levied against properties benefitted by improvements financed by the Bonds and from ad valorem property taxes. In accordance with Minnesota Statutes, receipt of special assessments and ad valorem property taxes will be sufficient to provide not less than 105% of principal and interest on the Bonds.

Should the revenues pledged for payment of the Bonds be insufficient to pay the principal and interest as the same shall become due, the City is required to pay maturing principal and interest from moneys on hand in any other fund of the City not pledged for another purpose and/or to levy additional taxes for this purpose upon all the taxable property in the City, without limitation as to rate or amount.

## **CONCURRENT FINANCING**

By means of a separate Preliminary Official Statement, the City will be offering for sale its General Obligation Equipment Certificates, Series 2024B (the "Concurrent Obligations" or the "Series 2024B Certificates"), which are scheduled to close on May 30, 2024.

## **RATING**

The City will be participating in the State of Minnesota Credit Enhancement Program ("MNCEP") for this issue and is requesting a credit enhanced rating from S&P Global Ratings ("S&P"). S&P has a policy which assigns a rating of "AAA" to issuers participating in the MNCEP. The "AAA" rating is based on the State of Minnesota's current "AAA" rating from S&P. See "STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM" for further details.

The City currently has a "AA-" underlying rating from S&P and will be requesting an underlying rating on this issue. Such rating, if any, reflects only the views of such organization and explanations of the significance of such rating may be obtained from the rating agency furnishing the same. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if in the judgment of such rating agency circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

Such rating is not to be construed as a recommendation of the rating agency to buy, sell or hold the Bonds, and the rating assigned by the rating agency should be evaluated independently. Except as may be required by the Disclosure Undertaking described under the heading "CONTINUING DISCLOSURE" neither the City nor the underwriter undertake responsibility to bring to the attention of the owner of the Bonds any proposed changes in or withdrawal of such rating or to oppose any such revision or withdrawal.

## **STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM**

By resolution adopted for this issue on April 8, 2024 (the "Resolution"), the City has covenanted and obligated itself to be bound by the provisions of Minnesota Statutes, Section 446A.086 (the "Act"), which provides for payment by the State of Minnesota in the event of a potential default of certain obligations. The City has entered into a Credit Enhancement Program Agreement (the "Agreement") with the Minnesota Public Facilities Authority (the "Authority"), which is acting on behalf of the State of Minnesota. The provisions of the Agreement shall be binding on the City as long as any obligations of the issue remain outstanding.

The City covenants in the Agreement to deposit with the paying agent for the issue three business days prior to the date on which a payment is due an amount sufficient to make that payment. Under the Agreement, if the City believes it may be unable to make a principal or interest payment for this issue on the due date, it must notify the Authority not less than 15 business days prior to the date a payment is due on the Bonds if the City will be unable to make all or a portion of the payment. The City's agreement with the Paying Agent for the Bonds requires the Paying Agent to immediately inform the Minnesota Commissioner of Management and Budget, with a copy to the Authority, if the Paying Agent becomes aware of a default or potential default in the payment of principal or interest on the Bonds, or if, on the day two business days before the date a payment is due on the Bonds, there are insufficient funds on deposit with the Paying Agent to make the payment.

If the City is unable to make any portion of the payment on the Bonds on or before the date due, the State of Minnesota, acting through the Authority, shall make such payment in its place pursuant to the Act, providing that funds are available in the State General Fund. The obligation to make a payment under the Act is not a general obligation of the State of Minnesota. The Act does not obligate the Minnesota legislature to provide for the availability of funds in the General Fund for this purpose.

## **CONTINUING DISCLOSURE**

In order to assist brokers, dealers, and municipal securities dealers, in connection with their participation in the offering of the Certificates, to comply with Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities and Exchange Act of 1934, as amended (the "Rule"), the City shall agree to provide certain information to the Municipal Securities Rulemaking Board (MSRB) through its Electronic Municipal Market Access (EMMA) system, or any system that may be prescribed in the future. The Rule was last amended, effective February 27, 2019, to include an expanded list of material events.

On the date of issue and delivery, the City shall execute and deliver a Continuing Disclosure Certificate, under which the City will covenant for the benefit of holders including beneficial holders, to provide electronically, or in a manner otherwise prescribed, certain financial information annually and to provide notices of the occurrence of certain events enumerated in the Rule (the "Disclosure Undertaking"). The details and terms of the Disclosure Undertaking for the City are set forth in Appendix D. Such Disclosure Undertaking will be in substantially the form attached hereto.

A failure by the City to comply with any Disclosure Undertaking will not constitute an event of default on the Certificates. However, such a failure may adversely affect the transferability and liquidity of the Certificates and their market price.

The City did not timely file the financial obligations dated September 19, 2022, December 1, 2022, and November 30, 2023. Except to the extent that the preceding is deemed to be material, the City believes it has not failed to comply in the previous five years in all material respects with its prior undertakings under the Rule. The City has reviewed its continuing disclosure responsibilities along with any changes to the Rule, to ensure compliance. Ehlers is currently engaged as dissemination agent for the City.



## **LEGAL MATTERS**

Legal matters incident to the issuance and sale of the Bonds and with regard to the tax-exempt status of interest on the Bonds under existing laws are subject to the approving legal opinion of Fryberger, Buchanan, Smith & Frederick, P.A., as Bond Counsel to the City. Bond Counsel has not examined nor attempted to examine or verify any of the financial or statistical statements or data contained in the Official Statement and will express no opinions with respect to such information. Additionally, except for statements on the cover page of the Official Statement and under the caption "TAX MATTERS" relating to Bond Counsel's opinion that the interest on the Bonds is not includable in gross income for federal income tax purposes, Bond Counsel has not independently verified any of the factual information contained in the Official Statement nor have they conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of the Official Statement. No person is entitled to rely upon their limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the information contained in the Official Statement. See "FORM OF LEGAL OPINION" found in Appendix B.

## **TAX MATTERS**

The following discussion is not intended to be an exhaustive discussion of collateral tax consequences arising from ownership or disposition of the Bonds or receipt of interest on the Bonds. Prospective purchasers should consult their tax advisors with respect to collateral tax consequences, including, without limitation, the determination of gain or loss on the sale of a bond, the calculation of alternative minimum tax liability, the inclusion of Social Security or other retirement payments in taxable income, the disallowance of deductions for certain expenses attributable to the Bonds, and applicable state and local tax rules in states other than Minnesota.

In the opinion of Fryberger, Buchanan, Smith & Frederick, P.A., Duluth, Minnesota, as Bond Counsel, based on present federal and Minnesota laws, regulations, rulings and decisions, and on certifications to be furnished at closing, and assuming compliance by the City with certain tax covenants, that interest to be paid on the Bonds is not includable in gross income of the recipient for purposes of federal income taxation or in taxable net income of individuals, estates or trusts for purposes of Minnesota income taxation. Such interest is, however, included in taxable income for purposes of the Minnesota franchise tax on corporations and financial institutions.

Interest on the Bonds is not an item of tax preference which is included in alternative minimum taxable income for purposes of the federal alternative minimum tax or the Minnesota alternative minimum tax imposed on individuals, trusts and estates; however, such interest is taken into account in determining the annual adjusted financial statement income of certain corporations for the purpose of computing the federal alternative minimum tax imposed on corporations for tax years beginning after December 31, 2022.

Certain provisions of the Internal Revenue Code of 1986, as amended (the "Code"), however, impose continuing requirements that must be met after the issuance of the Bonds in order that interest on the Bonds be and remain not includable in federal gross income or in Minnesota taxable net income of individuals, estates, and trusts. These requirements include, but are not limited to, provisions regarding the use of bond proceeds and the facilities financed or refinanced with such proceeds; restrictions on the investment of bond proceeds and other amounts; and provisions requiring that certain investment earnings be rebated periodically to the federal government. Noncompliance with such requirements of the Code may cause interest on the Bonds to be includable in federal gross income or in Minnesota taxable net income retroactively to their date of issue. Compliance with the City's tax covenants will satisfy the current requirements of the Code with respect to exclusion of interest on the Bonds from federal gross income and from Minnesota taxable net income of individuals, estates and trusts. No provision has been made for redemption of or for an increase in the interest rate on the Bonds in the event that interest on the same becomes includable in federal gross income or in Minnesota taxable net income.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Bonds may affect the tax-exempt status of interest on the Bonds or the tax consequences of ownership of the Bonds. No assurance can be given that future legislation, if enacted into law, will not contain provisions which could directly or indirectly affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes.

Interest paid on tax-exempt obligations such as the Bonds is now generally required to be reported by payors to the Internal Revenue Service ("IRS") and to recipients in the same manner as interest on taxable obligations. In addition, such interest may be subject to "backup withholding" if the bond owner fails to provide the information required on IRS Form W-9, Request for Taxpayer Identification Number and Certification, or the IRS has identified the bond owner as being subject to backup withholding.

## **QUALIFIED TAX-EXEMPT OBLIGATIONS**

The Bonds shall be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations.

## **MUNICIPAL ADVISOR**

Ehlers has served as municipal advisor to the City in connection with the issuance of the Bonds. The Municipal Advisor cannot participate in the underwriting of the Bonds. The financial information included in this Preliminary Official Statement has been compiled by the Municipal Advisor. Such information does not purport to be a review, audit or certified forecast of future events and may not conform with accounting principles applicable to compilations of financial information. Ehlers is not a firm of certified public accountants. Ehlers is registered with the Securities and Exchange Commission and the MSRB as a municipal advisor. Ehlers makes no representation, warranty or guarantee regarding the accuracy or completeness of the information in this Preliminary Official Statement, and its assistance in preparing this Preliminary Official Statement should not be construed as a representation that it has independently verified such information.

## **MUNICIPAL ADVISOR AFFILIATED COMPANIES**

BTSC and Ehlers Investment Partners, LLC ("EIP") are affiliate companies of Ehlers. BTSC is chartered by the State of Minnesota and authorized in Minnesota, Wisconsin, Colorado, and Illinois to transact the business of a limited purpose trust company. BTSC provides paying agent services to debt issuers. EIP is a Registered Investment Advisor with the Securities and Exchange Commission. EIP assists issuers with the investment of bond proceeds or investing other issuer funds. This includes escrow bidding agent services. Issuers, such as the City, have retained or may retain BTSC and/or EIP to provide these services. If hired, BTSC and/or EIP would be retained by the City under an agreement separate from Ehlers.

## **INDEPENDENT AUDITORS**

The basic financial statements of the City for the fiscal year ended December 31, 2022 have been audited by BerganKDV, Ltd., Minneapolis, Minnesota, independent auditors (the "Auditor"). The report of the Auditor, together with the basic financial statements, component units financial statements, and notes to the financial statements are attached hereto as "APPENDIX A – FINANCIAL STATEMENTS". The Auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Preliminary Official Statement.

## RISK FACTORS

The following is a description of possible risks to holders of the Bonds without weighting as to probability. This description of risks is not intended to be all-inclusive, and there may be other risks not now perceived or listed here.

**Taxes:** The Bonds will be general obligations of the City, the ultimate payment of which rests in the City's ability to levy and collect sufficient taxes to pay debt service should other revenue (special assessments) be insufficient. In the event of delayed billing, collection or distribution of property taxes, sufficient funds may not be available to the City in time to pay debt service when due.

**State Actions:** Many elements of local government finance, including the issuance of debt and the levy of property taxes, are controlled by state government. Future actions of the state may affect the overall financial condition of the City, the taxable value of property within the City, and the ability of the City to levy and collect property taxes.

**Future Changes in Law:** Various State and federal laws, regulations and constitutional provisions apply to the City and to the Bonds. The City can give no assurance that there will not be a change in or interpretation of any such applicable laws, regulations and provisions which would have a material effect on the City or the taxing authority of the City.

**Taconite Tax Loss:** The City, in common with other Iron Range Communities, receives grants and aids which are derived from special taconite taxes and which may be reduced in the event of production curtailment. Also, homeowners now receive substantial homestead credits from taxes derived from taconite sources which may be reduced with a cut in production. Reduction of grants, state aids and credits could increase the City's need for other local taxes.

**Iron Mining Economy:** The City is located on Minnesota's Iron Range, with an economy directly related to the mining industry, including processing and shipping of iron ore (pellets) for the nation's steel industry and for foreign shipments. Beginning in 1981, economic downturns reduced demand for steel and for taconite pellets, and some taconite plants curtailed operations and employment.

**Ratings; Interest Rates:** In the future, the City's credit rating may be reduced or withdrawn, or interest rates for this type of obligation may rise generally, either possibility resulting in a reduction in the value of the Bonds for resale prior to maturity.

**Tax Exemption:** If the federal government or the State of Minnesota taxes all or a portion of the interest on municipal obligations, directly or indirectly, or if there is a change in federal or state tax policy, the value of the Bonds may fall for purposes of resale. Noncompliance following the issuance of the Bonds with certain requirements of the Code and covenants of the Award Resolution may result in the inclusion of interest on the Bonds in gross income of the recipient for United States income tax purposes or in taxable net income of individuals, estates or trusts for State of Minnesota income tax purposes. No provision has been made for redemption of the Bonds, or for an increase in the interest rate on the Bonds, in the event that interest on the Bonds becomes subject to federal or State of Minnesota income taxation, retroactive to the date of issuance.

**Continuing Disclosure:** A failure by the City to comply with the Disclosure Undertaking for continuing disclosure (see "CONTINUING DISCLOSURE") will not constitute an event of default on the Bonds. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer, or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

**Levy Limits:** The State Legislature has periodically imposed limitations on the ability of municipalities to levy property taxes. While these limitations have expired, the potential exists for future legislation to limit the ability of local governments to levy property taxes. All previous limitations have not limited the ability to levy for the payment of debt service on bonded indebtedness. For more detailed information about Minnesota levy limits, contact the Minnesota Department of Revenue or Ehlers and Associates.

**State Economy; State Aids:** State of Minnesota cash flow problems could affect local governments and possibly increase property taxes.

**Book-Entry-Only System:** The timely credit of payments for principal and interest on the Bonds to the accounts of the Beneficial Owners of the Bonds may be delayed due to the customary practices, standing instructions or for other unknown reasons by DTC participants or indirect participants. Since the notice of redemption or other notices to holders of these obligations will be delivered by the City to DTC only, there may be a delay or failure by DTC, DTC participants or indirect participants to notify the Beneficial Owners of the Bonds.

**Economy:** A combination of economic, climatic, political or civil disruptions or terrorist actions outside of the control of the City, including loss of major taxpayers or major employers, could affect the local economy and result in reduced tax collections and/or increased demands upon local government. Real or perceived threats to the financial stability of the City may have an adverse effect on the value of the Bonds in the secondary market.

**Secondary Market for the Bonds:** No assurance can be given that a secondary market will develop for the purchase and sale of the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. The underwriters are not obligated to engage in secondary market trading or to repurchase any of the Bonds at the request of the owners thereof. Prices of the Bonds as traded in the secondary market are subject to adjustment upward and downward in response to changes in the credit markets and other prevailing circumstances. No guarantee exists as to the future market value of the Bonds. Such market value could be substantially different from the original purchase price.

**Bankruptcy:** The rights and remedies of the holders may be limited by and are subject to the provisions of federal bankruptcy laws, to other laws, or equitable principles that may affect the enforcement of creditors' rights, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against local governments. The opinion of Bond Counsel to be delivered with respect to the Bonds will be similarly qualified.

**Cybersecurity:** The City is dependent on electronic information technology systems to deliver services. These systems may contain sensitive information or support critical operational functions which may have value for unauthorized purposes. As a result, the electronic systems and networks may be targets of cyberattack. There can be no assurance that the City will not experience an information technology breach or attack with financial consequences that could have a material adverse impact.

On May 21, 2019, after an extensive investigation by cybersecurity professionals, the City discovered that, as a result of a malware infection, an unauthorized party may have obtained access to certain City servers that contained identifiable personal information of a limited number of individuals. While the City has no evidence that any information has been misused, out of an abundance of caution, the City provided notice, via U.S. Mail, to those whose personal information was on the impacted servers. The incident did not impact residential consumers. The City has taken this matter very seriously and continues to take significant measures to protect the information that it maintains.

The foregoing is intended only as a summary of certain risk factors attendant to an investment in the Bonds. In order for potential investors to identify risk factors and make an informed investment decision, potential investors should be thoroughly familiar with this entire Preliminary Official Statement and the Appendices hereto.

# VALUATIONS

## OVERVIEW

All non-exempt property is subject to taxation by local taxing districts. Exempt real property includes Indian lands, public property, and educational, religious and charitable institutions. Most personal property is exempt from taxation (except investor-owned utility mains, generating plants, etc.).

The valuation of property in Minnesota consists of three elements. (1) The estimated market value is set by city or county assessors. Not less than 20% of all real properties are to be appraised by local assessors each year. (2) The taxable market value is the estimated market value adjusted by all legislative exclusions. (3) The tax capacity (taxable) value of property is determined by class rates set by the State Legislature. The tax capacity rate varies according to the classification of the property. Tax capacity represents a percent of taxable market value.

The property tax rate for a local taxing jurisdiction is determined by dividing the total tax capacity or market value of property within the jurisdiction into the dollars to be raised from the levy. State law determines whether a levy is spread on tax capacity or market value. Major classifications and the percentages by which tax capacity is determined are:

Type of Property	2021/22	2022/23	2023/24
Residential homestead <sup>1</sup>	First \$500,000 - 1.00% Over \$500,000 - 1.25%	First \$500,000 - 1.00% Over \$500,000 - 1.25%	First \$500,000 - 1.00% Over \$500,000 - 1.25%
Agricultural homestead <sup>1</sup>	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$1,900,000 - 0.50% <sup>2</sup> Over \$1,900,000 - 1.00% <sup>2</sup>	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$1,890,000 - 0.50% <sup>2</sup> Over \$1,890,000 - 1.00% <sup>2</sup>	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$2,150,000 - 0.50% <sup>2</sup> Over \$2,150,000 - 1.00% <sup>2</sup>
Agricultural non-homestead	Land - 1.00% <sup>2</sup>	Land - 1.00% <sup>2</sup>	Land - 1.00% <sup>2</sup>
Seasonal recreational residential	First \$500,000 - 1.00% <sup>3</sup> Over \$500,000 - 1.25% <sup>3</sup>	First \$500,000 - 1.00% <sup>3</sup> Over \$500,000 - 1.25% <sup>3</sup>	First \$500,000 - 1.00% <sup>3</sup> Over \$500,000 - 1.25% <sup>3</sup>
Residential non-homestead:	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City <sup>4</sup> - 1.25% Affordable Rental: First \$174,000 - .75% Over \$174,000 - .25%	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City <sup>4</sup> - 1.25% Affordable Rental: First \$100,000 - .75% Over \$100,000 - .25%	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City <sup>4</sup> - 1.25% Affordable Rental: First \$100,000 - .75% Over \$100,000 - .25%
Industrial/Commercial/Utility <sup>5</sup>	First \$150,000 - 1.50% Over \$150,000 - 2.00%	First \$150,000 - 1.50% Over \$150,000 - 2.00%	First \$150,000 - 1.50% Over \$150,000 - 2.00%

<sup>1</sup> A residential property qualifies as "homestead" if it is occupied by the owner or a relative of the owner on the assessment date.

<sup>2</sup> Applies to land and buildings. Exempt from referendum market value tax.

<sup>3</sup> Exempt from referendum market value tax.

<sup>4</sup> Cities of 5,000 population or less and located entirely outside the seven-county metropolitan area and the adjacent nine-county area and whose boundaries are 15 miles or more from the boundaries of a Minnesota city with a population of over 5,000.

<sup>5</sup> The estimated market value of utility property is determined by the Minnesota Department of Revenue.

## CURRENT PROPERTY VALUATIONS

<b>2022/23 Economic Market Value<sup>1</sup></b>	<u><u>\$381,917,471<sup>2</sup></u></u>
<b>2023/24 Assessor's Estimated Market Value</b>	
Real Estate	\$410,401,600
Personal Property	81,600
Total Valuation	<u><u>\$410,483,200</u></u>
<b>2023/24 Net Tax Capacity</b>	
Real Estate	\$4,444,514
Personal Property	1,632
Net Tax Capacity	\$4,446,146
Less: Fiscal Disparities Contribution <sup>3</sup>	(316,626)
Taxable Net Tax Capacity	\$4,129,520
Plus: Fiscal Disparities Distribution <sup>3</sup>	310,870
Adjusted Taxable Net Tax Capacity	<u><u>\$4,440,390</u></u>

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<sup>1</sup> Most recent value available from the Minnesota Department of Revenue.

<sup>2</sup> According to the Minnesota Department of Revenue, the 2022/23 (only use if mixed year values) Assessor's Estimated Market Value (the "AEMV") for the City was about 97.08% of the actual selling prices of property sold in the City. The sales ratio was calculated by comparing the selling prices with the AEMV. Dividing the AEMV of real estate by the sales ratio and adding the AEMV of personal property and utility, railroads and minerals, if any, results in a 2022/23 Economic Market Value ("EMV") for the City of \$381,917,471.

<sup>3</sup> Each community in the taconite credit area contributes 40% of the growth in its commercial- industrial property tax base to an area pool which is then distributed among the municipalities on the basis of population, special needs, etc. Each governmental unit makes a contribution and receives a distribution--sometimes gaining and sometimes contributing net tax capacity for tax purposes.

## 2023/24 NET TAX CAPACITY BY CLASSIFICATION

	2023/24 Net Tax Capacity	Percent of Total Net Tax Capacity
Residential homestead	\$2,485,742	55.91%
Commercial/industrial	798,103	17.95%
Railroad operating property	160,466	3.61%
Non-homestead residential	941,964	21.19%
Commercial & residential seasonal/rec.	58,239	1.31%
Personal property	<u>1,632</u>	<u>0.04%</u>
 Total	 <u><u>\$4,446,146</u></u>	 <u><u>100.00%</u></u>

## TREND OF VALUATIONS

Levy Year	Assessor's Estimated Market Value	Assessor's Taxable Market Value	Net Tax Capacity <sup>1</sup>	Adjusted Taxable Net Tax Capacity <sup>2</sup>	Percent Increase/Decrease in Estimated Market Value
2019/20	\$261,101,700	\$232,505,764	\$2,710,338	\$2,751,827	10.31%
2020/21	287,585,800	260,107,575	3,085,704	3,076,405	10.14%
2021/22	291,418,600	263,588,788	3,069,226	2,713,475	1.33%
2022/23	369,323,600	345,629,426	3,966,647	3,937,672	26.73%
2023/24	410,483,200	388,149,862	4,446,146	4,440,390	11.14%

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<sup>1</sup> Net Tax Capacity is before fiscal disparities adjustments.

<sup>2</sup> Adjusted Taxable Net Tax Capacity is after fiscal disparities adjustments.

## LARGEST TAXPAYERS

Taxpayer	Type of Property	2023/24 Net Tax Capacity	Percent of City's Total Net Tax Capacity
Wisconsin Central	Railroad	\$171,653	3.86%
Shores Resort	Seasonal Recreational	144,719	3.25%
402 13 <sup>th</sup> Ave LLC	Apartments	74,446	1.67%
Lake View Memorial Hospital	Commercial	58,798	1.32%
2H Living Inc.	Apartments	58,485	1.32%
Miners Inc.	Commercial	56,050	1.26%
Seagren Properties LLC	Commercial	36,784	0.83%
Northshore Manufacturing	Industrial/Commercial	36,196	0.81%
Kwik Trip Inc.	Commercial	29,769	0.67%
Two Harbors Lodge LLC	Commercial	<u>27,152</u>	<u>0.61%</u>
Total		\$694,052	15.61%

City's Total 2023/24 Net Tax Capacity \$4,446,146

**Source:** Current Property Valuations, Net Tax Capacity by Classification, Trend of Valuations and Largest Taxpayers have been furnished by Lake County.

## DEBT

### DIRECT DEBT<sup>1</sup>

#### General Obligation Debt (see schedules following)

Total G.O. debt secured by special assessments and taxes (includes the Series 2024A Bonds)*	\$9,485,000
Total G.O. debt secured by taxes (includes the Series 2024B Certificates)*	2,340,000
Total G.O. debt secured by utility revenues	24,159,461
Total General Obligation Debt*	<u><u>\$35,984,461</u></u>

\*Preliminary, subject to change.

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<sup>1</sup> Outstanding debt is as of the dated date of the Obligations and Concurrent Obligations.



**Lease Obligations**

Issue Date	Original Amount	Purpose	Final Maturity	Principal Outstanding
12/1/22	\$196,330	Golf Equipment Lease**	12/1/27	<u>\$157,064</u>

\*\*The City will not own the equipment at the end of the lease, therefore it was found to be not material.

**DEBT PAYMENT HISTORY**

The City has no record of default in the payment of principal and interest on its debt.

**FUTURE FINANCING**

In addition to the Concurrent Obligations, the City has no current plans for additional financing in the next 12 months.

**DEBT LIMIT**

The statutory limit on net debt of Minnesota municipalities other than school districts or cities of the first class (Minnesota Statutes, Section 475.53, subd. 1) is 3% of the Assessor's Estimated Market Value of all taxable property within its boundaries. "Net debt" (is defined under Minnesota Statutes, Section 475.51, subd. 4) to mean the amount remaining after deducting from gross debt the amount of current revenues which are applicable within the current fiscal year to the payment of any debt and the aggregate principal of the following: (1) obligations issued for improvements payable wholly or partly from special assessments levied against benefitted property (includes the Series 2024A Bonds); (2) warrants or orders having no definite or fixed maturity; (3) obligations payable wholly from the income of revenue producing conveniences; (4) obligations issued to create or maintain a permanent improvement revolving fund; (5) obligations issued to finance any public revenue producing convenience; (6) funds held as sinking funds for payment of principal and interest on debt other than those deductible under Minnesota Statutes, Section 475.51, subd. 4; (7) obligations to repay energy conservation investment loans under Minnesota Statutes, Section 216C.37; (8) obligations issued to pay judgments against the City; and (9) all other obligations which are not to be included in computing the net debt of a municipality under the provisions of the law authorizing their issuance.

2023/24 Assessor's Estimated Market Value	\$410,483,200
Multiply by 3%	<u>0.03</u>
Statutory Debt Limit	\$12,314,496
Less: Long-Term Debt Outstanding Being Paid Solely from Taxes (includes the Series 2024B Certificates)*	<u>(2,340,000)</u>
Unused Debt Limit*	<u>\$9,974,496</u>

\*Preliminary, subject to change.

**City of Two Harbors, Minnesota**  
**Schedule of Bonded Indebtedness**  
**General Obligation Debt Secured by Special Assessments and Taxes**  
**(As of 05/30/2024)**

	Improvement Bonds 1) Series 2018A		Improvement Bonds 2) Series 2019B		Improvement Bonds Series 2021A		Improvement Bonds Series 2024A							
Dated	07/17/2018		07/24/2019		07/01/2021		05/30/2024							
Amount	\$1,960,000		\$1,110,000		\$2,775,000		\$4,605,000*							
Maturity	02/01		02/01		02/01		02/01							
Calendar Year Ending	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Estimated Interest	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Calendar Year Ending
2024	0	23,716	0	15,225	0	19,150	0	0	0	58,091	58,091	9,485,000	.00%	2024
2025	120,000	45,031	25,000	30,075	165,000	36,650	0	188,754	310,000	300,510	610,510	9,175,000	3.27%	2025
2026	130,000	40,031	25,000	29,325	170,000	33,300	240,000	157,085	565,000	259,741	824,741	8,610,000	9.23%	2026
2027	130,000	34,831	25,000	28,575	180,000	29,800	250,000	148,390	585,000	241,596	826,596	8,025,000	15.39%	2027
2028	135,000	30,206	25,000	27,825	180,000	26,200	260,000	139,660	600,000	223,891	823,891	7,425,000	21.72%	2028
2029	140,000	26,081	30,000	27,000	185,000	22,550	265,000	130,933	620,000	206,564	826,564	6,805,000	28.26%	2029
2030	140,000	21,881	135,000	24,525	190,000	18,800	275,000	122,091	740,000	187,298	927,298	6,065,000	36.06%	2030
2031	145,000	17,516	140,000	20,400	190,000	15,950	285,000	112,991	760,000	166,857	926,857	5,305,000	44.07%	2031
2032	150,000	12,906	145,000	16,125	195,000	13,976	290,000	103,648	780,000	146,655	926,655	4,525,000	52.29%	2032
2033	160,000	7,963	150,000	11,700	195,000	11,831	300,000	93,985	805,000	125,479	930,479	3,720,000	60.78%	2033
2034	165,000	2,681	155,000	7,125	195,000	9,491	315,000	83,759	830,000	103,056	933,056	2,890,000	69.53%	2034
2035			160,000	2,400	200,000	6,973	325,000	72,876	685,000	82,249	767,249	2,205,000	76.75%	2035
2036					200,000	4,323	335,000	61,324	535,000	65,646	600,646	1,670,000	82.39%	2036
2037					205,000	1,486	345,000	49,081	550,000	50,568	600,568	1,120,000	88.19%	2037
2038							360,000	36,125	360,000	36,125	396,125	760,000	91.99%	2038
2039							370,000	22,435	370,000	22,435	392,435	390,000	95.89%	2039
2040							390,000	7,703	390,000	7,703	397,703	0	100.00%	2040
	1,415,000	262,844	1,015,000	240,300	2,450,000	250,480	4,605,000	1,530,839	9,485,000	2,284,463	11,769,463			

\* Preliminary, subject to change.

- 1) This represents the \$1,960,000 Improvement portion of the \$2,090,000 General Obligation Bonds, Series 2018A.
- 2) This represents the \$1,110,000 Improvement portion of the \$1,925,000 General Obligation Bonds, Series 2019B.

**City of Two Harbors, Minnesota**  
**Schedule of Bonded Indebtedness**  
**General Obligation Debt Secured by Taxes**  
**(As of 05/30/2024)**

	Equipment Certs & Street Recon. Bonds 1) Series 2018A		Equipment Certificates 2) Series 2019B		Equipment Certificates Series 2021B		Equipment Certificates Series 2024B							
Dated Amount	07/17/2018 \$130,000		07/24/2019 \$815,000		07/01/2021 \$715,000		05/30/2024 \$1,265,000*							
Maturity	02/01		02/01		02/01		02/01							
Calendar Year Ending	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Estimated Interest	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Calendar Year Ending
2024	0	1,384	0	7,200	0	3,969	0	0	0	12,553	12,553	2,340,000	.00%	2024
2025	10,000	2,569	90,000	13,050	100,000	6,938	0	51,026	200,000	73,582	273,582	2,140,000	8.55%	2025
2026	10,000	2,169	95,000	10,275	100,000	4,938	165,000	40,580	370,000	57,961	427,961	1,770,000	24.36%	2026
2027	10,000	1,769	95,000	7,425	105,000	3,281	165,000	34,558	375,000	47,033	422,033	1,395,000	40.38%	2027
2028	5,000	1,494	100,000	4,500	105,000	1,969	175,000	28,569	385,000	36,531	421,531	1,010,000	56.84%	2028
2029	5,000	1,344	100,000	1,500	105,000	656	180,000	22,490	390,000	25,990	415,990	620,000	73.50%	2029
2030	5,000	1,194					185,000	16,331	190,000	17,525	207,525	430,000	81.62%	2030
2031	5,000	1,041					190,000	10,050	195,000	11,091	206,091	235,000	89.96%	2031
2032	10,000	806					205,000	3,434	215,000	4,240	219,240	20,000	99.15%	2032
2033	10,000	488							10,000	488	10,488	10,000	99.57%	2033
2034	10,000	163							10,000	163	10,163	0	100.00%	2034
	80,000	14,419	480,000	43,950	515,000	21,750	1,265,000	207,037	2,340,000	287,156	2,627,156			

\* Preliminary, subject to change.

- 1) This represents the \$130,000 Equipment Certificates and Street Reconstruction portions of the \$2,090,000 General Obligation Bonds, Series 2018A.
- 2) This represents the \$815,000 Equipment Certificates portion of the \$1,925,000 General Obligation Bonds, Series 2019B.

City of Two Harbors, Minnesota  
Schedule of Bonded Indebtedness  
General Obligation Debt Secured by Utility Revenues  
(As of 05/30/2024)

	Revenue Note Series 2009		Revenue Note Series 2010		Revenue Note Series 2014		Revenue Note Series 2015		Revenue Note 1) Series 2019A	
Dated	12/21/2009		05/11/2010		10/13/2014		08/06/2015		10/10/2018	
Amount	\$2,175,783		\$2,262,255		\$106,572		\$4,741,091		\$1,825,939	
Maturity	08/20		08/20		08/20		08/20		08/20	
Calendar Year Ending	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2024	121,000	9,809	126,000	6,543	7,500	231	237,000	15,030	91,000	7,310
2025	124,000	16,558	128,000	10,989	7,600	386	239,000	27,690	92,000	13,710
2026	128,000	13,424	130,000	8,858	7,600	310	242,000	25,300	93,000	12,790
2027	131,000	10,188	132,000	6,693	7,700	234	244,000	22,880	94,000	11,860
2028	134,000	6,876	134,000	4,496	7,800	157	247,000	20,440	95,000	10,920
2029	138,000	3,489	136,000	2,264	7,900	79	249,000	17,970	95,000	9,970
2030							252,000	15,480	96,000	9,020
2031							254,000	12,960	97,000	8,060
2032							257,000	10,420	98,000	7,090
2033							259,000	7,850	99,000	6,110
2034							262,000	5,260	100,000	5,120
2035							264,000	2,640	101,000	4,120
2036									103,000	3,110
2037									104,000	2,080
2038									104,000	1,040
2039										
2040										
2041										
2042										
2043										
2044										
2045										
2046										
2047										
2048										
2049										
2050										
2051										
	776,000	60,343	786,000	39,843	46,100	1,397	3,006,000	183,920	1,462,000	112,310

1) This reflects the final maturity schedule of the 2018 Clean Water Loan, originally dated October 10, 2018, which was amended on April 9, 2019.

--Continued on next page

City of Two Harbors, Minnesota  
Schedule of Bonded Indebtedness continued  
General Obligation Debt Secured by Utility Revenues  
(As of 05/30/2024)

	Revenue Note Series 2022		Revenue Note Series 2023A							Calendar Year Ending
Dated	09/19/2022		11/30/2023							
Amount	\$14,493,919		\$3,742,361							
Maturity	08/20		08/20							
Calendar Year Ending	Principal	Interest	Principal	Interest	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Calendar Year Ending
2024	411,000	113,150	74,361	19,786	1,067,861	171,859	1,239,720	23,091,600	4.42%	2024
2025	418,000	219,815	147,000	106,555	1,155,600	395,704	1,551,304	21,936,000	9.20%	2025
2026	424,000	213,219	152,000	102,285	1,176,600	376,186	1,552,786	20,759,400	14.07%	2026
2027	431,000	206,529	156,000	97,869	1,195,700	356,253	1,551,953	19,563,700	19.02%	2027
2028	438,000	199,727	161,000	93,338	1,216,800	335,954	1,552,754	18,346,900	24.06%	2028
2029	445,000	192,816	165,000	88,661	1,235,900	315,248	1,551,148	17,111,000	29.17%	2029
2030	452,000	185,794	170,000	83,867	970,000	294,161	1,264,161	16,141,000	33.19%	2030
2031	459,000	178,661	175,000	78,929	985,000	278,610	1,263,610	15,156,000	37.27%	2031
2032	466,000	171,418	180,000	73,845	1,001,000	262,773	1,263,773	14,155,000	41.41%	2032
2033	474,000	164,065	185,000	68,616	1,017,000	246,641	1,263,641	13,138,000	45.62%	2033
2034	481,000	156,585	191,000	63,242	1,034,000	230,207	1,264,207	12,104,000	49.90%	2034
2035	489,000	148,995	196,000	57,693	1,050,000	213,448	1,263,448	11,054,000	54.25%	2035
2036	496,000	141,278	202,000	52,000	801,000	196,388	997,388	10,253,000	57.56%	2036
2037	504,000	133,451	208,000	46,131	816,000	181,663	997,663	9,437,000	60.94%	2037
2038	512,000	125,498	214,000	40,089	830,000	166,627	996,627	8,607,000	64.37%	2038
2039	520,000	117,419	220,000	33,872	740,000	151,291	891,291	7,867,000	67.44%	2039
2040	528,000	109,213	226,000	27,481	754,000	136,695	890,695	7,113,000	70.56%	2040
2041	537,000	100,882	233,000	20,916	770,000	121,798	891,798	6,343,000	73.75%	2041
2042	545,000	92,408	240,000	14,147	785,000	106,555	891,555	5,558,000	76.99%	2042
2043	554,000	83,808	247,000	7,175	801,000	90,983	891,983	4,757,000	80.31%	2043
2044	563,000	75,065			563,000	75,065	638,065	4,194,000	82.64%	2044
2045	571,000	66,181			571,000	66,181	637,181	3,623,000	85.00%	2045
2046	580,000	57,171			580,000	57,171	637,171	3,043,000	87.40%	2046
2047	590,000	48,019			590,000	48,019	638,019	2,453,000	89.85%	2047
2048	599,000	38,708			599,000	38,708	637,708	1,854,000	92.33%	2048
2049	608,000	29,256			608,000	29,256	637,256	1,246,000	94.84%	2049
2050	618,000	19,662			618,000	19,662	637,662	628,000	97.40%	2050
2051	628,000	9,910			628,000	9,910	637,910	0	100.00%	2051
	14,341,000	3,398,704	3,742,361	1,176,499	24,159,461	4,973,016	29,132,477			

## OVERLAPPING DEBT<sup>1</sup>

Taxing District	2023/24 Adjusted Taxable Net Tax Capacity	% In City	Total G.O. Debt <sup>2</sup>	City's Proportionate Share
Lake County	\$31,450,417	13.1303%	\$8,725,000	\$1,145,619
I.S.D. No. 381 (Lake Superior)	42,361,574	9.7483%	42,435,000 <sup>3</sup>	<u>4,136,691</u>
City's Share of Total Overlapping Debt				<u><u>\$5,282,310</u></u>

## DEBT RATIOS

	G.O. Debt	Debt/Economic Market Value \$381,917,471	Debt/ Per Capita 3,698 <sup>4</sup>
Direct G.O. Debt Secured By:			
Special Assessments & Taxes*	\$9,485,000		
Taxes	2,340,000		
Utility Revenues	<u>24,159,461</u>		
Total General Obligation Debt*	\$35,984,461		
Less: G.O. Debt Paid Entirely from Revenues <sup>1</sup>	<u>(20,417,100)</u>		
Tax Supported General Obligation Debt*	\$15,567,361	4.08%	\$4,209.67
City's Share of Total Overlapping Debt	<u>\$5,282,310</u>	<u>1.38%</u>	<u>\$1,428.42</u>
Total*	<u><u>\$20,849,671</u></u>	<u><u>5.46%</u></u>	<u><u>\$5,638.09</u></u>

\*Preliminary, subject to change.

<sup>1</sup> Overlapping debt is as of the dated date of the Obligations and Concurrent Obligations. Only those taxing jurisdictions with general obligation debt outstanding are included in this section. It does *not* include non-general obligation debt, self-supporting general obligation revenue debt, short-term general obligation debt, or general obligation tax/aid anticipation certificates of indebtedness.

<sup>2</sup> Outstanding debt is based on information in Official Statements obtained on EMMA and the Municipal Advisor's records.

<sup>3</sup> Minnesota School Districts may qualify for aid from the State of Minnesota through the Debt Service Equalization Formula, School Building Bond Agricultural Credit and Long Term Facilities Maintenance Revenue programs. While some of the districts listed may receive these aids, Ehlers has not attempted to estimate the portion of debt service payments that would be financed by state aids for the purposes of the Obligations and Concurrent Obligations.

<sup>4</sup> Estimated 2022 population.

## TAX LEVIES, COLLECTIONS AND RATES

### TAX LEVIES AND COLLECTIONS

Tax Year	Net Tax Levy <sup>1</sup>	Total Collected Following Year	Collected to Date	% Collected
2019/20	\$2,029,213	\$1,978,631	\$2,026,877	99.88%
2020/21	2,184,468	2,148,180	2,182,119	99.89%
2021/22	2,244,758	2,201,583	2,237,285	99.67%
2022/23	2,301,901	2,264,064	2,264,064	98.36%
2023/24	2,349,602	In process of collection		

Property taxes are collected in two installments in Minnesota--the first by May 15 and the second by October 15.<sup>2</sup> Mobile home taxes are collectible in full by August 31. Minnesota Statutes require that levies (taxes and special assessments) for debt service be at least 105% of the actual debt service requirements to allow for delinquencies.

### TAX CAPACITY RATES<sup>3</sup>

	2019/20	2020/21	2021/22	2022/23	2023/24
Lake County	53.734%	54.558%	53.903%	40.139%	35.949%
City of Two Harbors	80.284%	72.535%	81.394%	61.595%	56.445%
I.S.D. No. 381 (Lake Superior)	14.309%	14.217%	14.240%	9.988%	8.802%
ARDC	0.170%	0.168%	0.170%	0.133%	0.128%
Lake County HRA	0.622%	0.586%	0.564%	0.869%	1.176%
Regional Rail Authority	0.868%	0.833%	0.859%	0.766%	0.756%

#### *Referendum Market Value Rates:*

I.S.D. No. 381 (Lake Superior)	0.09656%	0.08546%	0.08200%	0.06139%	0.05615%
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**Source:** Tax Levies and Collections and Tax Capacity Rates have been furnished by Lake County.

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<sup>1</sup> This reflects the Final Levy Certification of the City after all adjustments have been made.

<sup>2</sup> Second half tax payments on agricultural property are due on November 15th of each year.

<sup>3</sup> After reduction for state aids. Does not include the statewide general property tax against commercial/industrial, non-homestead resorts and seasonal recreational residential property.

## THE ISSUER

### CITY GOVERNMENT

The City was organized as a municipality in 1907. The City operates under a home rule charter form of government consisting of a seven-member City Council of which the Mayor is a voting member. The City Administrator, Finance Director and City Clerk are responsible for administrative details and financial records.

### EMPLOYEES; PENSIONS; UNIONS

The City currently has 50 full-time, two (2) part-time, and three (3) seasonal employees. All full-time and certain part-time employees of the City are covered by defined benefit pension plans administered by the Public Employee Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing multiple-employer retirement plans. PERA members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security. See the Notes to Financial Statements in Appendix A for a detailed description of the Plans.

#### Recognized and Certified Bargaining Units

<b>Bargaining Unit</b>	<b>Expiration Date of Current Contract</b>
AFSCME Local 1123	December 31, 2023
IBEW Local No. 31	December 31, 2023
Teamsters General Local Union No. 346	December 31, 2023
Supervisory Employees Association	December 31, 2023
Confidential Employees Association	December 31, 2023

#### Status of Contracts

Contracts which expired on December 31, 2023 are currently in negotiations.

### POST EMPLOYMENT BENEFITS

The City has obligations for some post-employment benefits for its employees. Accounting for these obligations is dictated by Governmental Accounting Standards Board Statement No. 75 (GASB 75). The City's most recent Audited Financial Statements (Audit) shows a total OPEB liability of \$2,490,945 as of December 31, 2022. The City has been funding these obligations on a pay-as-you-go basis.

**Source:** The City's most recent Audit.

### LITIGATION

There is no litigation threatened or pending questioning the organization or boundaries of the City or the right of any of its officers to their respective offices or in any manner questioning their rights and power to execute and deliver the Obligations and Concurrent Obligations or otherwise questioning the validity of the Obligations and Concurrent Obligations.



## MUNICIPAL BANKRUPTCY

Municipalities are prohibited from filing for bankruptcy under Chapter 11 (reorganization) or Chapter 7 (liquidation) of the U.S. Bankruptcy Code (11 U.S.C. §§ 101-1532) (the "Bankruptcy Code"). Instead, the Bankruptcy Code permits municipalities to file a petition under Chapter 9 of the Bankruptcy Code, but only if certain requirements are met. These requirements include that the municipality must be "specifically authorized" under State law to file for relief under Chapter 9. For these purposes, "State law" may include, without limitation, statutes of general applicability enacted by the State legislature, special legislation applicable to a particular municipality, and/or executive orders issued by an appropriate officer of the State's executive branch.

As of the date hereof, Minnesota Statutes, Section 471.831, authorizes municipalities to file for bankruptcy relief under Chapter 9 of the Bankruptcy Code. A municipality is defined in United States Code, title 11, section 101, as amended through December 31, 1996, but limited to a county, statutory or home rule charter city, or town; or a housing and redevelopment authority, economic development authority, or rural development financing authority established under Chapter 469, a home rule charter or special law.

### FUNDS ON HAND (as of April 4, 2024)

<b>Fund</b>	<b>Total Cash and Investments</b>
General	\$2,007,151
Special Revenue	2,159,128
Debt Service	345,500
Capital Projects	2,575,581
Enterprise Funds	<u>24,357,564</u>
Total Funds on Hand	<u><u>\$31,444,925</u></u>

## ENTERPRISE FUNDS

Revenues available for debt service on the City's enterprise funds have been as follows as of December 31 each year:

	<b>2020 Audited</b>	<b>2021 Audited</b>	<b>2022 Audited</b>
<b>Water<sup>1</sup></b>			
Total Operating Revenues	\$1,135,141	\$1,311,071	\$1,290,917
Less: Operating Expenses	<u>(1,276,614)</u>	<u>(1,361,141)</u>	<u>(1,325,568)</u>
Operating Income	(\$141,473)	(\$50,070)	(\$34,651)
Plus: Depreciation	<u>403,699</u>	<u>397,943</u>	<u>407,392</u>
Revenues Available for Debt Service	<u><u>\$262,226</u></u>	<u><u>\$347,873</u></u>	<u><u>\$372,741</u></u>
<b>Sewer<sup>1</sup></b>			
Total Operating Revenues	\$1,385,907	\$1,396,653	\$1,412,500
Less: Operating Expenses	<u>(1,542,595)<sup>2</sup></u>	<u>(1,451,551)</u>	<u>(1,473,239)</u>
Operating Income	(\$156,688)	(\$54,898)	(\$60,739)
Plus: Depreciation	<u>386,187</u>	<u>390,291</u>	<u>395,548</u>
Revenues Available for Debt Service	<u><u>\$229,499</u></u>	<u><u>\$335,393</u></u>	<u><u>\$334,809</u></u>
<b>Electric</b>			
Total Operating Revenues	\$1,871,037	\$1,872,125	\$2,254,588
Less: Operating Expenses	<u>(1,044,174)</u>	<u>(1,151,048)</u>	<u>(1,331,909)</u>
Operating Income	\$826,863	\$721,077	\$922,679
Plus: Depreciation	<u>153,992</u>	<u>149,596</u>	<u>149,902</u>
Revenues Available for Debt Service	<u><u>\$980,855</u></u>	<u><u>\$870,673</u></u>	<u><u>\$1,072,581</u></u>
<b>Gas<sup>3</sup></b>			
Total Operating Revenues	\$765,690	\$448,488	\$853,164
Less: Operating Expenses	<u>(684,751)</u>	<u>(671,911)</u>	<u>(722,163)</u>
Operating Income	\$80,939	(\$223,423)	\$131,001
Plus: Depreciation	<u>52,476</u>	<u>48,890</u>	<u>46,060</u>
Revenues Available for Debt Service	<u><u>\$133,415</u></u>	<u><u>(\$174,533)</u></u>	<u><u>\$177,061</u></u>

Continued on next page

<sup>1</sup> In addition to the revenues shown, the City makes annual, planned contributions to the Water and Sewer funds from its Local Sales Tax Fund.

<sup>2</sup> This increase in sewer fund operating expenses was partially due to the additional \$107,000 in salaries from 2019 to 2020 of 2 new employees hired in 2019. Also, OPEB increased by approximately \$109,000 from 2019 to 2020.

<sup>3</sup> In Fiscal Year 2021, the Gas Fund operating revenues dropped due to the high cost of the City purchasing natural gas from the open market. The City absorbed most of the cost increase, not passing on to its customers and allowed customers extra time to pay utility bills for that year.

**ENTERPRISE FUNDS continued**

	<b>2020 Audited</b>	<b>2021 Audited</b>	<b>2022 Audited</b>
<b>Municipal Liquor Store</b>			
Total Operating Revenues	\$749,602	\$828,774	\$800,376
Less: Operating Expenses	<u>(486,226)</u>	<u>(525,800)</u>	<u>(553,146)</u>
Operating Income	\$263,376	\$302,974	\$247,230
Plus: Depreciation	<u>7,513</u>	<u>7,513</u>	<u>13,629</u>
Revenues Available for Debt Service	<u><u>\$270,889</u></u>	<u><u>\$310,487</u></u>	<u><u>\$260,859</u></u>
<b>Stormwater</b>			
Total Operating Revenues	\$166,129	\$164,462	\$173,705
Less: Operating Expenses	<u>(69,434)</u>	<u>(79,845)</u>	<u>(49,046)</u>
Operating Income	\$96,695	\$84,617	\$124,659
Plus: Depreciation	<u>47,341</u>	<u>47,439</u>	<u>33,036</u>
Revenues Available for Debt Service	<u><u>\$144,036</u></u>	<u><u>\$132,056</u></u>	<u><u>\$157,695</u></u>
<b>Campground</b>			
Total Operating Revenues	\$758,515	\$841,462	\$811,295
Less: Operating Expenses	<u>(352,906)</u>	<u>(330,499)</u>	<u>(299,241)</u>
Operating Income	\$405,609	\$510,963	\$512,054
Plus: Depreciation	<u>53,183</u>	<u>67,037</u>	<u>64,441</u>
Revenues Available for Debt Service	<u><u>\$458,792</u></u>	<u><u>\$578,000</u></u>	<u><u>\$576,495</u></u>

**SUMMARY GENERAL FUND INFORMATION**

The following are summaries of the revenues and expenditures and fund balances for the City's General Fund. These summaries are not purported to be the complete audited financial statements of the City, and potential purchasers should read the included financial statements in their entirety for more complete information concerning the City. Copies of the complete statements are available upon request. Appendix A includes the 2022 audited financial statements.

COMBINED STATEMENT	FISCAL YEAR ENDING DECEMBER 31				
	2020 Audited <sup>1</sup>	2021 Audited	2022 Audited	2023 Revised Budget <sup>2</sup>	2024 Adopted Budget <sup>3</sup>
<b>Revenues</b>					
Property taxes	\$1,819,700	\$1,899,444	\$2,044,614	\$2,499,602	\$2,548,671
Special assessments	386	0	12	0	0
Licenses and permits	41,666	53,930	53,458	94,950	68,800
Intergovernmental	2,456,930	2,475,868	2,856,603	2,253,788	2,275,221
Charges for services	193,857	194,607	158,474	171,500	167,550
Fine and forfeitures	12,393	7,472	5,279	5,150	8,400
Investment income	13,161	2,215	(366)	9,300	25,000
Other	10,710	50,344	57,645	60,050	66,850
<b>Total Revenues</b>	<b>\$4,548,803</b>	<b>\$4,683,880</b>	<b>\$5,175,719</b>	<b>\$5,094,340</b>	<b>\$5,160,492</b>
<b>Expenditures</b>					
Current:					
General government	\$652,453	\$629,872	\$726,193	\$745,350	\$896,900
Public safety	1,386,220	1,438,749	1,649,038	1,695,885	1,929,800
Public works	1,287,778	1,348,997	1,320,128	1,405,450	1,765,350
Culture and recreation	155,380	169,059	206,981	209,750	294,550
Health and welfare	96,959	112,308	120,368	139,650	137,700
Miscellaneous	108,308	153,035	175,251	197,300	234,400
<b>Total Expenditures</b>	<b>\$3,687,098</b>	<b>\$3,852,020</b>	<b>\$4,197,959</b>	<b>\$4,393,385</b>	<b>\$5,258,700</b>
<b>Excess of revenues over (under) expenditures</b>	<b>\$861,705</b>	<b>\$831,860</b>	<b>\$977,760</b>	<b>\$700,955</b>	<b>(\$98,208)</b>
<b>Other Financing Sources (Uses)</b>					
Proceeds from sale of capital asset	\$18,179	\$21,245	\$0	\$0	\$0
Insurance proceeds	500	0	11,000	0	0
Transfers in	359,120	385,634	430,967	311,198	613,744
Transfers (out)	(1,474,859)	(1,325,050)	(725,250)	(979,292)	(336,300)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,097,060)</b>	<b>(918,171)</b>	<b>(283,283)</b>	<b>(668,094)</b>	<b>277,444</b>
<b>Net changes in Fund Balances</b>	<b>(\$235,355)</b>	<b>(\$86,311)</b>	<b>\$694,477</b>	<b>\$32,861</b>	<b>\$179,236</b>
General Fund Balance January 1	\$2,328,301	\$2,092,946	\$2,006,635		
Prior Period Adjustment	0	0	0		
Residual Equity Transfer in (out)	0	0	0		
General Fund Balance December 31	\$2,092,946	\$2,006,635	\$2,701,112		
<b>DETAILS OF DECEMBER 31 FUND BALANCE</b>					
Assigned	\$17,292	\$20,571	\$26,853		
Unassigned	2,075,654	1,986,064	2,674,259		
<b>Total</b>	<b>\$2,092,946</b>	<b>\$2,006,635</b>	<b>\$2,701,112</b>		

<sup>1</sup> The deficit after net transfers was due to a planned adjustment at the end of Fiscal Year 2020 to decrease the fund balance to slightly above the City's new fund balance threshold to support upcoming projects and to grow reserves in the Capital Equipment Fund. This is more in line with the City's new fund balance policy suggesting a range of 40-50%. Prior to this transfer-out the City had a 67% fund balance.

<sup>2</sup> The 2023 budget was adopted on December 5, 2022 and revised on March 25, 2024.

<sup>3</sup> The 2024 budget was adopted on December 11, 2023.

# GENERAL INFORMATION

## LOCATION

The City, with a 2020 U.S. Census population of 3,633 and a 2022 population estimate of 3,698, and comprising an area of 3.30 square miles, is located approximately 20 miles northeast of Duluth, Minnesota.

## LARGER EMPLOYERS<sup>1</sup>

Larger employers in the City include the following:

<b>Firm</b>	<b>Type of Business/Product</b>	<b>Estimated No. of Employees</b>
Lake County	County government and services	147
St. Luke's Hospital and Clinic	Hospital and clinic	131
Ecumen Nursing Home	Residential care homes	78
Super One Foods	Grocers-retail	70
Waterview Shores	Residential home care	60 <sup>2</sup>
The City	Municipal government and services	55
Builtrite Handlers-Attachments	Recycling equipment- manufacturers	54
Black Woods Bar & Grill	Full-service restaurant	50
Burlington Bay Lakehomes at Superior Shores <sup>3</sup>	Resort, restaurant and conference center	49
Accelerated Payments	Custom computer programming services	35

**Source:** Data Axle Reference Solutions, written and telephone survey, and the Minnesota Department of Employment and Economic Development.

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<sup>1</sup> This does not purport to be a comprehensive list and is based on available data obtained through a survey of individual employers, as well as the sources identified above.

<sup>2</sup> Total number of employees includes seasonal employees.

<sup>3</sup> Part of Odyssey Resorts with Grand Superior Lodge & Lake Homes that has multiple locations on Lake Superior.

**BUILDING PERMITS** (as of April 4, 2024)

	2020	2021	2022	2023	2024
<u>New Single Family Homes</u>					
No. of building permits	1	4	2	3	19
Valuation	\$240,000	\$710,342	\$588,700	\$757,300	\$362,745
<u>New Commercial/Industrial</u>					
No. of building permits	1	2	0	1	0
Valuation	\$111,689	\$975,000	\$0	\$310,720	\$0
<u>All Building Permits</u> <i>(including additions and remodelings)</i>					
No. of building permits	90	92	74	87	19
Valuation	\$2,136,248	\$2,813,634	\$2,250,376	\$15,972,935	\$362,745

**Source:** The City.

## U.S. CENSUS DATA

### Population Trend: The City

2010 U.S. Census population	3,745
2020 U.S. Census population	3,633
Percent of Change 2010 - 2020	-2.99%

2022 State Demographer Population Estimate	3,698
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### Income and Age Statistics

	The City	Lake County	State of Minnesota	United States
2022 per capita income	\$32,222	\$39,930	\$44,947	\$41,261
2022 median household income	\$63,565	\$73,860	\$74,313	\$75,149
2022 median family income	\$70,806	\$90,540	\$107,072	\$92,646
2022 median gross rent	\$713	\$837	\$1,178	\$1,268
2022 median value owner occupied units	\$171,300	\$200,900	\$286,800	\$281,900
2022 median age	42.5 yrs.	49.7 yrs.	38.5 yrs.	38.5 yrs.

	State of Minnesota	United States
City % of 2022 per capita income	71.69%	78.09%
City % of 2022 median family income	66.13%	76.43%

### Housing Statistics

	<u>The City</u>		Percent of Change
	2020	2022	
All Housing Units	1,588	1,591	0.19%

**Source:** 2010 and 2020 Census of Population and Housing, and 2022 American Community Survey (Based on a five-year estimate), U.S. Census Bureau (<https://data.census.gov>), and Minnesota State Demographer (<https://mn.gov/admin/demography/data-by-topic/population-data/our-estimates/>).

## EMPLOYMENT/UNEMPLOYMENT DATA

Rates are not compiled for individual communities within counties.

Year	<u>Average Employment</u>		<u>Average Unemployment</u>	
	Lake County	Lake County	Lake County	State of Minnesota
2020	4,970	7.3%	7.3%	6.3%
2021	5,187	3.8%	3.8%	3.7%
2022	5,096	4.7%	4.7%	2.7%
2023	5,096	3.9%	3.9%	2.8%
2024, March	4,961	3.2%	3.2%	3.2%

**Source:** Minnesota Department of Employment and Economic Development.

**FINANCIAL STATEMENTS**

Potential purchasers should read the included financial statements in their entirety for more complete information concerning the City's financial position. Such financial statements have been audited by the Auditor, to the extent and for the periods indicated thereon. The City has not requested or engaged the Auditor to perform, and the Auditor has not performed, any additional examination, assessments, procedures or evaluation with respect to such financial statements since the date thereof or with respect to this Preliminary Official Statement, nor has the City requested that the Auditor consent to the use of such financial statements in this Preliminary Official Statement. Although the inclusion of the financial statements in this Preliminary Official Statement is not intended to demonstrate the fiscal condition of the City since the date of the financial statements, in connection with the issuance of the Bonds, the City represents that there have been no material adverse change in the financial position or results of operations of the City, nor has the City incurred any material liabilities, which would make such financial statements misleading.

Copies of the complete audited financial statements for the past three years and the current budget are available upon request from Ehlers.



**City of Two Harbors  
Lake County, Minnesota**

**Basic Financial Statements**

**December 31, 2022**

**City of Two Harbors  
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**City of Two Harbors  
Elected Officials  
December 31, 2022**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Robin Glaser	Alderman At-Large	December 31, 2024
Jackie Rennwald	Alderman At-Large	December 31, 2022
Miles Woodruff	Alderman First Ward	December 31, 2022
Benjamin Redden	Acting Mayor, Alderman Second Ward	December 31, 2022
Catherine Erickson	Alderman Third Ward	December 31, 2024
Derrick Passe	Alderman Fourth Ward	December 31, 2024

## Independent Auditor's Report

Honorable Mayor and Members  
of the City Council  
City of Two Harbors  
Two Harbors, Minnesota

### **Report on the Audit of the Financial Statements**

#### **Opinions**

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of City of Two Harbors, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise City of Two Harbors' basic financial statements as listed in the Table of Contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of City of Two Harbors, as of December 31, 2022, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of City of Two Harbors and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### **Responsibilities of Management for the Financial Statements**

The City of Two Harbors' management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

## **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and Required Supplementary information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Two Harbors' basic financial statements. The supplementary information as presented in table of contents and the Schedule of Expenditures of Federal Awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2023, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.

**BerganKDV, Ltd.**

Minneapolis, Minnesota  
April 17, 2023

## **City of Two Harbors Management's Discussion and Analysis**

Management of the City of Two Harbors (the "City") has prepared this narrative and analysis of the financial activities of the City for the year ended December 31, 2022, to assist users of this report to gain a better understanding of the City's financial health and history. The information presented in this section should be considered in conjunction with that presented in the notes to financial statements.

### **FINANCIAL HIGHLIGHTS**

- The total net position of the city was \$67,456,713 as of December 31, 2022. The net position of the governmental activities was \$15,531,824. The net position of the business-type activities was \$51,924,889.
- The City's governmental funds reported a total combined ending fund balance of \$9,107,713, an increase of \$448,103 from 2021.
- The General Fund unassigned fund balance was \$2,674,259 or 63.7% of total General Fund expenditures for 2022, compared to \$1,986,064 or 51.6% for 2021.
- The Proprietary Fund unrestricted net position was \$18,369,490 or 319% of total Proprietary Fund operating expenses for 2022, compared to \$17,048,812, or 306% of the same for 2021.
- The City's total debt increased by \$10,489 during the current year. New debt issuances included \$811,340 for the Wastewater Treatment Plant Project, the debt issuance was offset by principal payments made in 2022.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis are 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 financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

### **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, deferred outflows, liabilities, and deferred inflows. The difference between assets plus deferred outflows and liabilities plus deferred inflows is 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.



## **City of Two Harbors Management's Discussion and Analysis**

### **GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)**

The Statement of Activities presents information showing how the government's net position changed during the most recent 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 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 revenues (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, public works, culture and recreation, health and welfare, economic development, and airport. The business-type activities of the city include water, sewer, electric, gas, municipal liquor, stormwater and the campground.

The government-wide financial statements include the City and its two component units, Two Harbors Development Fund and the Two Harbors Economic Development Authority.

The government-wide financial statements can be found on pages 19-21 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 spendable resources available at the end of the 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 of 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.

## **City of Two Harbors Management's Discussion and Analysis**

### **FUND FINANCIAL STATEMENTS (CONTINUED)**

#### **Governmental Funds (Continued)**

The City maintains fifteen individual governmental funds. Of these funds, three are major funds. 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, Golf Fund and the Street Improvement Fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in Supplementary Information section of this report beginning on page 95.

The City adopts an annual appropriated budget for its General Fund and Golf Fund. A budgetary comparison statement has been provided for the General Fund and Golf Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 22-29 of this report.

#### **Proprietary Funds**

The City maintains one type of proprietary fund. 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, sewer, electric, gas, municipal liquor, stormwater, and campground.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds' financial statements provide separate information for the water, sewer, electric, gas, municipal liquor, stormwater, and campground, all of which are considered major funds of the City.

The basic proprietary fund financial statements can be found on pages 30-35 of this report.

#### **Fiduciary Funds**

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The City maintains one private purpose trust fund. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

### **NOTES TO 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 financial statements can be found on pages 37-74 of this report.

## **City of Two Harbors Management's Discussion and Analysis**

### **REQUIRED SUPPLEMENTAL INFORMATION**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. The required supplemental information can be found on pages 76-91 of this report.

The combining statements referred to earlier, in connection with non-major governmental funds and internal service funds, are presented immediately following the required supplemental information beginning on page 95.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

#### **Statement of Net Position**

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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$67,456,713 at the close of the year.

Of the City's total net position, 36% is unrestricted, 2% is restricted, and another 62% reflects the City's investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is 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 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. A portion of the City's net position (2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$24,419,357) may be used to meet the government's ongoing obligations to citizens and creditors.

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**City of Two Harbors  
Management's Discussion and Analysis**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

**Statement of Net Position (continued)**

The following table presents the primary government's net position as of December 31, 2022, with a comparison to 2021.

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
<b>Assets</b>						
Current and other assets	\$ 11,225,668	\$ 10,270,761	\$ 26,113,664	\$ 22,398,443	\$ 37,339,332	\$ 32,669,204
Capital assets	15,023,627	15,627,341	41,843,451	28,618,178	56,867,078	44,245,519
Total assets	<u>\$ 26,249,295</u>	<u>\$ 25,898,102</u>	<u>\$ 67,957,115</u>	<u>\$ 51,016,621</u>	<u>\$ 94,206,410</u>	<u>\$ 76,914,723</u>
<b>Deferred Outflows of Resources</b>						
Related to OPEB	\$ 41,066	\$ 66,443	\$ 45,368	\$ 69,791	\$ 86,434	\$ 136,234
Related to fire relief pensions	97,823	106,573	-	-	97,823	106,573
Related to city pensions	2,019,239	1,251,797	709,180	782,841	2,728,419	2,034,638
Total deferred outflows of resources	<u>\$ 2,158,128</u>	<u>\$ 1,424,813</u>	<u>\$ 754,548</u>	<u>\$ 852,632</u>	<u>\$ 2,912,676</u>	<u>\$ 2,277,445</u>
<b>Liabilities</b>						
Long-term liabilities outstanding	\$ 11,790,666	\$ 9,905,126	\$ 12,153,313	\$ 3,003,121	\$ 23,943,979	\$ 12,908,247
Other liabilities	842,058	765,693	4,590,541	11,286,756	5,432,599	12,052,449
Total liabilities	<u>\$ 12,632,724</u>	<u>\$ 10,670,819</u>	<u>\$ 16,743,854</u>	<u>\$ 14,289,877</u>	<u>\$ 29,376,578</u>	<u>\$ 24,960,696</u>
<b>Deferred Inflows of Resources</b>						
Related to leases	\$ 6,609	\$ -	\$ -	\$ -	\$ 6,609	\$ -
Related to fire relief pensions	172,586	156,986	-	-	172,586	156,986
Related to city pensions	63,680	1,700,259	42,920	1,029,721	106,600	2,729,980
Total deferred inflows of resources	<u>\$ 242,875</u>	<u>\$ 1,857,245</u>	<u>\$ 42,920</u>	<u>\$ 1,029,721</u>	<u>\$ 285,795</u>	<u>\$ 2,886,966</u>
<b>Net Position</b>						
Net investment in capital assets	\$ 8,419,930	\$ 8,808,537	\$ 33,189,564	\$ 19,236,218	\$ 41,609,494	\$ 28,044,755
Restricted	1,062,027	2,013,955	365,835	264,625	1,427,862	2,278,580
Unrestricted	6,049,867	3,972,359	18,369,490	17,048,812	24,419,357	21,021,171
Total net position	<u>\$ 15,531,824</u>	<u>\$ 14,794,851</u>	<u>\$ 51,924,889</u>	<u>\$ 36,549,655</u>	<u>\$ 67,456,713</u>	<u>\$ 51,344,506</u>

The City's total net position increased by \$16,112,207 in 2022, and total assets increased \$17,291,687. This can be attributed to an increase in capital projects in 2022. The 2021-2022 Street Improvement Project completed construction in Fall 2022, project costs were \$807,100 in 2022. The Wastewater Treatment Plant project had its first full year of construction in 2022, total project costs were \$12,262,450 in 2022, this is a \$33.5 million project to be completed in 2024. Total liabilities increased \$4,415,882 mostly attributable to an increase in net pension liability of \$3,550,588 in comparison to 2021. Accounts payable and contracts payable increased \$1,730,040 due to the Wastewater Treatment Plant project.

**City of Two Harbors  
Management's Discussion and Analysis**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

**Statement of Activities**

To give users a better understanding of the sources and uses of the City's net position, the following table presents a summary of revenues, expenses, and changes in net position:

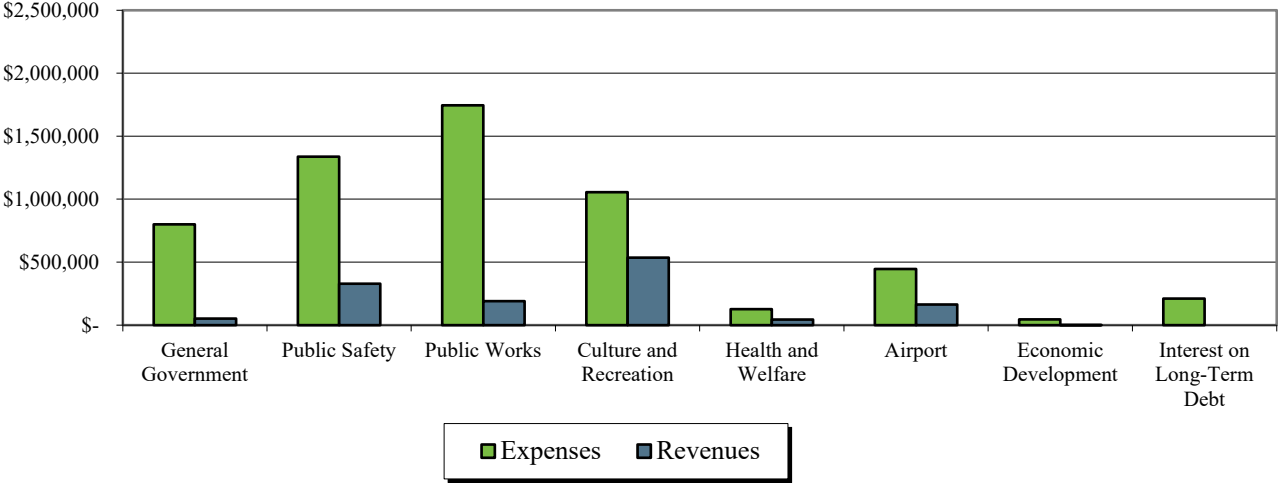
	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 880,581	\$ 935,374	\$ 14,667,854	\$ 14,663,297	\$ 15,548,435	\$ 15,598,671
Operating grants and contributions	381,805	288,647	-	21,900	381,805	310,547
Capital grants and contributions	789,229	89,859	14,008,550	14,102	14,797,779	103,961
General revenues						
Taxes	3,105,767	2,810,612	-	-	3,105,767	2,810,612
General state aids	2,628,395	2,356,846	9,434	2,609	2,637,829	2,359,455
Investment income	21,610	6,480	(89,752)	38,159	(68,142)	44,639
Other general revenue	68,812	61,625	-	-	68,812	61,625
Gain on sale of asset	-	-	-	7,204	-	7,204
Total revenues	<u>7,876,199</u>	<u>6,549,443</u>	<u>28,596,086</u>	<u>14,747,271</u>	<u>36,472,285</u>	<u>21,296,714</u>
<b>Expenses</b>						
General government	920,711	800,010	-	-	920,711	800,010
Public safety	1,662,223	1,344,829	-	-	1,662,223	1,344,829
Public works	3,157,807	1,738,178	-	-	3,157,807	1,738,178
Culture and recreation	1,006,772	1,055,366	-	-	1,006,772	1,055,366
Health and welfare	139,034	126,467	-	-	139,034	126,467
Airport	460,959	445,608	-	-	460,959	445,608
Economic development	167	45,434	-	-	167	45,434
Interest on long-term debt	142,991	209,628	-	-	142,991	209,628
Water	-	-	1,400,876	1,445,250	1,400,876	1,445,250
Sewage disposal	-	-	1,489,910	1,469,185	1,489,910	1,469,185
Electric	-	-	3,264,329	3,582,436	3,264,329	3,582,436
Gas	-	-	3,525,643	3,655,482	3,525,643	3,655,482
Liquor	-	-	2,754,984	2,783,030	2,754,984	2,783,030
Stormwater	-	-	60,573	94,032	60,573	94,032
Campground	-	-	373,099	387,515	373,099	387,515
Total expenses	<u>7,490,664</u>	<u>5,765,520</u>	<u>12,869,414</u>	<u>13,416,930</u>	<u>20,360,078</u>	<u>19,182,450</u>
Transfers	351,438	233,300	(351,438)	(233,300)	-	-
Change in net position	736,973	1,017,223	15,375,234	1,097,041	16,112,207	2,114,264
<b>Net Position - Beginning</b>	<u>14,794,851</u>	<u>13,777,628</u>	<u>36,549,655</u>	<u>35,452,614</u>	<u>51,344,506</u>	<u>49,230,242</u>
<b>Net Position - Ending</b>	<u>\$ 15,531,824</u>	<u>\$ 14,794,851</u>	<u>\$ 51,924,889</u>	<u>\$ 36,549,655</u>	<u>\$ 67,456,713</u>	<u>\$ 51,344,506</u>

**City of Two Harbors  
Management's Discussion and Analysis**

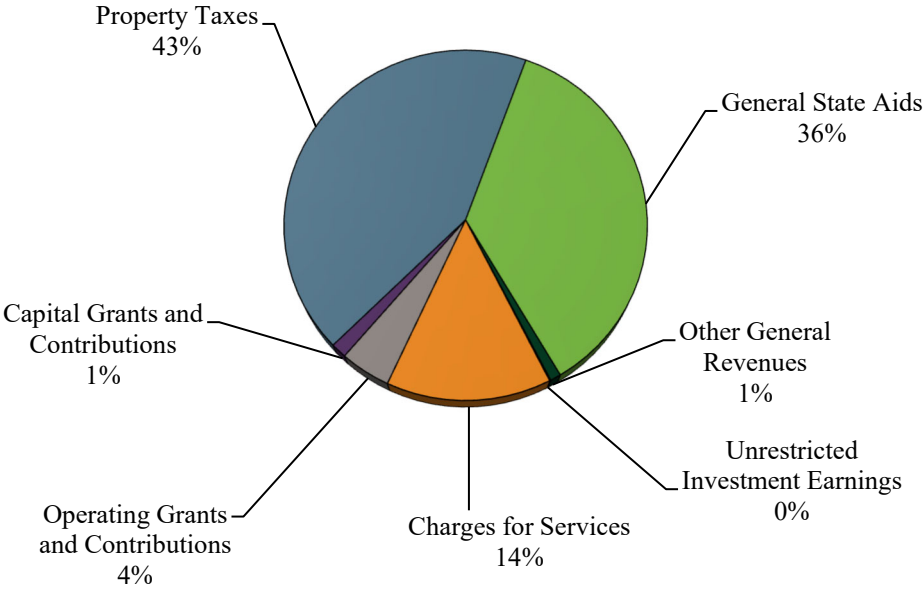
**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

Below are specific graphs which provide comparisons of the governmental activities revenues and expenses:

**Expenses and Program Revenues - Governmental Activities**



**Revenues by Source - Governmental Activities**

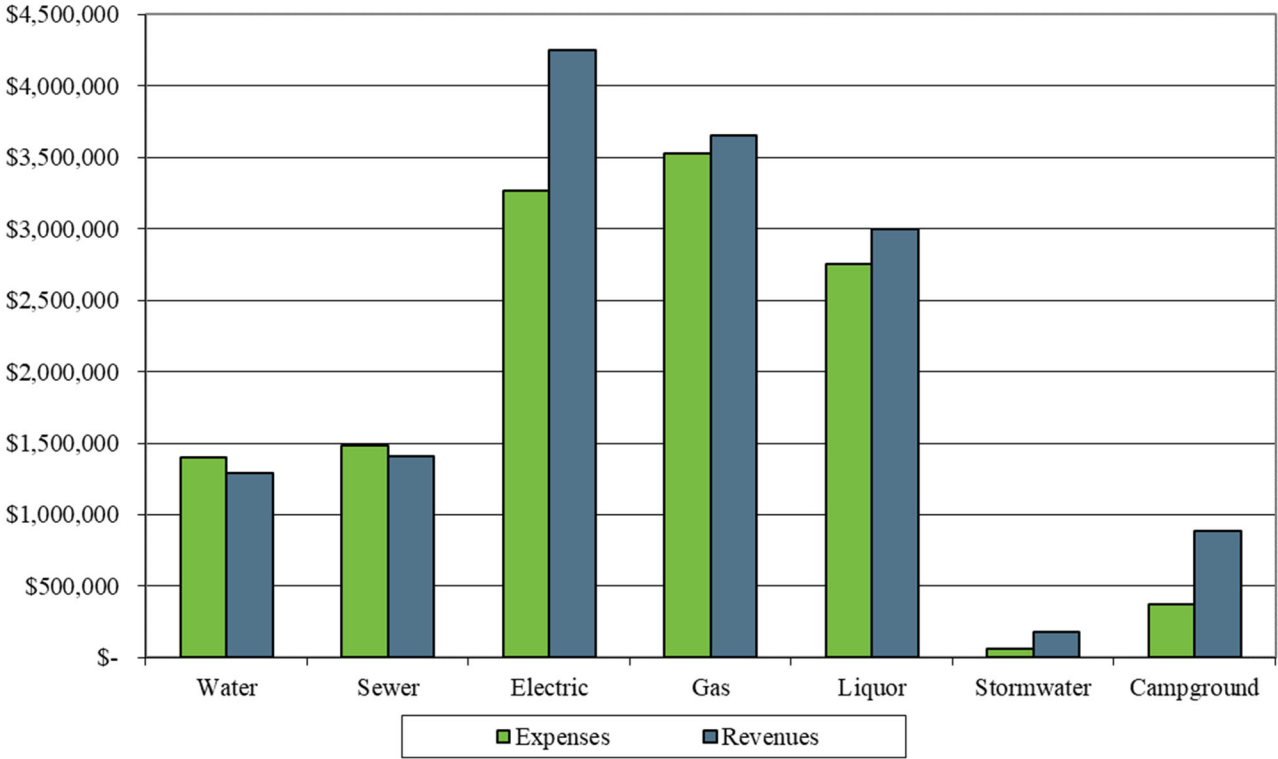


**City of Two Harbors  
Management's Discussion and Analysis**

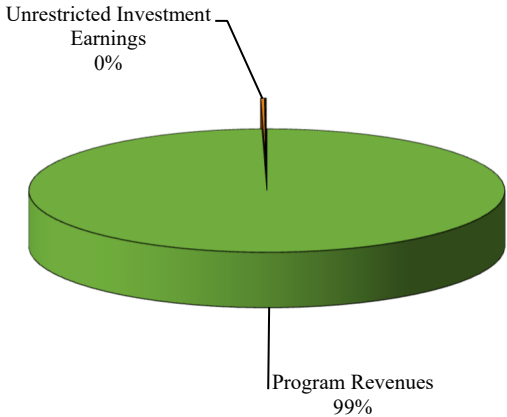
**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

Below are specific graphs which provide comparisons of the business-type activities revenues and expenses:

**Expenses and Program Revenues - Business-Type Activities**



**Revenues by Source - Business-Type Activities**



## **City of Two Harbors Management's Discussion and Analysis**

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

#### **Governmental Activities**

The governmental activities increased the City's net position by \$736,973 compared to an increase of \$1,017,223 in 2021. Total governmental revenues increased by 20% from 2021 to 2022, total expenses increased by 30% over the same period. The increase in revenues is attributable mainly to capital grants and contributions.

#### **Business-Type Activities**

Business-type activities increased the City's net position by \$15,375,234 compared with an increase of \$1,097,041 in 2021. This can be attributed to the Wastewater Treatment Plant Project.

### **FINANCIAL ANALYSIS OF THE GOVERNMENT'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, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of 2022, the City's governmental funds reported a combined fund balance of \$9,107,713, an increase of \$448,103 in comparison with the prior year. The non-spendable, committed, assigned, and unassigned portion of the fund balance is \$6,969,520 or 76.5%, which is available for spending at the City's discretion. \$2,138,193 is restricted to indicate it is not available for new spending because it is only available for the purposes the legal constraints placed on the use of the resources.

The General Fund is the chief operating fund of the City. At the end of the current year, the unassigned fund balance of the General Fund was \$2,674,259, and total fund balance was \$2,701,112. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 63.7% of total General Fund expenditures, while total fund balance represents 64.3% of that same amount. The General Fund increased \$694,477 and the key factors are discussed in the General Fund Budgetary Highlights.

The Street Improvement Fund was created in 2017 to track the expenditures related to the implementation of the Capital Improvement Plan. At the end of the current year, the assigned fund balance was \$1,427,009, this is a decrease of \$804,683 from prior year, attributed to the completion of the 2021-2022 Street Improvement Project in Fall 2022



## **City of Two Harbors Management's Discussion and Analysis**

### **FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (CONTINUED)**

Funding for the Street Improvement Fund is from G.O. Bonds, transfers from the General Fund and Sales Tax fund which was implemented on October 1, 2019, with the collection of .5% sales tax for the funding of the Street Improvement Projects.

#### **Proprietary Funds**

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

The proprietary funds reported combined net position of \$51,924,889. The net position increased by \$15,375,234 from last year's total of \$36,549,655. Net position consists of 63.9% investment in capital assets, 0.7% restricted per PFA guidelines for a Wastewater Replacement Fund and 35.4% unrestricted, or available for spending at the City's discretion. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

The final budget called for a \$607 increase in fund balance, actual increase in fund balance was \$694,477. Actual revenues were \$409,299 more than budgeted. This is due to the recognition of the American Rescue Plan dollars in 2022, the city received \$385,657

The actual General Fund expenditures of \$4,392,480 were under budget by \$194,521 of the final budget of \$4,392,480. This can be mainly be attributed to Public Works staffing being down in 2022.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

The City's total capital assets for its governmental and business-type activities as of December 31, 2022, were \$56,867,078 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, structures and improvements, and machinery and equipment, less any outstanding debt used to acquire the assets. The City's investment in capital assets for the current fiscal year included a 3.9% decrease in governmental activities and an increase of 46.2% in business-type activities.

Major capital asset events during the current year included the following:

- Construction completed for the 2021-2022 Street Improvement Project; the investment in capital assets for governmental activities decreased in 2022 due to the contributed capital of the Street Improvement Project for the water and sewer portion of the project.
- Construction for the \$33.5M Wastewater Treatment Plant project; the project is expected to be completed in 2024. \$12,262,439 was expended in 2022.
- The liquor fund purchased land and began design concepts for the liquor store project.

**City of Two Harbors  
Management's Discussion and Analysis**

**CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)**

The following table summarized capital assets for governmental and business-type activities for 2022 and 2021:

**Capital Assets (Net of depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Land	\$ 310,514	\$ 310,514	\$ 1,890,248	\$ 1,620,666	\$ 2,200,762	\$ 1,931,180
Inexhaustible asset	281,528	281,528	-	-	281,528	281,528
Construction in progress	406,370	1,821,719	14,912,957	2,778,829	15,319,327	4,600,548
Buildings	2,697,241	2,625,348	9,358,807	9,591,509	12,056,048	12,216,857
Structures and improvements	9,193,542	8,551,949	15,216,665	14,057,281	24,410,207	22,609,230
Machinery and equipment	2,134,432	2,036,283	464,774	569,897	2,599,206	2,606,180
Total	<u>\$ 15,023,627</u>	<u>\$ 15,627,341</u>	<u>\$ 41,843,451</u>	<u>\$ 28,618,182</u>	<u>\$ 56,867,078</u>	<u>\$ 44,245,523</u>

Additional information on the City's capital assets can be found in Note 5 & 6.

**Long-Term Debt**

- The City's total debt outstanding as of December 31, 2022, was \$13,824,794. This amount decreased \$850,973 during 2022, new debt issuances included \$811,340 for the Wastewater Treatment Plant Project, the debt issuance was offset by principal payments made in 2022.

The city maintained an "AA-" rating from Standard & Poor's for its general obligation debt. Additional information on the City's Long-term debt can be found in Note 7 starting on page 53 of this report.

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
General obligation bonds	\$ 6,390,000	\$ 6,585,000	\$ 555,000	\$ 585,000	\$ 6,945,000	\$ 7,170,000
Unamortized bond premium	213,697	233,805	16,597	18,062	230,294	251,867
General obligation revenue notes	-	-	7,460,840	7,253,900	7,460,840	7,253,900
Total	<u>\$ 6,603,697</u>	<u>\$ 6,818,805</u>	<u>\$ 8,032,437</u>	<u>\$ 7,856,962</u>	<u>\$ 14,636,134</u>	<u>\$ 14,675,767</u>

The city also includes its obligations for compensated absences in long-term debt, which is not included in the above information. Additional information on the City's long-term debt can be found in Note 7 of this report.

## **City of Two Harbors Management's Discussion and Analysis**

### **HISTORICAL AND LONG-TERM FINANCIAL PLANNING**

The City Council continues to take a long-term view on the City's finances. The following areas are those with the most significant impacts:

- The Council's consistent effort to eliminate the Golf Course fund balance deficit through regular annual subsidies have eliminated the deficit in 2021.
- In 2017 the City worked with Ehler's to create a ten-year Financial Management Plan. The use of the tools has assisted the city in planning for future capital improvements, operational changes, and management of general obligation debt. The model ties budget, levy, and tax information together to provide a complete financial picture.
- In 2016 the city adopted for the first time a 5-year Capital Improvement Plan for infrastructure, streets, and equipment. In 2021 the city added sidewalk and trail projects to the CIP to begin in 2021. This has become a valuable tool in looking at future budgetary forecasts.

#### **Budget Outlook**

The City's future financial outlook is stable.

- For 2023, the Council Adopted Budget for all City funds was \$53.3 million which represents a \$15.4 million or 40.6% increase from the 2022 Council Adopted Budget of \$37.9 million.
- At the same time, the Council adopted a 2023 property tax levy of \$2,473,920 which results in a 2.0% or \$49,375 increase, from the 2022 adopted property tax levy. As part of this budget, funds that have accumulated in various City funds due to a growing economy and fiscal restraint in prior years allows for utilization of fund balances, operating capital items and other one-time items.
- For 2023-2027, the five-year capital program totals \$66.7 million including all funding sources. The 2023 portion of the five-year capital program is \$28.3 million which includes year 3 of 4 of the Wastewater Treatment Plant Project, beginning the Water Chlorine Tank & PRV Station project, 2023-2024 Street Improvement Project and the Two Harbors Municipal Liquor Store Upgrade Project.
- The City also reviews the rates of the water, sewer, electric, sewer and storm water funds. As part of the process the City projects fund balances and capital improvements to each of the systems for the next ten years and identifies required changes to user and connection rates for each fund.

#### **Employment**

The unemployment rate for Lake County, where the city is located, is currently 6.0%, which is higher than the rate of 2.9% a year ago. This is higher than the national average unemployment rate of 3.3% and higher than the State's average unemployment rate of 3.2% for the same time period.

### **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 government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, City of Two Harbors, 522 1<sup>st</sup> Avenue, Two Harbors, Minnesota 55616.

## **BASIC FINANCIAL STATEMENTS**

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**City of Two Harbors  
Statement of Net Position  
December 31, 2022**

	Governmental Activities	Business-Type Activities	Total	Two Harbors Economic Development Authority
<b>Assets</b>				
Cash and investments (including cash equivalents)	\$ 9,210,268	\$ 22,959,405	\$ 32,169,673	\$ 58,541
Restricted cash (including cash equivalents)	-	365,835	365,835	-
Property tax receivable	44,813	-	44,813	-
Accounts receivable	33,889	1,212,119	1,246,008	-
Interest receivable	15,809	48,837	64,646	-
Due from other governments	402,752	1,265,368	1,668,120	-
Lease receivable	6,609	-	6,609	-
Notes receivable	173,141	-	173,141	-
Deferred special assessments receivable	983,113	3,090	986,203	-
Delinquent	-	-	-	-
Inventories	31,858	254,735	286,593	-
Prepaid expenses	-	4,275	4,275	-
Capital assets				
Land	310,514	1,890,248	2,200,762	-
Inexhaustible asset	281,528	-	281,528	-
Construction in progress	406,370	14,912,957	15,319,327	-
Capital assets being depreciated				
Buildings	5,934,650	20,240,616	26,175,266	-
Improvements	18,432,693	26,862,559	45,295,252	-
Structures	311,156	-	311,156	-
Machinery and equipment	6,242,215	3,480,425	9,722,640	-
Less accumulated depreciation	(16,895,499)	(25,543,354)	(42,438,853)	-
Net pension asset	323,416	-	323,416	-
Total assets	<u>26,249,295</u>	<u>67,957,115</u>	<u>94,206,410</u>	<u>58,541</u>
<b>Deferred Outflows of Resources</b>				
Deferred outflows of resources related to OPEB	41,066	45,368	86,434	-
Deferred outflows of resources related to fire relief pensions	97,823	-	97,823	-
Deferred outflows of resources related to city pensions	2,019,239	709,180	2,728,419	-
Total deferred outflow of resources	<u>2,158,128</u>	<u>754,548</u>	<u>2,912,676</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 28,407,423</u>	<u>\$ 68,711,663</u>	<u>\$ 97,119,086</u>	<u>\$ 58,541</u>
<b>Liabilities</b>				
Accounts payable	\$ 301,034	\$ 2,027,450	\$ 2,328,484	\$ -
Contracts payable	60,110	628,995	689,105	-
Due to other governments	171	569	740	-
Accrued payroll	176,091	153,358	329,449	-
Accrued interest payable	62,226	37,742	99,968	-
Customer deposits	-	64,939	64,939	-
Unearned revenue	242,426	1,677,488	1,919,914	-
Noncurrent liabilities				
Due within one year	647,330	866,169	1,513,499	-
Due in more than one year	6,436,620	7,828,984	14,265,604	-
Total OPEB liability, due in more than one year	1,183,480	1,307,465	2,490,945	-
Net pension liability, due in more than one year	3,523,236	2,150,695	5,673,931	-
Total liabilities	<u>12,632,724</u>	<u>16,743,854</u>	<u>29,376,578</u>	<u>-</u>
<b>Deferred Inflows of Resources</b>				
Deferred inflows related to leases	6,609	-	6,609	-
Deferred inflows related to fire relief pensions	172,586	-	172,586	-
Deferred inflows related to city pensions	63,680	42,920	106,600	-
Total deferred inflows of resources	<u>242,875</u>	<u>42,920</u>	<u>285,795</u>	<u>-</u>
<b>Net Position</b>				
Net investment in capital assets	8,419,930	33,189,564	41,609,494	-
Restricted for				
Revolving loans	40,606	-	40,606	-
Sales tax appropriations	677,022	-	677,022	-
Tax increment financing	198,670	-	198,670	-
Cemetery endowment	145,729	-	145,729	-
Debt service	-	365,835	365,835	-
Unrestricted	6,049,867	18,369,490	24,419,357	58,541
Total net position	<u>15,531,824</u>	<u>51,924,889</u>	<u>67,456,713</u>	<u>58,541</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 28,407,423</u>	<u>\$ 68,711,663</u>	<u>\$ 97,119,086</u>	<u>\$ 58,541</u>

See notes to basic financial statements.

**City of Two Harbors  
Statement of Activities  
Year Ended December 31, 2022**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental activities</b>				
General government	\$ 920,711	\$ 45,749	\$ 5,560	\$ -
Public safety	1,662,223	186,916	179,494	-
Public works	3,157,807	20,017	71,695	619,974
Economic development	167	4,092	-	-
Culture and recreation	1,006,772	424,508	80,722	-
Health and welfare	139,034	41,409	-	-
Airport	460,959	157,890	44,334	169,255
Interest on long-term debt	142,991	-	-	-
Total governmental activities	<u>7,490,664</u>	<u>880,581</u>	<u>381,805</u>	<u>789,229</u>
<b>Business-type activities</b>				
Water	1,400,876	1,290,917	-	869,029
Sewage disposal	1,489,910	1,412,500	-	13,139,521
Electric	3,264,329	4,246,180	-	-
Gas	3,525,643	3,656,600	-	-
Municipal liquor	2,754,984	3,002,214	-	-
Stormwater	60,573	173,775	-	-
Campground	373,099	885,668	-	-
Total business-type activities	<u>12,869,414</u>	<u>14,667,854</u>	<u>-</u>	<u>14,008,550</u>
Total governmental and business-type activities	<u>\$ 20,360,078</u>	<u>\$ 15,548,435</u>	<u>\$ 381,805</u>	<u>\$ 14,797,779</u>
<b>Component units</b>				
Two Harbors Development Fund	\$ 767,945	\$ 10,924	\$ -	\$ -
Two Harbors Economic Development Authority	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total component units	<u>\$ 768,945</u>	<u>\$ 10,924</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues				
Property taxes				
Sales tax				
Tax increments				
Intergovernmental				
Unrestricted state aids				
Extra revenue				
Unrestricted investment earnings				
Other unrestricted revenues				
Dissolution of entity				
Total general revenues				
Transfers				
Change in net position				
Net position - beginning				
Net position - ending				

Net (Expense) Revenues  
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total	Two Harbors Development Fund	Two Harbors Economic Development Authority
\$ (869,402)	\$ -	\$ (869,402)	\$ -	\$ -
(1,295,813)	-	(1,295,813)	-	-
(2,446,121)	-	(2,446,121)	-	-
3,925	-	3,925	-	-
(501,542)	-	(501,542)	-	-
(97,625)	-	(97,625)	-	-
(89,480)	-	(89,480)	-	-
(142,991)	-	(142,991)	-	-
<u>(5,439,049)</u>	<u>-</u>	<u>(5,439,049)</u>	<u>-</u>	<u>-</u>
-	759,070	759,070	-	-
-	13,062,111	13,062,111	-	-
-	981,851	981,851	-	-
-	130,957	130,957	-	-
-	247,230	247,230	-	-
-	113,202	113,202	-	-
-	512,569	512,569	-	-
<u>-</u>	<u>15,806,990</u>	<u>15,806,990</u>	<u>-</u>	<u>-</u>
<u>\$ (5,439,049)</u>	<u>\$ 15,806,990</u>	<u>\$ 10,367,941</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ (757,021)	\$ -
-	-	-	-	(1,000)
-	-	-	(757,021)	(1,000)
2,049,776	-	2,049,776	-	-
1,055,991	-	1,055,991	-	-
-	-	-	-	-
-	-	-	-	-
2,628,395	9,434	2,637,829	-	-
-	-	-	-	-
21,610	(89,752)	(68,142)	20	-
68,812	-	68,812	-	-
-	-	-	(145,859)	-
<u>5,824,584</u>	<u>(80,318)</u>	<u>5,744,266</u>	<u>(145,839)</u>	<u>-</u>
<u>351,438</u>	<u>(351,438)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>736,973</u>	<u>15,375,234</u>	<u>16,112,207</u>	<u>(902,860)</u>	<u>(1,000)</u>
<u>14,794,851</u>	<u>36,549,655</u>	<u>51,344,506</u>	<u>902,860</u>	<u>59,541</u>
<u>\$ 15,531,824</u>	<u>\$ 51,924,889</u>	<u>\$ 67,456,713</u>	<u>\$ -</u>	<u>\$ 58,541</u>



**City of Two Harbors**  
**Balance Sheet - Governmental Funds**  
**December 31, 2022**

	General Fund (101)	Street Improvement Fund (402)	GO Bond Debt Service (301)
<b>Assets</b>			
Cash and investments	\$ 2,769,330	\$ 1,576,012	\$ 668,043
Taxes receivable - delinquent	44,520	-	-
Deferred special assessment receivable	513	-	962,772
Accounts receivable	22,363	-	3,541
Interest receivable	3,503	4,513	-
Due from other governments	173,027	-	15,502
Lease receivable	6,609	-	-
Notes receivable	-	-	-
Inventories	-	-	-
	<u>                  </u>	<u>                  </u>	<u>                  </u>
Total assets	<u>\$ 3,019,865</u>	<u>\$ 1,580,525</u>	<u>\$ 1,649,858</u>
<b>Liabilities</b>			
Accounts payable	\$ 82,434	\$ 100,887	\$ 550
Contracts payable	-	52,629	-
Due to other governments	171	-	-
Accrued payroll	162,675	-	-
Unearned revenue	21,831	-	-
Total liabilities	<u>267,111</u>	<u>153,516</u>	<u>550</u>
<b>Deferred Inflows of Resources</b>			
Deferred inflow - lease	6,609	-	-
Unavailable revenue - property taxes	44,520	-	-
Unavailable revenue - special assessments	513	-	962,772
Total deferred inflows of resources	<u>51,642</u>	<u>-</u>	<u>962,772</u>
<b>Fund Balances (Deficits)</b>			
Nonspendable	-	-	-
Restricted	-	-	686,536
Committed	-	-	-
Assigned	26,853	1,427,009	-
Unassigned	2,674,259	-	-
Total fund balances (deficits)	<u>2,701,112</u>	<u>1,427,009</u>	<u>686,536</u>
	<u>                  </u>	<u>                  </u>	<u>                  </u>
Total liabilities, deferred inflows of resources, and fund balances (deficits)	<u>\$ 3,019,865</u>	<u>\$ 1,580,525</u>	<u>\$ 1,649,858</u>

Other Governmental Funds	Total Governmental Funds
\$ 4,196,883	\$ 9,210,268
293	44,813
19,828	983,113
7,985	33,889
7,793	15,809
214,223	402,752
-	6,609
173,141	173,141
31,858	31,858
<u>\$ 4,652,004</u>	<u>\$ 10,902,252</u>
\$ 117,163	\$ 301,034
7,481	60,110
-	171
13,416	176,091
220,595	242,426
<u>358,655</u>	<u>779,832</u>
-	6,609
293	44,813
-	963,285
<u>293</u>	<u>1,014,707</u>
31,858	31,858
1,451,657	2,138,193
437,511	437,511
2,372,030	3,825,892
-	2,674,259
<u>4,293,056</u>	<u>9,107,713</u>
<u>\$ 4,652,004</u>	<u>\$ 10,902,252</u>

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**City of Two Harbors**  
**Reconciliation of the Balance Sheet to**  
**the Statement of Net Position - Governmental Funds**  
**December 31, 2022**

Total fund balances - governmental funds	\$ 9,107,713
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of capital assets	31,919,126
Less accumulated depreciation	(16,895,499)
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:	
Bond principal payable	(6,603,697)
Compensated absences payable	(480,253)
Total OPEB liability	(1,183,480)
Delinquent property taxes, deferred special assessments, and loans receivable will be collected in future years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	
Delinquent property taxes	44,813
Deferred special assessments	963,285
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions and OPEB that are not recognized in the governmental funds.	
Deferred inflows of resources related to pensions	(236,266)
Deferred outflows of resources related to pensions	2,117,062
Deferred outflows of resources related to OPEB	41,066
Net pension liability	(3,523,236)
Fire relief association net pension asset created through contributions to a defined benefit pension plan which is not recognized in the governmental funds.	323,416
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(62,226)</u>
Total net position - governmental activities	<u><u>\$ 15,531,824</u></u>

**City of Two Harbors**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Governmental Funds**  
**Year Ended December 31, 2022**

	General Fund (101)	Street Improvement Fund (402)	GO Bond Debt Service (301)
<b>Revenues</b>			
Taxes	\$ 2,044,614	\$ -	\$ -
Sales tax	-	-	-
Special assessments	12	-	207,438
Licenses and permits	53,458	-	-
Intergovernmental	2,856,603	-	-
Charges for services	158,474	-	-
Fines and forfeitures	5,279	-	-
Investment income	(366)	7,459	802
Loan payments	-	-	-
Other	57,645	-	-
Total revenues	<u>5,175,719</u>	<u>7,459</u>	<u>208,240</u>
<b>Expenditures</b>			
Current			
General government	726,193	-	-
Public safety	1,649,038	-	-
Public works	1,320,128	-	-
Culture and recreation	206,981	-	-
Health and welfare	120,368	-	-
Economic development	-	-	-
Airport	-	-	-
Miscellaneous	175,251	-	-
Debt service			
Principal	-	-	115,000
Interest and other charges	-	-	129,037
Capital outlay			
General government	-	-	-
Public safety	-	-	-
Public works	-	1,012,142	-
Culture and recreation	-	-	-
Airport	-	-	-
Total expenditures	<u>4,197,959</u>	<u>1,012,142</u>	<u>244,037</u>
Excess of revenues over (under) expenditures	977,760	(1,004,683)	(35,797)
<b>Other Financing Sources (Uses)</b>			
Proceeds from sale of capital asset	-	-	-
Proceeds from insurance	11,000	-	-
Transfers in	430,967	475,000	275,000
Transfers out	(725,250)	(275,000)	-
Total other financing sources (uses)	<u>(283,283)</u>	<u>200,000</u>	<u>275,000</u>
Net change in fund balances	694,477	(804,683)	239,203
<b>Fund Balances</b>			
Beginning of year	<u>2,006,635</u>	<u>2,231,692</u>	<u>447,333</u>
End of year	<u>\$ 2,701,112</u>	<u>\$ 1,427,009</u>	<u>\$ 686,536</u>

Other Governmental Funds	Total Governmental Funds
\$ 13,164	\$ 2,057,778
1,055,991	1,055,991
16,969	224,419
-	53,458
296,596	3,153,199
649,717	808,191
-	5,279
11,428	19,323
4,886	4,886
16,442	74,087
<u>2,065,193</u>	<u>7,456,611</u>
525	726,718
-	1,649,038
-	1,320,128
731,883	938,864
-	120,368
167	167
183,991	183,991
-	175,251
86,279	201,279
35,018	164,055
169,741	169,741
25,679	25,679
455,676	1,467,818
193,959	193,959
75,890	75,890
<u>1,958,808</u>	<u>7,412,946</u>
106,385	43,665
42,000	42,000
-	11,000
900,928	2,081,895
(730,207)	(1,730,457)
<u>212,721</u>	<u>404,438</u>
319,106	448,103
<u>3,973,950</u>	<u>8,659,610</u>
<u>\$ 4,293,056</u>	<u>\$ 9,107,713</u>

**City of Two Harbors  
Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances to  
the Statement of Activities - Governmental Funds  
Year Ended December 31, 2022**

Net change in fund balances - governmental funds	\$ 448,103
Amounts reported for Governmental Activities in the Statement of Activities are different because: are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital outlay	1,881,951
Depreciation expense	(979,528)
Contributed capital	(1,506,137)
Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	
	(67,520)
OPEB are not reported as expenditures in the governmental funds because they do not require the use of current financial resources; instead, they are expensed in the Statement of Activities.	
	400,556
Governmental funds recognized pension contributions as expenditures at the time of payment, whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.	
Pension expense	(82,383)
State contribution	29,748
Principal payments on long-term debt are recognized as expenditures in the governmental funds but have no effect on net position in the Statement of Activities.	
	195,000
Governmental funds report the effects of bond premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	
	7,235
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds wh and thus requires 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.	
	20,108
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	
Special assessments deferred	395,555
Delinquent property taxes	(5,715)
Change in net position - governmental activities	<u>\$ 736,973</u>

**City of Two Harbors**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance -**  
**Budget and Actual - General Fund**  
**Year Ended December 31, 2022**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues</b>				
General property taxes	\$ 2,450,248	\$ 2,450,248	\$ 2,021,269	\$ (428,979)
Cable television franchise tax	28,850	28,850	23,345	(5,505)
Special assessments	-	-	12	12
Licenses and permits	53,700	53,700	53,458	(242)
Intergovernmental	2,016,372	2,016,372	2,856,603	840,231
Charges for services	171,850	171,850	158,474	(13,376)
Fines and forfeitures	9,900	9,900	5,279	(4,621)
Miscellaneous revenues				
Investment income	10,700	10,700	(366)	(11,066)
Other	24,800	24,800	57,645	32,845
Total revenues	<u>4,766,420</u>	<u>4,766,420</u>	<u>5,175,719</u>	<u>409,299</u>
<b>Expenditures</b>				
<b>Current</b>				
General government	767,200	767,200	726,193	(41,007)
Public safety	1,534,800	1,534,800	1,649,038	114,238
Public works	1,478,430	1,478,430	1,320,128	(158,302)
Culture and recreation	252,750	252,750	206,981	(45,769)
Health and welfare	139,950	139,950	120,368	(19,582)
Miscellaneous	171,850	171,850	175,251	3,401
<b>Capital outlay</b>				
Public safety	47,500	47,500	-	(47,500)
Total expenditures	<u>4,392,480</u>	<u>4,392,480</u>	<u>4,197,959</u>	<u>(194,521)</u>
Excess of revenues over expenditures	373,940	373,940	977,760	603,820
<b>Other Financing Sources (Uses)</b>				
Insurance proceeds	-	-	11,000	11,000
Transfers in	351,917	351,917	430,967	79,050
Transfers out	(725,250)	(725,250)	(725,250)	-
Total other financing sources (uses)	<u>(373,333)</u>	<u>(373,333)</u>	<u>(283,283)</u>	<u>90,050</u>
Net change in fund balances	<u>\$ 607</u>	<u>\$ 607</u>	694,477	<u>\$ 693,870</u>
<b>Fund Balance</b>				
Beginning of year			<u>2,006,635</u>	
End of year			<u>\$ 2,701,112</u>	



**City of Two Harbors**  
**Statement of Net Position - Proprietary Funds**  
**December 31, 2022**

	Water (601)	Sewer (602)	Electric (604)	Gas (605)
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 36,693	\$ 4,896,284	\$ 2,390,804	\$ 1,075,597
Restricted cash and cash equivalents	-	365,835	-	-
Investments	500,000	800,000	7,664,770	1,421,035
Special assessment receivable deferred	199	174	589	283
Accounts receivable	119,054	135,356	320,146	617,540
Interest receivable	1,519	2,500	26,546	1,942
Due from other funds	-	-	115,164	-
Due from other governments	-	1,265,368	-	-
Inventories	-	-	56,273	23,423
Prepaid expenses	-	-	-	-
Total current assets	<u>657,465</u>	<u>7,465,517</u>	<u>10,574,292</u>	<u>3,139,820</u>
<b>Noncurrent assets</b>				
Advances to other funds	-	-	182,849	-
<b>Capital assets</b>				
Capital assets	20,280,123	19,416,351	5,618,680	2,792,684
Construction in progress	541,943	14,151,561	-	-
Total capital assets	<u>20,822,066</u>	<u>33,567,912</u>	<u>5,618,680</u>	<u>2,792,684</u>
Less accumulated depreciation	<u>(7,563,307)</u>	<u>(10,150,684)</u>	<u>(3,822,935)</u>	<u>(2,497,841)</u>
Capital assets, net of accumulated depreciation	<u>13,258,759</u>	<u>23,417,228</u>	<u>1,795,745</u>	<u>294,843</u>
Total noncurrent assets	<u>13,258,759</u>	<u>23,417,228</u>	<u>1,978,594</u>	<u>294,843</u>
Total assets	<u>13,916,224</u>	<u>30,882,745</u>	<u>12,552,886</u>	<u>3,434,663</u>
<b>Deferred Outflows of Resources</b>				
Deferred outflows of resources related to pension activity	168,192	163,955	163,154	125,656
Deferred outflows of resources related to OPEB	11,051	10,399	10,342	7,952
Total deferred outflows of resources	<u>179,243</u>	<u>174,354</u>	<u>173,496</u>	<u>133,608</u>
Total assets and deferred outflows of resources	<u>\$ 14,095,467</u>	<u>\$ 31,057,099</u>	<u>\$ 12,726,382</u>	<u>\$ 3,568,271</u>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable	\$ 10,188	\$ 1,248,229	\$ 273,714	\$ 431,139
Contracts payable	-	621,450	-	-
Accrued payroll	33,548	35,353	35,675	26,715
Accrued interest payable	25,351	5,802	395	-
Unearned revenue	-	1,525,000	162	-
Due to other funds	-	-	-	-
Customer deposits	-	-	38,962	25,977
Due to other governments	-	26	-	-
Current portion of long-term debt	529,574	140,635	48,196	53,204
Total current liabilities	<u>598,661</u>	<u>3,576,495</u>	<u>397,104</u>	<u>537,035</u>
<b>Long-term liabilities</b>				
Compensated absences, due in more than one year	175,625	136,862	142,380	137,343
Notes from direct borrowings	5,044,000	2,416,840	-	-
Advances from other funds	-	-	-	-
Total OPEB liability	318,481	299,687	298,045	229,180
Net pension liability	510,067	497,219	494,789	381,072
Bonds payable, net	-	-	26,283	-
Less current portion of long-term debt	<u>(529,574)</u>	<u>(140,635)</u>	<u>(48,196)</u>	<u>(53,204)</u>
Total long-term liabilities	<u>5,518,599</u>	<u>3,209,973</u>	<u>913,301</u>	<u>694,391</u>
Total liabilities	<u>6,117,260</u>	<u>6,786,468</u>	<u>1,310,405</u>	<u>1,231,426</u>
<b>Deferred Inflows of Resources Related to Pension Activity</b>				
Deferred inflows of resources related to pension activity	10,179	9,923	9,874	7,605
<b>Net Position</b>				
Net investment in capital assets	8,214,759	20,378,938	1,769,462	294,843
Restricted	-	365,835	-	-
Unrestricted	<u>(246,731)</u>	<u>3,515,935</u>	<u>9,636,641</u>	<u>2,034,397</u>
Total net position	<u>7,968,028</u>	<u>24,260,708</u>	<u>11,406,103</u>	<u>2,329,240</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 14,095,467</u>	<u>\$ 31,057,099</u>	<u>\$ 12,726,382</u>	<u>\$ 3,568,271</u>

See notes to basic financial statements.

Municipal Liquor (609)	Stormwater (651)	Campground (660)	Total
\$ 419,442	\$ -	\$ 115,476	\$ 8,934,296
-	-	-	365,835
1,450,000	945,340	1,243,964	14,025,109
-	1,845	-	3,090
1,339	17,272	1,412	1,212,119
4,513	6,095	5,722	48,837
-	-	-	115,164
-	-	-	1,265,368
175,039	-	-	254,735
4,275	-	-	4,275
<u>2,054,608</u>	<u>970,552</u>	<u>1,366,574</u>	<u>26,228,828</u>
-	-	-	182,849
799,116	1,276,849	2,290,045	52,473,848
48,475	13,740	157,238	14,912,957
847,591	1,290,589	2,447,283	67,386,805
(190,534)	(368,098)	(949,955)	(25,543,354)
657,057	922,491	1,497,328	41,843,451
657,057	922,491	1,497,328	42,026,300
<u>2,711,665</u>	<u>1,893,043</u>	<u>2,863,902</u>	<u>68,255,128</u>
88,223	-	-	709,180
5,624	-	-	45,368
93,847	-	-	754,548
<u>\$ 2,805,512</u>	<u>\$ 1,893,043</u>	<u>\$ 2,863,902</u>	<u>\$ 69,009,676</u>
\$ 52,629	\$ 157	\$ 11,394	\$ 2,027,450
-	7,545	-	628,995
22,067	-	-	153,358
-	5,147	1,047	37,742
1,200	37	151,089	1,677,488
-	43,291	71,873	115,164
-	-	-	64,939
3,442	-	(2,899)	569
64,560	25,000	5,000	866,169
143,898	81,177	237,504	5,571,874
70,506	-	-	662,716
-	-	-	7,460,840
-	-	182,849	182,849
162,072	-	-	1,307,465
267,548	-	-	2,150,695
-	468,784	76,530	571,597
(64,560)	(25,000)	(5,000)	(866,169)
435,566	443,784	254,379	11,469,993
579,464	524,961	491,883	17,041,867
5,339	-	-	42,920
657,057	453,707	1,420,798	33,189,564
-	-	-	365,835
1,563,652	914,375	951,221	18,369,490
2,220,709	1,368,082	2,372,019	51,924,889
<u>\$ 2,805,512</u>	<u>\$ 1,893,043</u>	<u>\$ 2,863,902</u>	<u>\$ 69,009,676</u>

**City of Two Harbors**  
**Statement of Revenues, Expenses, and Changes**  
**in Fund Net Position - Proprietary Funds**  
**Year Ended December 31, 2022**

	Water (601)	Sewer (602)	Electric (604)	Gas (605)
Sales and cost of sales				
Sales	\$ -	\$ -	\$ 4,109,129	\$ 3,646,764
Cost of sales	-	-	1,931,644	2,803,436
Gross profit	<u>-</u>	<u>-</u>	<u>2,177,485</u>	<u>843,328</u>
Operating revenues				
Charges for services	1,271,874	1,381,715	-	-
Penalties	8,071	8,774	22,296	8,715
Other services	10,972	22,011	54,807	1,121
Total operating revenues	<u>1,290,917</u>	<u>1,412,500</u>	<u>77,103</u>	<u>9,836</u>
Operating expenses				
Wages, salaries, and compensation	480,137	482,786	441,833	363,473
Employee benefits	161,975	172,402	293,420	157,698
Materials and supplies	138,963	129,619	167,462	66,103
Professional services	3,880	79,301	87,892	18,367
Insurance	15,966	31,200	13,444	4,728
Utilities	88,981	120,368	14,396	10,758
Depreciation	407,392	395,548	149,902	46,060
Travel and training	5,458	3,922	15,946	8,134
Miscellaneous	-	40,468	108,069	22,907
Dues and subscriptions	22,802	17,342	37,253	23,723
Rentals - leases	14	283	2,292	212
Total operating expenses	<u>1,325,568</u>	<u>1,473,239</u>	<u>1,331,909</u>	<u>722,163</u>
Operating income (loss)	(34,651)	(60,739)	922,679	131,001
Nonoperating revenues (expenses)				
Investment income	1,974	6,488	(92,404)	(13,761)
State grants and aid	2,237	11,502,181	2,170	1,672
Federal grants	-	1,002,414	-	-
Interest expense	(75,308)	(16,671)	(776)	(44)
Miscellaneous revenue	-	-	59,948	-
Total nonoperating revenues (expenses)	<u>(71,097)</u>	<u>12,494,412</u>	<u>(31,062)</u>	<u>(12,133)</u>
Income (loss) before transfers	(105,748)	12,433,673	891,617	118,868
Capital contributions	869,029	637,107	-	-
Transfers in	300,000	120,000	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>(475,831)</u>	<u>(223,810)</u>
Change in net position	1,063,281	13,190,780	415,786	(104,942)
Beginning of year	<u>6,904,747</u>	<u>11,069,928</u>	<u>10,990,317</u>	<u>2,434,182</u>
End of year	<u>\$ 7,968,028</u>	<u>\$ 24,260,708</u>	<u>\$ 11,406,103</u>	<u>\$ 2,329,240</u>

Municipal Liquor (609)	Stormwater (651)	Campground (660)	Total
\$ 3,002,214	\$ -	\$ 89,617	\$ 10,847,724
2,201,838	-	68,373	7,005,291
<u>800,376</u>	<u>-</u>	<u>21,244</u>	<u>3,842,433</u>
-	172,053	776,933	3,602,575
-	1,652	-	49,508
-	-	13,118	102,029
<u>-</u>	<u>173,705</u>	<u>790,051</u>	<u>3,754,112</u>
277,181	-	3,271	2,048,681
95,617	62	1,115	882,289
12,337	8,177	21,014	543,675
5,502	6,189	132,901	334,032
9,972	509	6,620	82,439
14,123	366	39,102	288,094
13,629	33,036	64,441	1,110,008
779	341	-	34,580
120,186	337	29,309	321,276
3,820	-	1,468	106,408
-	29	-	2,830
<u>553,146</u>	<u>49,046</u>	<u>299,241</u>	<u>5,754,312</u>
247,230	124,659	512,054	1,842,233
5,940	(3,367)	5,378	(89,752)
1,174	-	-	11,509,434
-	-	-	1,002,414
-	(11,527)	(5,485)	(109,811)
-	70	6,000	66,018
<u>7,114</u>	<u>(14,824)</u>	<u>5,893</u>	<u>12,378,303</u>
254,344	109,835	517,947	14,220,536
-	-	-	1,506,136
-	-	-	420,000
<u>(259)</u>	<u>-</u>	<u>(71,538)</u>	<u>(771,438)</u>
254,085	109,835	446,409	15,375,234
<u>1,966,624</u>	<u>1,258,247</u>	<u>1,925,610</u>	<u>36,549,655</u>
<u>\$ 2,220,709</u>	<u>\$ 1,368,082</u>	<u>\$ 2,372,019</u>	<u>\$ 51,924,889</u>

**City of Two Harbors**  
**Statement of Cash Flows - Proprietary Funds**  
**Year Ended December 31, 2022**

	Water (601)	Sewer (602)	Electric (604)	Gas (605)
<b>Cash Flows - Operating Activities</b>				
Receipts from customers and users	\$ 1,336,694	\$ 1,504,944	\$ 4,262,051	\$ 3,473,826
Payments to suppliers	(282,331)	(749,742)	(2,393,658)	(2,840,260)
Payments to employees	(745,501)	(672,057)	(740,541)	(532,675)
Net cash flows - operating activities	<u>308,862</u>	<u>83,145</u>	<u>1,127,852</u>	<u>100,891</u>
<b>Cash Flows - Noncapital Financing Activities</b>				
Transfer to other funds	-	-	(475,831)	(223,810)
Transfer from other funds	300,000	120,000	-	-
Interfund balances	-	-	32,052	-
State grants and aid	2,237	-	2,170	1,672
Miscellaneous revenue	-	-	59,948	-
Net cash flows - noncapital financing activities	<u>302,237</u>	<u>120,000</u>	<u>(381,661)</u>	<u>(222,138)</u>
<b>Cash Flows - Capital and Related Financing Activities</b>				
Principal paid on debt	(508,000)	(96,400)	-	-
Interest paid on debt	(78,477)	(17,020)	(6,094)	(44)
State grants	-	11,173,242	-	-
Federal grants	-	877,325	-	-
Debt proceeds	-	811,340	-	-
Acquisition of capital assets	-	(11,249,298)	(8,175)	-
Net cash flows - capital and related financing activities	<u>(586,477)</u>	<u>1,499,189</u>	<u>(14,269)</u>	<u>(44)</u>
<b>Cash Flows - Investing Activities</b>				
Net maturity (purchase) of investments	(250,000)	3,050,000	1,235,418	629,015
Interest and dividends received	552	5,939	(112,330)	(14,785)
Net cash flows - investing activities	<u>(249,448)</u>	<u>3,055,939</u>	<u>1,123,088</u>	<u>614,230</u>
Net change in cash and cash equivalents	(224,826)	4,758,273	1,855,010	492,939
<b>Cash and Cash Equivalents</b>				
January 1	261,519	503,846	535,794	582,658
December 31	<u>\$ 36,693</u>	<u>\$ 5,262,119</u>	<u>\$ 2,390,804</u>	<u>\$ 1,075,597</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Flows - Operating Activities</b>				
Operating income (loss)	\$ (34,651)	\$ (60,739)	\$ 922,679	\$ 131,001
Adjustments to reconcile operating income (loss) to net cash flows - operating activities				
Depreciation expense	407,390	395,547	149,902	46,060
Pension related activity	15,477	41,480	62,817	34,596
Unearned revenue	-	-	(23)	-
Accounts receivable	45,366	91,974	66,476	(211,385)
Special assessments receivable	343	409	4,619	655
Due from other governments	70	62	53	26,655
Inventory	-	-	2,032	4,091
Accounts and contracts payable	(4,193)	(327,239)	5,610	121,268
Customer deposits	-	-	4,694	1,301
Due to other governmental units	(2,074)	-	(22,902)	(7,251)
Salaries payable	6,067	10,055	13,933	7,328
OPEB related activity	(109,906)	(85,246)	(60,480)	(60,579)
Compensated absences payable	(15,027)	16,842	(21,558)	7,151
Total adjustments	<u>343,513</u>	<u>143,884</u>	<u>205,173</u>	<u>(30,110)</u>
Net cash flows - operating activities	<u>\$ 308,862</u>	<u>\$ 83,145</u>	<u>\$ 1,127,852</u>	<u>\$ 100,891</u>
<b>Noncash Capital and Related Financing Activities</b>				
Capital Contributions	<u>\$ 869,029</u>	<u>\$ 637,107</u>	<u>\$ -</u>	<u>\$ -</u>

See notes to basic financial statements.

Municipal Liquor (609)	Stormwater (651)	Campground (660)	Total
\$ 3,001,028	\$ 171,562	\$ 884,384	\$ 14,634,489
(2,430,786)	(15,935)	(295,687)	(9,008,399)
<u>(387,866)</u>	<u>(62)</u>	<u>(4,774)</u>	<u>(3,083,476)</u>
<u>182,376</u>	<u>155,565</u>	<u>583,923</u>	<u>2,542,614</u>
(259)	-	(71,538)	(771,438)
-	-	-	420,000
-	43,291	(71,160)	4,183
1,174	-	-	7,253
<u>-</u>	<u>70</u>	<u>6,000</u>	<u>66,018</u>
<u>915</u>	<u>43,361</u>	<u>(136,698)</u>	<u>(273,984)</u>
-	(20,000)	(5,000)	(629,400)
-	(13,151)	(5,676)	(120,462)
-	-	-	11,173,242
-	-	-	877,325
-	-	-	811,340
<u>(318,058)</u>	<u>(115,198)</u>	<u>(126,543)</u>	<u>(11,817,272)</u>
<u>(318,058)</u>	<u>(148,349)</u>	<u>(137,219)</u>	<u>294,773</u>
(150,000)	(395,340)	(293,964)	3,825,129
<u>2,157</u>	<u>(9,312)</u>	<u>120</u>	<u>(127,659)</u>
<u>(147,843)</u>	<u>(404,652)</u>	<u>(293,844)</u>	<u>3,697,470</u>
(282,610)	(354,075)	16,162	6,260,873
<u>702,052</u>	<u>354,075</u>	<u>99,314</u>	<u>3,039,258</u>
<u>\$ 419,442</u>	<u>\$ -</u>	<u>\$ 115,476</u>	<u>\$ 9,300,131</u>
\$ 247,230	\$ 124,659	\$ 512,054	\$ 1,842,233
13,629	33,036	64,440	1,110,004
24,042	-	(24)	178,388
153	-	5,150	5,280
(1,339)	(679)	(434)	(10,021)
-	(1,472)	-	4,554
-	8	-	26,848
(7,802)	-	-	(1,679)
(27,493)	13	6,000	(226,034)
-	-	-	5,995
(26,934)	-	(2,899)	(62,060)
7,748	-	-	45,131
(42,378)	-	(35)	(358,624)
<u>(4,480)</u>	<u>-</u>	<u>(329)</u>	<u>(17,401)</u>
<u>(64,854)</u>	<u>30,906</u>	<u>71,869</u>	<u>700,381</u>
<u>\$ 182,376</u>	<u>\$ 155,565</u>	<u>\$ 583,923</u>	<u>\$ 2,542,614</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,506,136</u>

**City of Two Harbors  
Statement of Fiduciary Net Position  
December 31, 2022**

	Recreation Custodial Fund
<b>Assets</b>	
Current:	
Cash and investments	\$ 143,541
Interest receivable	171
Other receivables	14,226
Total assets	\$ 157,938
<b>Liabilities</b>	
Accounts payable	\$ 7,442
Accrued payroll	1,112
Total liabilities	\$ 8,554
<b>Net Position</b>	
Restricted for recreation	\$ 149,384

**Statement of Changes in Fiduciary Net Position  
Year Ended December 31, 2022**

	Recreation Custodial Fund
<b>Additions</b>	
Investment income	\$ 638
Contributions	72,800
Miscellaneous	13
Charges for services	40,201
Total additions	113,652
<b>Deductions</b>	
Program expenditures	125,959
Change in net position	(12,307)
<b>Net Position</b>	
Beginning of year	161,691
End of year	\$ 149,384

**City of Two Harbors**  
**Notes to Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization**

**1. General**

The Home Rule Charter of the City of Two Harbors (the "City") was adopted on February 26, 1907. The elective officers of the City consist of the Mayor and six Council Members. All elections are conducted biennially with staggered four-year terms. The Mayor is recognized as the head of the city for all ceremonial purposes and for the service of civil process, but shall have no administrative duty, powers are provided for the in the Two Harbors Home Rule Charter, Chapter IV.

**2. City Council**

The legislative power and authority of the City is vested in the City Council. Its powers and duties are prescribed in the Two Harbors Home Rule Charter, Chapter V. The City Council elects a president and vice president annually from its members.

**3. City Administrator**

The City Administrator is appointed by the City Council and shall serve until such time as they resign, retire, or are removed for cause. City Administrator keeps a record of all meetings of the City Council and acts as a custodian of all papers and records of the City.

**4. Finance Director**

The Finance Director is appointed by the City Council and shall serve an indefinite term unless removed for cause and is the custodian of all money received by the City. The Finance Director performs the duties of the city treasurer as provided for in the Two Harbors Home Rule Charter, Chapter VII.

**B. Reporting Entity**

The financial statements present the City and its component units. The City includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the City are financially accountable and are included within the basic financial statements of the City because of the significance of their operational or financial relationships with the City.

The City is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities or level of services performed or provided by the organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the City.

**1. Discretely Presented Component Units**

The Two Harbors Development Fund (the "Fund") is a legal entity separate from the City. The Fund was established in 1985 to promote the economic development within and surrounding the City by providing loans or other financial aid to businesses not able to obtain adequate or appropriate financing from other sources. These businesses are located or need to be located within either the City or an area having an economic impact upon the City. Preferences are given to businesses that provide or will provide training and employment opportunities for unemployed and underemployed individuals. The City of Two Harbors and the Two Harbors Development Fund terminated the relationship in 2022.



**City of Two Harbors**  
**Notes to Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Reporting Entity (Continued)**

**1. Discretely Presented Component Units (Continued)**

The Two Harbors Economic Development Authority (THEDA) is a legal entity separate from the City. THEDA is governed by a five member board made up of members of the community.

Separate financial statements are included in this report for the Fund and THEDA to emphasize that they are legally separate from the City. Both the Fund and THEDA are presented as governmental fund types.

**C. 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 City. The fiduciary fund is only reported in the statement of fiduciary net position and the statement of changes in fiduciary net position at the fund financial statement level. 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. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. 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. Internally dedicated revenues are reported as general revenues rather than program revenues.

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

The Custodial Fund is presented in the fiduciary fund financial statements. Since, by definition, these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the City, this Fund is not incorporated into the government-wide statements.

**D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

**City of Two Harbors**  
**Notes to Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

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 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 matures.

Property taxes, franchise taxes, licenses, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Only the portion of special assessments receivable due within the current 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.

**Description of Funds:**

Major Governmental Funds:

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

Street Improvement Capital Projects Fund – This fund accounts for resources accumulated and costs associated with the City's street improvement projects.

G.O. Bond Debt Service Fund – This fund accounts for resources collected and expenditures made to service principal and interest payments on the City's governmental general obligation bonds.

Proprietary Funds:

Water Fund – This fund accounts for the operations of the City's water utility.

Sanitary Sewer Fund – This fund accounts for the operations of the City's sewer utility.

Electric Fund – This fund accounts for the operations of the City's electric utility.

Gas Fund – This fund accounts for the operations of the City's gas utility.

Municipal Liquor Fund – This fund accounts for the operations of the City's Municipal Liquor Store.

Storm Water Fund – This fund accounts for the activities of the City's storm water utility.

Campground Fund – This fund accounts for the operations of the City's campground.

**City of Two Harbors**  
**Notes to Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

**Description of Funds: (Continued)**

Fiduciary Fund:

Recreation Custodial Fund – This fund accounts for the activities sponsored and run by the Recreation Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's utility 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 enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. 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.

When committed, assigned, or unassigned resources are available for use, it is the City's policy to use resources in the following order: committed, assigned, and unassigned.

**E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity**

**1. 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.

*Minnesota Statutes* authorizes the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase and reverse repurchase agreements, and commercial paper of the highest quality with a maturity of no longer than 270 days and in the Minnesota Municipal Investment Pool.

**2. Inventory and Prepaid Items**

Inventory is valued at cost using the weighted average method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

**City of Two Harbors  
Notes to Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity  
(Continued)**

**2. Inventory and Prepaid Items (Continued)**

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. Prepaid items are recorded as an expenditure at the time of consumption.

**3. Taxes Receivable**

Delinquent taxes receivable represent the past six years of uncollected tax levies.

**4. Loans Receivable**

Loans receivable represent the balance of loans made to local businesses for the purpose of economic development.

**5. Trade Receivables**

All proprietary fund service receivables are shown net of an allowance for doubtful accounts. Allowances for receivables are calculated as follows:

Days	Allowance Percentage
30-60	10 %
60-90	25
90-120	50
120+	100

**6. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, 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 individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

**City of Two Harbors  
Notes to Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity  
(Continued)**

**6. Capital Assets (Continued)**

Property, plant, and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and building improvements	5-40
Other improvements	10-25
Infrastructure	20-75
Machinery and equipment	3-10

**7. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The City presents deferred outflows of resources on the Statement(s) of Net Position for deferred outflows of resources related to pensions and OPEB for various estimate differences that will be amortized and recognized over future years.

In addition to liabilities, the statement of financial position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City presents deferred inflows of resources on the Governmental Fund Balance Sheet as unavailable revenue. 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 presents deferred inflows of resources on the Statement(s) of Net Position for deferred inflows of resources related to pensions for various estimate differences that will be amortized and recognized over future years.

**8. Compensated Absences**

Vacation leave is recognized as an expenditure or expense when taken. City employees are granted between 5 and 30 days of vacation per year depending upon the years of service and union bargaining unit. Up to 5 days of unused vacation leave can be carried over to the succeeding year.

City employees earn sick leave at the rate of 24 days per year and may accumulate 150 days depending on the union contract. In addition, emergency sick leave may be accumulated up to an additional 60 days but cannot be used until the original 150 days of sick leave are used.

**City of Two Harbors**  
**Notes to Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity  
(Continued)**

**8. Compensated Absences (Continued)**

Any employee who has rendered at least 20 years of service is entitled upon retirement to a cash payment of 60% of their accumulated sick leave balance or may elect to have an amount equal to 60% of their accumulated sick leave balance applied to their health insurance after retirement.

**9. 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.

In the fund financial statements, governmental fund types recognize 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.

**10. 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 the relief association and additions to/deductions from PERA's and the relief association's fiduciary net position have been determined on the same basis as they are reported by PERA and the relief association 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.

**11. Fund Equity**

**a. Classification**

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in those funds can be spent.

- Nonspendable Fund Balance – These are amounts that cannot be spent because they are not in spendable form.
- Restricted Fund Balance – These are amounts that are restricted to specific purposes either by a) constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through enabling legislation.

**City of Two Harbors**  
**Notes to Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity  
(Continued)**

**11. Fund Equity (Continued)**

**a. Classification (Continued)**

- Committed Fund Balance – These are amounts that can only be used for specific purposes pursuant to constraints imposed by the City Council (highest level of decision making authority) through resolution.
- Assigned Fund Balance – These are amounts that are constrained by the City's intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by the City's Administrator based on the City Council's direction.
- Unassigned Fund Balance – These are residual amounts in the General Fund not reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted, and committed fund balances exceed the total net resources of that fund.

**b. Minimum Fund Balance**

The City will strive to maintain an unassigned fund balance in the General Fund in the range of 40-50% of the subsequent year's budgeted expenditures.

**12. Net Position**

Net position represents the difference between assets and deferred outflows of resources; and liabilities and deferred inflows of resources in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statement when there are limitations on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. At December 31, 2022, \$677,022 of the total net position restricted for capital projects related to one cent sales tax collections is restricted due to enabling legislation.

**F. Use of Estimates**

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenditures/expense during the reporting period. Actual results could differ from those estimates.

**City of Two Harbors**  
**Notes to Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**G. Property Tax Collection Calendar**

The City levies its property tax for the subsequent year during the month of December. December 28 is the last day the City can certify a tax levy to the County Auditor for collection the following year. The property tax is recorded as revenue when it becomes measurable and available. Lake County is the collecting agency for the levy and remits the collections to the City two times a year. Taxes not collected as of December 31 each year are shown as delinquent taxes receivable.

The County Auditor prepares the tax list for all taxable property in the City, applying the applicable tax rate to the tax capacity of individual properties, to arrive at the actual tax for each property. The County Auditor submits a list of taxes to be collected on each parcel of property to the County Treasurer in January of each year.

The County Treasurer collects all taxes and is required to mail copies of all personal property tax statements and real estate tax statements by April 15 of each year.

Property owners are required to pay one-half of their real estate taxes due by May 15 and the balance by October 15. If taxes due May 15 are not paid on time, a penalty of 3% is assessed on homesteaded property and 7% on non homesteaded property. An additional 1% penalty is added each month the taxes remain unpaid, until October 15. If the taxes due May 15 are not paid by October 15, a 2% penalty per month is added to homesteaded property and 4% per month to non homesteaded property until January 1.

If the taxes are not paid by January 1, further penalties are added. Penalties and interest apply to both taxes and special assessments. There are some exceptions to the above penalties, but they are not material.

Within 30 days after the tax settlement date, the County Treasurer is required to pay 70% of the estimated collections of taxes and special assessments to the Finance Director. The County Treasurer must pay the balance to the Finance Director within 60 days after settlement, provided that after 45 days interest accrues at the rate of 8% per annum.

**H. Budgetary Information**

1. In September of each year, City Staff submits to the City Council, a proposed operating budget for the year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. The budget is legally enacted through passage of a resolution.
3. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
4. Expenditures may not legally exceed budgeted appropriations at the department level. No fund's budget can be increased without City Council approval. The City Council may authorize a transfer of budgeted amounts between departments within any fund. Management may amend budgets within a department level, so long as the total department budget is not changed.



**City of Two Harbors**  
**Notes to Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**H. Budgetary Information (Continued)**

5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds. Formal budgetary integration is not employed for Debt Service Funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions. Budgetary control for Capital Projects Funds is accomplished through the use of project controls.
6. The Finance Director presents monthly expenditure and revenue reports to the City Council.
7. Budgeted amounts are as originally adopted or as amended by the City Council. Budgeted expenditure appropriations lapse at year-end.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

Cash balances of the City's funds are combined (pooled) and invested to the extent available in various investments authorized by *Minnesota Statutes*. Each fund's portion of this pool (or pools) is displayed on the financial statements as cash and cash equivalents or investments. For purposes of identifying risk of investing public funds, the balances and related restrictions are summarized as follows.

In accordance with applicable *Minnesota Statutes*, the City maintains deposits at depository banks authorized by the City Council.

**A. Deposits**

**Custodial Credit Risk – Deposits:** The City has an investment policy in place to address custodial credit risk for deposits, stating all deposits and investments must be in compliance with *Minnesota Statutes* 118A; protected by federal depository insurance and corporate surety bonds or collateral equal to 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance, National Credit Union Administration (NCUA) or corporate surety bonds. As of December 31, 2022, the City's bank balance was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the City's name. As of December 31, 2022, the City's deposits consisted of the following:

Checking	\$ 13,017,391
Savings	36,850
Nonnegotiable certificates of deposit	<u>17,001,000</u>
Total deposits	<u><u>\$ 30,055,241</u></u>

**B. Investments**

Pooled Investment Type	Fair Value	Investment Maturities (In Years)		
		Less Than 1	1 - 5	6 - 10
Negotiable Certificates of Deposit	\$ 2,675,149	\$ 242,140	\$ 227,961	\$ 205,048

**City of Two Harbors**  
**Notes to Basic Financial Statements**

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

Interest Rate Risk: The City's investment policy sets limits on investment maturities by investing operating funds primarily in short-term securities with not more than 20% of the portfolio invested beyond five years and none beyond ten years. The policy also states maturity dates should be structured to meet cash requirements for ongoing operations.

Credit Risk: The City's investment policy states investments will be limited to those allowed by *Minnesota Statutes* 118A.04 to prevent exposure to credit risk. It also requires diversification of the investment portfolio so the impact of potential losses from any one type of security issuer will be minimized.

Concentration of Credit Risk: The City's investment policy places no limit on the amount the City may invest in any one issuer; however, it does state diversification strategies shall be determined and revised periodically by the investment officer for all funds.

Custodial Credit Risk – Investments: For an investment, this is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy states investments shall either be collateralized or held in third party safekeeping by an institution designated as a primary agent.

The City has the following reoccurring fair value measurements as of December 31, 2022:

- \$2,675,149 of investments are valued using a matrix pricing model (Level 2 inputs)

The following is a summary of total deposits and investments:

Petty cash	\$ 7,200
Deposits	30,055,241
Investments	<u>2,675,149</u>
Total deposits and investments	<u>\$ 32,737,590</u>

**City of Two Harbors  
Notes to Basic Financial Statements**

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

Deposits and investments are presented in the December 31, 2022, basic financial statements as follows:

Statement of Net Position

Cash and investments

    Primary government \$ 32,169,673

    Component units

        Two Harbors Economic Development Authority 58,541

Restricted cash

    Primary government 365,835

Statement of Fiduciary Net Position

Cash and investments

143,541

Total

\$ 32,737,590

**NOTE 3 – INTERFUND ACTIVITY**

**A. Transfers**

Transfers among funds were for the City to assist with administrative costs, to cover capital expenditures, to assist with capital projects, and assist with debt service obligations.

	Transfers In						Total
	General	Street Improvement	G.O. Debt Service	Other Governmental	Water	Sewer	
Transfers out							
General	\$ -	\$ 200,000		\$ 525,250	\$ -	\$ -	\$ 725,250
Street improvement	-	-	275,000	-	-	-	275,000
Other governmental funds	9,529	275,000	-	25,678	300,000	120,000	730,207
Electric	250,831	-	-	225,000	-	-	475,831
Gas	98,810	-	-	125,000	-	-	223,810
Municipal liquor	259	-	-	-	-	-	259
Campground	71,538	-	-	-	-	-	71,538
Total	<u>\$ 430,967</u>	<u>\$ 475,000</u>	<u>\$ 275,000</u>	<u>\$ 900,928</u>	<u>\$ 300,000</u>	<u>\$ 120,000</u>	<u>\$ 2,501,895</u>

The following balances arise from negative cash balances in the debtor fund or represent the current portion of advances as described below:

Due to Other Funds	Electric Fund - Due from Other Funds
Campground	\$ 71,873
Stormwater	<u>43,291</u>
Total	<u><u>\$ 115,164</u></u>

**City of Two Harbors**  
**Notes to Basic Financial Statements**

**NOTE 3 – INTERFUND ACTIVITY (CONTINUED)**

**C. Advances**

An advance from the Electric Fund to the Campground Fund was made for the Campground Bath House Building Project. This loan will be repaid over a period of ten years at 1% interest. At December 31, 2022, the long-term balance was \$182,849 with the current portion shown above as a due to/from other funds of \$71,873.

**NOTE 4 – NOTES AND LEASES RECEIVABLE**

Notes receivable at December 31, 2022, are as follows:

Daniel and Kirsten Cruikshank Note

\$200,000 loan, due in monthly installments of various amounts  
through April 2034, interest at 3.0%

\$ 173,141

Total loans receivable

\$ 173,141

**City of Two Harbors**  
**Notes to Basic Financial Statements**

**NOTE 5 – CAPITAL ASSETS**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 310,514	\$ -	\$ -	\$ 310,514
Inexhaustible asset	281,528	-	-	281,528
Construction in progress	<u>1,821,719</u>	<u>1,104,521</u>	<u>2,519,870</u>	<u>406,370</u>
Total capital assets not being depreciated	<u>2,413,761</u>	<u>1,104,521</u>	<u>2,519,870</u>	<u>998,412</u>
Capital assets being depreciated				
Buildings	5,710,283	224,367	-	5,934,650
Improvements	17,267,371	2,671,459	1,506,137	18,432,693
Structures	311,156	-	-	311,156
Machinery and equipment	<u>5,969,133</u>	<u>401,474</u>	<u>128,392</u>	<u>6,242,215</u>
Total capital assets being depreciated	<u>29,257,943</u>	<u>3,297,300</u>	<u>1,634,529</u>	<u>30,920,714</u>
Less accumulated depreciated for				
Buildings	3,084,935	152,474	-	3,237,409
Improvements	8,908,258	514,341	-	9,422,599
Structures	118,320	9,388	-	127,708
Machinery and equipment	<u>3,932,850</u>	<u>303,325</u>	<u>128,392</u>	<u>4,107,783</u>
Total accumulated depreciation	<u>16,044,363</u>	<u>979,528</u>	<u>128,392</u>	<u>16,895,499</u>
Total capital assets being depreciated, net	<u>13,213,580</u>	<u>2,317,772</u>	<u>1,506,137</u>	<u>14,025,215</u>
Governmental activities, capital assets, net	<u>\$ 15,627,341</u>	<u>\$ 3,422,293</u>	<u>\$ 4,026,007</u>	<u>\$ 15,023,627</u>

**City of Two Harbors**  
**Notes to Basic Financial Statements**

**NOTE 6 – CAPITAL ASSETS (CONTINUED)**

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

Governmental activities	
General government	\$ 27,886
Public safety	122,472
Public works	437,262
Culture and recreation	104,447
Health and welfare	10,943
Airport	<u>276,518</u>
Total depreciation expense - governmental activities	<u>\$ 979,528</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business type activities				
Capital assets not being depreciated				
Land	\$ 1,620,666	\$ 269,582	\$ -	\$ 1,890,248
Construction in progress	<u>2,778,829</u>	<u>12,559,558</u>	<u>425,430</u>	<u>14,912,957</u>
Total capital assets not being depreciated	<u>4,399,495</u>	<u>12,829,140</u>	<u>425,430</u>	<u>16,803,205</u>
Capital assets being depreciated				
Buildings	20,057,156	183,460	-	20,240,616
Structures and improvements	25,114,452	1,748,107	-	26,862,559
Machinery and equipment	<u>3,480,425</u>	<u>-</u>	<u>-</u>	<u>3,480,425</u>
Total capital assets being depreciated	<u>48,652,033</u>	<u>1,931,567</u>	<u>-</u>	<u>50,583,600</u>
Less accumulated depreciated for				
Buildings	10,465,647	416,162	-	10,881,809
Structures and improvements	11,057,171	588,723	-	11,645,894
Machinery and equipment	<u>2,910,528</u>	<u>105,123</u>	<u>-</u>	<u>3,015,651</u>
Total accumulated depreciation	<u>24,433,346</u>	<u>1,110,008</u>	<u>-</u>	<u>25,543,354</u>
Business-type activities capital assets, being depreciated, net	<u>24,218,687</u>	<u>821,559</u>	<u>-</u>	<u>25,040,246</u>
Business-type activities capital assets, net	<u>\$ 28,618,182</u>	<u>\$ 13,650,699</u>	<u>\$ 425,430</u>	<u>\$ 41,843,451</u>

**City of Two Harbors**  
**Notes to Basic Financial Statements**

**NOTE 6 – CAPITAL ASSETS (CONTINUED)**

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

Business-type activities	
Water	\$ 407,392
Sewer	395,548
Electric	149,902
Gas	46,060
Liquor	13,629
Storm water	33,036
Campground	<u>64,441</u>
 Total depreciation expense - business-type activities	 <u><u>\$ 1,110,008</u></u>

**City of Two Harbors**  
**Notes to Basic Financial Statements**

**NOTE 7 – LONG-TERM DEBT**

**A. Components of Long-Term Liabilities**

	Date	Rates	Issue	Maturity	Outstanding	One Year
Primary government						
Long-term liabilities						
Governmental activities						
G.O. Bond 2018A	07/17/18	3.00%	\$ 1,680,000	02/01/34	\$ 1,405,000	\$ 95,000
G.O. Bond 2019B	07/24/19	3.00%	1,825,000	02/01/35	1,625,000	105,000
G.O. Bond 2021A	07/01/21	1.00-2.00%	2,645,000	02/01/37	2,645,000	155,000
G.O. Equipment Certificate 2021B	07/01/21	1.25-2.00%	715,000	02/01/29	715,000	100,000
Unamortized premium					213,697	-
Compensated absences					480,253	192,330
Total governmental activities					<u>\$ 7,083,950</u>	<u>\$ 647,330</u>
Business-type activities						
Notes from direct borrowing, including refunding notes						
G.O. PFA Water Revenue Note, 2009	12/14/09	2.53%	2,387,496	08/20/29	\$ 894,000	\$ 118,000
G.O. PFA Water Revenue Note, 2010	05/11/10	1.67%	2,262,255	08/20/29	909,000	123,000
G.O. PFA Sewer Revenue Note, 2015	10/13/14	1.00%	122,152	08/20/29	53,500	7,500
G.O. PFA Water Revenue Note, 2015	08/06/15	1.00%	4,741,091	08/20/35	3,241,000	235,000
G.O. PFA Sewer Revenue Note, 2018	11/15/19	1.00%	1,825,938	08/20/38	1,552,000	90,000
G.O. PFA Water Revenue Note 2022	07/28/22	1.58%	811,340	08/20/38	811,340	-
Total notes from direct borrowing					7,460,840	573,500
General obligation bonds						
G.O. Bond 2018A Stormwater	07/17/18	3.00%	280,000	02/01/34	235,000	15,000
G.O. Bond 2018A Electric	07/17/18	3.00%	40,000	02/01/27	25,000	5,000
G.O. Bond 2018 Campground	07/17/18	3.00%	90,000	02/01/34	75,000	5,000
G.O. Bond 2019 Stormwater	07/24/19	3.00%	100,000	02/01/35	90,000	5,000
G.O. Bond 2021A Stormwater	07/01/21	1.00-2.00%	130,000	02/01/37	130,000	5,000
Total general obligation bonds					555,000	35,000
Unamortized bond premium					16,597	-
Compensated absences					662,716	257,669
Total business-type					<u>\$ 8,695,153</u>	<u>\$ 866,169</u>
Total all long-term liabilities					<u>\$ 15,779,103</u>	<u>\$ 1,513,499</u>

Long-term indebtedness listed above was issued to finance acquisition and construction of capital facilities or to refinance (refund) previous bond and note issues. The General, Library, and Golf Funds and each enterprise fund liquidate their individual compensated absence liabilities.

**B. Changes in Long-Term Liabilities**

The Water, Sewer, Stormwater, Electric and Campground Funds are each responsible for the repayment of the corresponding G.O. Notes from direct borrowing.



**City of Two Harbors**  
**Notes to Basic Financial Statements**

**NOTE 7 – LONG-TERM DEBT (CONTINUED)**

**B. Changes in Long-Term Liabilities (Continue)**

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

	Beginning Balance	Additions	Maturities	Ending Balance	Due Within One Year
Governmental activities					
Long-term liabilities					
G.O. Bond	\$ 5,870,000	\$ -	\$ 195,000	\$ 5,675,000	\$ 350,000
G.O. Equipment Certificate	715,000	-	-	715,000	100,000
Unamortized bond premium	233,805	-	20,108	213,697	-
Compensated absences	412,732	155,303	87,782	480,253	192,330
Total governmental activities	<u>7,231,537</u>	<u>155,303</u>	<u>302,890</u>	<u>7,083,950</u>	<u>642,330</u>
Business-type activities					
Long-term liabilities					
Notes from direct borrowing	7,253,900	811,340	604,400	7,460,840	573,500
G.O. Bonds	585,000	-	30,000	555,000	35,000
Unamortized bond premium	18,062	-	1,463	16,597	-
Compensated absences	680,117	131,476	148,877	662,716	257,669
Total business-type activities	<u>8,537,079</u>	<u>942,816</u>	<u>784,740</u>	<u>8,695,153</u>	<u>866,169</u>
Total all long-term liabilities	<u>\$ 15,768,616</u>	<u>\$ 1,098,119</u>	<u>\$ 1,087,630</u>	<u>\$ 15,779,103</u>	<u>\$ 1,508,499</u>

**C. Maturity Schedules**

Year Ending December 31,	Governmental Activities	
	G.O. Bond and Certificate	
	Principal	Interest
2023	\$ 450,000	\$ 145,289
2024	465,000	133,564
2025	475,000	121,039
2026	490,000	108,114
2027	500,000	95,258
2028-2032	2,350,000	302,194
2033-2037	1,660,000	61,303
Total	<u>\$ 6,390,000</u>	<u>\$ 966,761</u>

**City of Two Harbors**  
**Notes to Basic Financial Statements**

**NOTE 7 – LONG-TERM DEBT (CONTINUED)**

**C. Maturity Schedules (Continued)**

Year Ending December 31,	Business-Type Activities		Business-Type Activities	
	Notes from Direct Borrowing		G.O. Bond	
	Principal	Interest	Principal	Interest
2023	\$ 573,500	\$ 86,200	\$ 35,000	\$ 15,649
2024	582,400	77,845	35,000	14,524
2025	590,600	69,333	35,000	13,274
2026	600,600	60,681	40,000	11,924
2027	608,700	51,855	45,000	10,424
2028-2032	2,297,700	139,691	215,000	34,251
2033-2037	1,292,000	36,290	150,000	5,320
2038-2042	104,000	1,040	-	-
Total	<u>\$ 6,649,500</u>	<u>\$ 522,935</u>	<u>\$ 555,000</u>	<u>\$ 105,366</u>

A final amortization schedule has not yet been determined for the G.O. PFA Water Revenue Note of 2022. Once this has been determined it will be included in the maturity schedule above.

**NOTE 8 – CONDUIT DEBT**

Conduit debt obligations are certain limited-obligation revenue bonds or similar debt instruments issued for the express purpose of providing capital financing for a specific third party. The City has issued revenue bonds to provide funding to private-sector entities for projects deemed to be in the public interest. Although these bonds bear the name of the City, the City has no obligation for such debt beyond the resources provided by related leases or loans. Accordingly, the bonds are not reported as liabilities in the financial statements of the City.

As of December 31, 2022, the following issues were outstanding:

Name	Date of Issue	Original Amount of Issue	Outstanding as of 12/31/22
Lake View Memorial Hospital Health care facilities revenue bonds	2019	\$ 6,000,000	\$ 5,815,301

**City of Two Harbors**  
**Notes to Basic Financial Statements**

**NOTE 9 – FUND BALANCE AND NET POSITION**

Fund equity balances are classified as follows to reflect the limitations and restrictions of the respective funds:

	General	G.O Bond Debt Service	Street Improvement Fund	Other Governmental Funds	Total
Nonspendable					
Inventory	\$ -	\$ -	\$ -	\$ 31,858	\$ 31,858
Restricted					
Revolving loans	-	-	-	40,606	40,606
Sales tax appropriations	-	-	-	1,066,652	1,066,652
Tax increment financing	-	-	-	198,670	198,670
Cemetery endowment	-	-	-	145,729	145,729
Bond debt service	-	686,536	-	-	686,536
Total restricted	<u>-</u>	<u>686,536</u>	<u>-</u>	<u>1,451,657</u>	<u>2,138,193</u>
Committed					
Golf	-	-	-	108,320	108,320
Airport	-	-	-	111,745	111,745
Library	-	-	-	217,446	217,446
Total committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>437,511</u>	<u>437,511</u>
Assigned					
Drug and alcohol forfeiture	20,531	-	-	-	20,531
Police donations	640	-	-	-	640
Heritage days & Winter Frolic	5,682	-	-	-	5,682
Street improvement fund	-	-	1,325,551	-	1,325,551
Capital projects	-	-	-	2,372,030	2,372,030
Total assigned	<u>26,853</u>	<u>-</u>	<u>1,325,551</u>	<u>2,372,030</u>	<u>3,724,434</u>
Unassigned	<u>2,674,259</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,674,259</u>
Total	<u>\$ 2,701,112</u>	<u>\$ 686,536</u>	<u>\$ 1,325,551</u>	<u>\$ 4,293,056</u>	<u>\$ 9,006,255</u>

The Sewer Fund had an amount restricted of \$365,835 as municipalities receiving Water Infrastructure Fund (WIF) resources must annually deposit a minimum of 50 cents per 1,000 gallons of flow for major rehabilitation, expansion or replacement of the treatment system at the end of its useful life.

**NOTE 10 – RISK MANAGEMENT**

The City purchases commercial insurance coverage through the League of Minnesota Cities Insurance Trust (LMCIT) with other cities in the state which is a public entity risk pool currently operating as a common risk management and insurance program. The City pays an annual premium to the LMCIT for its insurance coverage. The LMCIT is self-sustaining through commercial companies for excess claims. The City is covered through the pool for any claims incurred but unreported, however, retains risk for the deductible portion of its insurance policies. The amount of these deductibles is considered immaterial to the financial statements.

**City of Two Harbors**  
**Notes to Basic Financial Statements**

**NOTE 10 – RISK MANAGEMENT (CONTINUED)**

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three years.

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for 2022 was estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2022, there were no other claims liabilities reported in the fund based on the requirements of GASB Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

**NOTE 11 – PENSION PLANS**

The City participates in various pension plans, total pension expense for the year ended December 31, 2022, was \$685,758. The components of pension expense are noted in the following plan summaries.

The General Fund, Water Utility Fund, Sewer Utility Fund, Electric Utility Fund, Gas Utility Fund, Liquor Utility Fund, and Campground Utility Fund typically liquidate the Liability related to pensions.

**Public Employees' Retirement Association**

**A. Plan Description**

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

**General Employees Retirement Plan**

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

**Public Employees Police and Fire Plan**

The Police and Fire Plan originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the Police and Fire Plan also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

**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.

**City of Two Harbors**  
**Notes to Basic Financial Statements**

**NOTE 11 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**B. Benefits Provided (Continued)**

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any 5 successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for a Coordinated members is 1.2% for each of the first 10 years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

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

Police and Fire Plan Benefits

Benefits for the Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after 10 years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50% after 10 years up to 100% after 20 years of credited service. The annuity accrual rate is 3% of average salary for each year of service. For Police and Fire Plan members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. The postretirement increase is fixed at 1%. Recipients that have been receiving the annuity or benefit for at least 36 months as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated 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.

**City of Two Harbors  
Notes to Basic Financial Statements**

**NOTE 11 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**C. Contributions (Continued)**

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2022 and the City was required to contribute 7.5% for Coordinated Plan members. The City's contributions to the General Employees Plan for the year ended December 31, 2022, were \$231,105. The City's contributions were equal to the required contributions as set by state statute.

Police and Fire Plan Contributions

Police and Fire Plan members were required to contribute 11.8% of their annual covered salary in fiscal year 2022 and the City was required to contribute 17.7% for Police and Fire Plan members. The City's contributions to the Police and Fire Plan for the year ended December 31, 2022, were \$125,040. The City's contributions were equal to the required contributions as set by state statute.

**D. Pension Costs**

General Employees Fund Pension Costs

At December 31, 2022, the City reported a liability of \$3,350,174 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$98,352. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021, through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0423% at the end of the measurement period and 0.0402% for the beginning of the period.

City's proportionate share of the net pension liability	\$ 3,350,174
State of Minnesota's proportionate share of the net pension liability associated with the City	98,352
Total	\$ 3,448,526

**City of Two Harbors**  
**Notes to Basic Financial Statements**

**NOTE 11 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**D. Pension Costs (Continued)**

General Employees Fund Pension Costs (Continued)

For the year ended December 31, 2022, the City recognized pension expense of \$441,265 for its proportionate share of General Employees Plan's pension expense. Included in the amount, the City recognized an additional \$14,696 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u>                    </u>	<u>                    </u>
Differences between expected and actual economic experience	\$ 27,983	\$ 33,852
Changes in actuarial assumptions	721,701	12,273
Net collective difference between projected and actual investment earnings	109,253	-
Changes in proportion	130,212	20,733
Contributions paid to PERA subsequent to the measurement date	<u>115,553</u>	<u>-</u>
Total	<u><u>\$ 1,104,702</u></u>	<u><u>\$ 66,858</u></u>

**City of Two Harbors  
Notes to Basic Financial Statements**

**NOTE 11 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**D. Pension Costs (Continued)**

General Employees Fund Pension Costs (Continued)

The \$115,553 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amount
2023	\$ 325,059
2024	357,419
2025	(63,160)
2026	302,973
Total	\$ 922,291

Police and Fire Plan Pension Costs

At December 31, 2022, the City reported a liability of \$2,323,757 for its proportionate share of the Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021, through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0534% at the end of the measurement period and 0.0533% for the beginning of the period.

The State of Minnesota contributed \$18 million to the Police and Fire Fund in the plan fiscal year ended June 30, 2022. The contribution consisted of \$9 million in direct state aid that does meet the definition of a special funding situation and \$9 million in supplemental state aid that does not meet the definition of a special funding situation. The \$9 million direct state aid was paid on October 1, 2021. Thereafter, by October 1 of each year, the State will pay \$9 million to the Police and Fire Fund until full funding is reached or July 1, 2048, whichever is earlier. The \$9 million in supplemental state aid will continue until the fund is 90% funded, or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90% funded, whichever occurs later.



**City of Two Harbors**  
**Notes to Basic Financial Statements**

**NOTE 11 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**D. Pension Costs (Continued)**

Police and Fire Plan Pension Costs (Continued)

The State of Minnesota is included as a non-employer contributing entity in the Police and Fire Retirement Plan Schedule of Employer Allocations and Schedule of Pension Amounts by Employer, Current Reporting Period Only (pension allocation schedules) for the \$9 million in direct state aid. Police and Fire Plan employers need to recognize their proportionate share of the State of Minnesota's pension expense (and grant revenue) under GASB 68 special funding situation accounting and financial reporting requirements. For the year ended December 31, 2022, the City recognized pension expense of \$187,491 for its proportionate share of the Police and Fire Plan's pension expense. Included in this amount, the City recognized \$101,455 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$9 million to the Police and Fire Fund.

The State of Minnesota is not included as a non-employer contributing entity in the Police and Fire Pension Plan pension allocation schedules for the \$9 million in supplemental state aid. The City also recognized \$19,680 for the year ended December 31, 2022, as revenue and an offsetting reduction of the net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u>                    </u>	<u>                    </u>
Differences between expected and actual economic experience	\$ 141,869	\$ -
Changes in actuarial assumptions	1,366,982	14,033
Net collective difference between projected and actual investment earnings	32,704	-
Changes in proportion	19,642	25,710
Contributions paid to PERA subsequent to the measurement date	<u>62,520</u>	<u>-</u>
Total	<u>\$ 1,623,717</u>	<u>\$ 39,743</u>

**City of Two Harbors**  
**Notes to Basic Financial Statements**

**NOTE 11 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**D. Pension Costs (Continued)**

Police and Fire Plan Pension Costs (Continued)

The \$62,520 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amount
2023	\$ 290,400
2024	289,713
2025	270,117
2026	477,756
2027	193,468
Total	\$ 1,521,454

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

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

Asset Class	Target Allocation	Long-Term
Domestic equity	33.5 %	5.10 %
International equity	16.5	5.30
Fixed income	25.0	0.75
Private markets	25.0	5.90
Total	100.0 %	

**City of Two Harbors**  
**Notes to Basic Financial Statements**

**NOTE 11 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**F. Actuarial Methods and Assumptions**

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

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

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25% after one year of service to 3.0% after 27 years of service. In the Police and Fire Plan, salary growth assumptions range from 11.75% after one year of service to 3.0% after 24 years of service.

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

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020, actuarial valuation. The most recent four-year experience study for the Police and Fire Plan was completed in 2020 and was adopted by the Board and became effective with the July 1, 2021, actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2022:

**General Employees Fund**

**Changes in Actuarial Assumptions**

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

**Changes in Plan Provisions**

- There have been no changes since the previous valuation.

**Police and Fire Fund**

**Changes in Actuarial Assumptions**

- The mortality improvement scale was changed from MP-2020 to MP-2021.
- The single discount rates were changed from 6.5% to 5.4%.

**City of Two Harbors**  
**Notes to Basic Financial Statements**

**NOTE 11 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**F. Actuarial Methods and Assumptions (Continued)**

Police and Fire Fund (Continued)

Changes in Plan Provisions

- There have been no changes since the previous valuation.

**G. Discount Rate**

The discount rate for the General Employees Plan used to measure the total pension liability in 2022 was 6.5%. 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 positions of the General Employees Fund was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In the Police and Fire Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2060. Beginning in the fiscal year ended June 30, 2061, projected benefit payments exceed the fund's projected fiduciary net position. Benefit payments projected after were discounted at the municipal bond rate of 3.69% (based on the weekly rate closest to but not later than the measurement date of the Fidelity "20-Year Municipal GO AA Index"). The resulting equivalent single discount rate of 5.4% for the Police and Fire Fund was determined to give approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 6.5% applied to all years of projected benefits through the point of asset depletion and 3.69% thereafter.

**City of Two Harbors  
Notes to Basic Financial Statements**

**NOTE 11 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**H. Pension Liability Sensitivity**

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

	1% Decrease in Discount Rate <u>(5.5%)</u>	Current Discount Rate <u>(6.5%)</u>	1% Increase in Discount Rate <u>(7.5%)</u>
City's proportionate share of the General Employees Fund net pension liability	\$ 5,291,775	\$ 3,350,174	\$ 1,757,761
	1% Decrease in Discount Rate <u>(4.4%)</u>	Current Discount Rate <u>(5.4%)</u>	1% Increase in Discount Rate <u>(6.4%)</u>
City's proportionate share of the Police and Fire Fund net pension liability	\$ 3,516,708	\$ 2,323,757	\$ 1,359,327

**I. Pension Plan Fiduciary Net Position**

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

**Defined Benefit Pension Plan – Volunteer Fire Fighter's Relief Association**

**A. Plan Description**

The Two Harbors Firefighter's Relief Association is the administrator of a single employer defined benefit pension plan established to provide benefits for members of the Two Harbors Fire Department per *Minnesota State Statutes*.

The Association issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Two Harbors Firefighter's Association, 501 1<sup>st</sup> Avenue, Two Harbors, MN 55616 or by calling 218-834-8816.

**City of Two Harbors  
Notes to Basic Financial Statements**

**NOTE 11 – PENSION PLANS (CONTINUED)**

**Defined Benefit Pension Plan – Volunteer Fire Fighter's Relief Association (Continued)**

**B. Benefits Provided**

Volunteer firefighters of the City are members of the Two Harbors Fire Fighter's Relief Association. Full retirement benefits are payable to members who have reached age 50 and have completed 20 years of service for monthly service pension. Partial benefits are payable to members who have reached 50 and have completed 5 years of service. Disability benefits and widow and children's survivor benefits are also payable to members, or their beneficiaries based upon requirements set forth in the bylaws. These benefit provisions and all other requirements are consistent with enabling state statutes.

**C. Employees Covered by Benefit Terms**

At December 31, 2021, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	-
Inactive employees entitled to but not yet receiving benefits	5
Active employees	22
Total	27

**D. Contributions.**

*Minnesota Statutes* Chapter 424A.092 specifies minimum support rates required on an annual basis. The minimum support rates from the municipality and from State aids are determined as the amount required to meet the normal cost plus amortizing any existing prior service costs over a ten year period. The City's obligation is the financial requirement for the year less state aids. Any additional payments by the City shall be used to amortize the unfunded liability of the relief association. The Association is comprised of volunteers: therefore, there are no payroll expenditures (i.e., there are no covered payroll percentage calculations). During the year, the City recognized as revenue and as an expenditure an on behalf payment of \$59,406 made by the State of Minnesota for the Relief Association.

**E. Net Pension Liability**

The City's net pension liability was measured as of December 31, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

*Actuarial Assumptions*

The total pension liability in the December 31, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 %
Salary increase	N/A %, average, including inflation
Investment rate of return	6.25 %, net of pensions plan investment expenses including inflation

**City of Two Harbors  
Notes to Basic Financial Statements**

**NOTE 11 – PENSION PLANS (CONTINUED)**

**Defined Benefit Pension Plan – Volunteer Fire Fighter's Relief Association (Continued)**

**E. Net Pension Liability (Continued)**

*Actuarial Assumptions (Continued)*

The value of death benefits is similar to the value of the retirement pension. Because of low retirement ages, the plan assumes no pre-retirement mortality. Post-retirement mortality does not apply as the benefit structure and form of payment do not reflect lifetime benefits.

The long-term return on assets has been set based on the plan's target investment allocation along with long-term return expectations by asset class. When there is sufficient historical evidence of market outperformance, historical average returns may be considered. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of the measurement date are summarized in the table below.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	59.11 %	4.90 %
International equity	10.27	5.32
Fixed income	26.27	1.40
Real estate and alternatives	0.03	4.43
Cash and equivalents	4.32	0.09
 Total	 <u><u>100.00 %</u></u>	

*Discount Rate*

The discount rate used to measure the total pension liability was 6.25%. Assets were projected using expected benefit payments and expected asset returns. Expected benefit payments by year were discounted using the expected asset return assumption for years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the municipal bond rate. The equivalent single rate is the discount rate.

**City of Two Harbors**  
**Notes to Basic Financial Statements**

**NOTE 11 – PENSION PLANS (CONTINUED)**

**Defined Benefit Pension Plan – Volunteer Fire Fighter's Relief Association (Continued)**

**F. Changes in the Net Pension Liability**

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at January 1, 2021	\$ 553,530	\$ 850,192	\$ (296,662)
Changes for the year			
Service cost	38,951	-	38,951
Interest cost	37,030	-	37,030
Changes of benefit terms	68,192	-	68,192
State contributions	-	56,297	(56,297)
Net investment income	-	125,630	(125,630)
Administrative expense	-	(11,000)	11,000
Net changes	144,173	170,927	(26,754)
Balances at December 31, 2021	\$ 697,703	\$ 1,021,119	\$ (323,416)

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the City, calculated using the discount rate of 6.25%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (7.25%) than the current rate:

	1% Decrease in Discount Rate 5.25%	Current Discount Rate Rate 6.25%	1% Increase in Discount Rate 7.25%
City's net pension liability (asset)	\$ (293,435)	\$ (323,416)	\$ (352,285)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued relief association financial report.



**City of Two Harbors  
Notes to Basic Financial Statements**

**NOTE 11 – PENSION PLANS (CONTINUED)**

**Defined Benefit Pension Plan – Volunteer Fire Fighter's Relief Association (Continued)**

**G. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended December 31, 2022, the City recognized pension expense of \$57,002. At December 31, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 217	\$ 30,879
Changes of assumptions	38,200	8,000
Net difference between projected and actual earnings on pension plan investments	-	133,707
City's contributions to relief association subsequent to measurement date	59,406	-
Total	\$ 97,823	\$ 172,586

The \$59,406 reported as deferred outflows of resources related pensions resulting from the City's contribution to the relief association subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as shown below.

Year Ending December 31,	Total
2022	\$ (31,367)
2023	(50,971)
2024	(33,654)
2025	(14,748)
2026	(537)
Thereafter	(2,892)
Total	\$ (134,169)

**H. Payable to the Pension Plan**

At December 31, 2022, the City reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2022.

**City of Two Harbors**  
**Notes to Basic Financial Statements**

**NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN**

**A. Plan Description**

The City provides single-employer defined benefit health care insurance and life insurance upon retirement to certain retirees. Medical coverage is administered by Health Partners. It is the City's policy to periodically review its medical coverage, and to obtain requests for proposals in order to provide the most favorable benefits and premiums for City employees and retirees.

**B. Benefits Provided**

Benefit provisions are established through negotiations between the City and the unions representing the City employees and are renegotiated each bargaining period. Retired employees receive no retiree benefits except the allowance to continue health insurance that is mandated by Minnesota Law. The Retiree Health Plan does not issue a publicly available financial report.

**C. Contributions**

Retirees contribute to the health care plan at the same rate as City employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the City, based on the contract terms with Blue Cross/Blue Shield. The required contributions are based on projected pay-as-you-go financing requirements. For the year 2022, the City contributed \$136,233 to the plan.

**D. Members**

As of December 31, 2021, the following were covered by the benefit terms:

Retirees receiving payments	3
Actives waiving coverage	3
Active employees	49
Total	55

**E. Actuarial Assumptions**

Since the last valuation, the following actuarial assumption changes have been made:

- The discount rate was changed from 2.00% to 1.84% based on updated 20-year municipal bond rates.
- Healthcare trend rates were reset to reflect updated cost increase expectations.
- Medical per capita claims costs were updated to reflect recent experience and new plan offerings.
- Withdrawal, mortality, and salary increase rates were updated from the rates used in the 7/1/2019 PERA General Employees Plan and 7/1/2019 PERA Police & Fire Plan valuations to the rates used in the 7/1/2021 valuations.
- The inflation assumptions were changed from 2.50% to 2.25% based on an updated historical analysis of inflation rates and forward-looking market expectations.
- The assumed retirement age for Police employees changed from age 50 to age 55 to reflect updated expectations.

**City of Two Harbors**  
**Notes to Basic Financial Statements**

**NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**E. Actuarial Assumptions (Continued)**

The total OPEB liability was determined by an actuarial valuation as of December 31, 2022, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Salary increases	N/A
Inflation	2.25%
Healthcare cost trend increases	6.2% for FY2022, gradually decreasing over several decades to an ultimate rate of 3.7% in FY2074 and later years.
Mortality assumption	
General employees	From the July 1, 2021, PERA of Minnesota General Employees Retirement Plan actuarial valuation, mortality rates were based on the Pub-2010 mortality tables with projected mortality improvements based on scale MP-2020, and other adjustments.
Police and Fire	From the July 1, 2021, PERA of Minnesota Public Employees' Police & Fire Plan actuarial valuation, mortality rates were based on the Pub-2010 mortality tables with projected mortality improvements based on scale MP-2020, and other adjustments.

The actuarial assumptions used in the December 31, 2021, valuation was based on the results of an actuarial experience study for the period January 1, 2021 – December 31, 2021.

The discount rate used to measure the total OPEB liability was 1.84% which is equal to the 20 Year Municipal Bond Yield.

**F. Total OPEB Liability**

The City's total OPEB liability of \$2,490,945 was measured as of December 31, 2021, and was determined by an actuarial valuation as of that date.

**City of Two Harbors**  
**Notes to Basic Financial Statements**

**NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**E. Total OPEB Liability (Continued)**

	<u>Total OPEB Liability</u>
Balances at January 1, 2021	<u>\$ 3,299,925</u>
Changes for the year	
Service cost	247,763
Interest	69,591
Differences between expected and actual economic experience	(791,729)
Changes of assumptions	(198,372)
Benefit payments	<u>(136,233)</u>
Net changes	<u>(808,980)</u>
Balances at December 31, 2021	<u><u>\$ 2,490,945</u></u>

The General Fund, Water Utility Fund, Sewer Utility Fund, Electric Utility Fund, Gas Utility Fund, Liquor Utility Fund, and Campground Utility Fund typically liquidate the Liability related to OPEB.

**G. OPEB Liability Sensitivity**

The following presents the City's total OPEB liability calculated using the discount rate of 1.84% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

Total OPEB Liability		
1% decrease (0.84%)	Current (1.84%)	1% increase (2.84%)
\$ 2,671,072	\$ 2,490,945	\$ 2,321,805

**City of Two Harbors**  
**Notes to Basic Financial Statements**

**NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**G. OPEB Liability Sensitivity (Continued)**

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower and 1% higher than the current healthcare cost trend rates.

Total OPEB Liability		
1% decrease (5.2% decreasing to 3.0%)	Current (6.2% decreasing to 4.0%)	1% increase (7.2% decreasing to 5.0%)
\$ 2,246,220	\$ 2,490,945	\$ 2,779,500

**H. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended December 31, 2022, the City recognized OPEB expense of \$(672,747). At December 31, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to the measurement date	\$ 86,434	\$ -
Total	\$ 86,434	\$ -

\$86,434 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended December 31, 2023.

**NOTE 14 – COMMITMENTS**

At December 31, 2022, the City had outstanding construction contract commitments totaling \$17,843,502.

**NOTE 15 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED**

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* establishes that a Subscription-Based Information Technology Arrangement (SBITA) results in a right-to-use subscription asset and a corresponding liability. Under this statement, a governmental entity generally should recognize a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability. This statement will be effective for the year ending December 31, 2023.

**REQUIRED SUPPLEMENTARY INFORMATION**

**City of Two Harbors**  
**Schedule of Changes in Total OPEB Liability**  
**and Related Ratios**

	December 31, 2018	December 31, 2019	December 31, 2020
Total OPEB Liability			
Service cost	\$ 143,400	\$ 165,392	\$ 148,693
Interest	117,886	108,958	115,598
Differenced between expected and actual experience	-	-	(250,264)
Changes of assumptions	101,591	(145,722)	271,446
Changes of benefit terms	-	(76,370)	-
Benefit payments	<u>(165,469)</u>	<u>(208,913)</u>	<u>(214,094)</u>
Net change in total OPEB liability	<u>197,408</u>	<u>(156,655)</u>	<u>71,379</u>
Beginning of year	<u>3,033,443</u>	<u>3,230,851</u>	<u>3,074,196</u>
Total OPEB liability	<u>\$ 3,230,851</u>	<u>\$ 3,074,196</u>	<u>\$ 3,145,575</u>
Covered-employee payroll	\$ 3,343,369	\$ 3,358,853	\$ 3,338,302
Total OPEB liability as a percentage of covered-employee payroll	96.63%	91.53%	94.23%

Note 1: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

Note 2: There are no assets accumulated in a trust.

December 31, 2021	December 31, 2022
\$ 207,731	\$ 247,763
89,066	69,591
(76,888)	(791,729)
163,514	(198,372)
-	-
<u>(229,073)</u>	<u>(136,233)</u>
<u>154,350</u>	<u>(808,980)</u>
<u>3,145,575</u>	<u>3,299,925</u>
<u>\$ 3,299,925</u>	<u>\$ 2,490,945</u>
\$ 3,551,708	\$ 3,773,609
92.91%	66.01%



**City of Two Harbors**  
**Schedule of City's Proportionate Share**  
**of Net Pension Liability**  
**General Employees Retirement Fund**  
**Last Ten Years**

For Fiscal Year Ended June 30,	City's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	City's Proportionate Share (Amount) of the Net Pension Liability (Asset)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the City	City's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the City	City's Covered Payroll	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2022	0.0423%	\$ 3,350,174	\$ 98,352	\$ 3,448,526	\$ 3,170,040	105.68%	76.67%
2021	0.0402%	1,716,720	52,390	1,769,110	2,893,693	59.33%	87.00%
2020	0.0381%	2,284,269	70,484	2,354,753	2,717,720	84.05%	79.06%
2019	0.0396%	2,189,395	67,997	2,257,392	2,803,400	78.10%	80.23%
2018	0.0425%	2,357,726	77,348	2,435,074	2,857,600	82.51%	79.53%
2017	0.4160%	2,655,717	33,399	2,689,116	2,680,387	99.08%	75.90%
2016	0.0427%	3,467,028	45,325	3,512,353	2,651,853	130.74%	68.91%
2015	0.0423%	2,192,206	-	2,192,206	2,446,987	89.59%	78.19%

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

**Schedule of City's Proportionate Share**  
**of Net Pension Liability**  
**Public Employees Police and Fire Retirement Fund**  
**Last Ten Years**

For Fiscal Year Ended June 30,	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the City	City's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the City	City's Covered Payroll	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2022	0.0534%	\$ 2,323,757	\$ 101,455	\$ 2,425,212	\$ 648,480	373.98%	70.53%
2021	0.0533%	406,623	18,498	425,121	688,784	61.72%	93.66%
2020	0.0538%	704,300	16,656	720,956	648,796	111.12%	87.19%
2019	0.0504%	529,755	N/A	529,755	544,265	97.33%	89.26%
2018	0.0564%	596,086	N/A	596,086	594,506	100.27%	88.84%
2017	0.0560%	751,027	N/A	751,027	571,259	131.47%	85.43%
2016	0.0560%	2,247,377	N/A	2,247,377	535,309	419.83%	63.88%
2015	0.0570%	647,653	N/A	647,653	510,543	126.86%	86.61%

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

**City of Two Harbors  
Schedule of City Contributions  
General Employees Retirement Fund  
Last Ten Years**

Fiscal Year Ending December 31,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
2022	\$ 231,105	\$ 231,105	\$ -	\$ 3,081,400	7.50%
2021	231,671	231,671	-	3,088,947	7.50%
2020	216,775	216,775	-	2,890,333	7.50%
2019	203,381	203,381	-	2,711,747	7.50%
2018	214,140	214,140	-	2,855,200	7.50%
2017	207,598	207,598	-	2,767,973	7.50%
2016	201,992	201,992	-	2,693,227	7.50%
2015	194,488	194,488	-	2,593,173	7.50%

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

**Schedule of City Contributions  
Public Employees Police and Fire Retirement Fund  
Last Ten Years**

Fiscal Year Ending December 31,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
2022	\$ 125,040	\$ 125,040	\$ -	\$ 706,441	17.70%
2021	111,762	111,762	-	631,424	17.70%
2020	110,575	110,575	-	624,718	17.70%
2019	94,350	94,350	-	556,637	16.95%
2018	92,168	92,168	-	568,938	16.20%
2017	94,965	94,965	-	586,204	16.20%
2016	90,946	90,946	-	561,395	16.20%
2015	85,621	85,621	-	528,525	16.20%

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

**City of Two Harbors**  
**Schedule of Changes in Net Pension Liability**  
**and Related Ratios - Fire Relief Association**

	2021	2020	2019
Total Pension Liability (TPL)			
Service cost	\$ 38,951	\$ 48,016	\$ 45,661
Interest	37,030	35,762	40,824
Differenced between expected and actual experience	-	(18,145)	-
Changes of assumptions	-	4,846	-
Changes of benefit terms	68,192	-	17,326
Benefit payments, including refunds of member contributions	-	(82,250)	(292,075)
Net change in total pension liability	<u>144,173</u>	<u>(11,771)</u>	<u>(188,264)</u>
Beginning of year	<u>553,530</u>	<u>565,301</u>	<u>753,565</u>
End of year	<u>\$ 697,703</u>	<u>\$ 553,530</u>	<u>\$ 565,301</u>
Plan Fiduciary Net Position (FNP)			
Contributions - employer	\$ 56,297	\$ 54,105	\$ 54,279
Contributions - donations and other income	-	-	-
Net investment income	125,630	129,763	153,692
Other additions	-	-	-
Benefit payments, including refunds of member contributions	-	(82,250)	(292,075)
Administrative expense	(11,000)	(7,850)	(9,476)
Other	-	-	(28)
Net change in plan fiduciary net position	<u>170,927</u>	<u>93,768</u>	<u>(93,608)</u>
Beginning of year	<u>850,192</u>	<u>756,424</u>	<u>850,032</u>
End of year	<u>\$ 1,021,119</u>	<u>\$ 850,192</u>	<u>\$ 756,424</u>
Net Pension Liability (NPL)	<u>\$ (323,416)</u>	<u>\$ (296,662)</u>	<u>\$ (191,123)</u>
Plan fiduciary net position as a percentage of the total pension liability	146.4%	153.6%	133.8%
Covered employee payroll	N/A	N/A	N/A
Net pension liability as a percentage of covered payroll	N/A	N/A	N/A

The City implemented the Provisions of Governmental Accounting Standards Board Statement No. 68 for the year ended December 31, 2015. The schedules within the Required Supplementary Information section required a ten year presentation, but does not require retroactive reporting. Information prior to 2014 is not available.

2018	2017	2016	2015	2014
\$ 38,632	\$ 33,804	\$ 47,135	\$ 35,852	\$ 34,892
45,480	38,996	37,453	34,576	32,879
373	-	(45,192)	-	-
8,027	44,345	(21,800)	48,442	-
-	-	-	36,986	-
-	-	(155,812)	(78,417)	-
<u>92,512</u>	<u>117,145</u>	<u>(138,216)</u>	<u>77,439</u>	<u>67,771</u>
<u>661,053</u>	<u>543,908</u>	<u>682,124</u>	<u>604,685</u>	<u>536,914</u>
<u>\$ 753,565</u>	<u>\$ 661,053</u>	<u>\$ 543,908</u>	<u>\$ 682,124</u>	<u>\$ 604,685</u>
\$ 49,569	\$ 61,045	\$ 54,261	\$ 51,722	\$ 64,861
-	-	(6,390)	6,390	-
(42,741)	112,071	48,110	(1,150)	43,924
-	-	1,201	-	-
-	-	(155,812)	(78,417)	-
(5,544)	(7,344)	(7,301)	(7,080)	(6,700)
-	-	-	(200)	-
<u>1,284</u>	<u>165,772</u>	<u>(65,931)</u>	<u>(28,735)</u>	<u>102,085</u>
<u>848,748</u>	<u>682,976</u>	<u>748,907</u>	<u>777,642</u>	<u>675,557</u>
<u>\$ 850,032</u>	<u>\$ 848,748</u>	<u>\$ 682,976</u>	<u>\$ 748,907</u>	<u>\$ 777,642</u>
<u>\$ (96,467)</u>	<u>\$ (187,695)</u>	<u>\$ (139,068)</u>	<u>\$ (66,783)</u>	<u>\$ (172,957)</u>
112.8%	128.4%	125.6%	109.8%	128.6%
N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A

**City of Two Harbors  
Schedule of Employer Contributions  
and Non-Employer Contributing  
Entities - Fire Relief Association**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Employer						
Statutorily determined contribution (SDC)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contribution made	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,500)</u>	<u>(2,300)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (11,500)</u>	<u>\$ (2,300)</u>
Non-employer						
2% aid	\$ 56,297	\$ 53,105	\$ 50,279	\$ 49,569	\$ 49,545	\$ 51,961

The City implemented the Provisions of Governmental Accounting Standards Board Statement No. 68 for the year ended December 31, 2015. The schedules within the Required Supplementary Information section required a ten year presentation, but does not require retroactive reporting. Information prior to 2014 is not available.

<u>2015</u>	<u>2014</u>
\$ -	\$ -
<u>(2,300)</u>	<u>(2,300)</u>
<u>\$ (2,300)</u>	<u>\$ (2,300)</u>
\$ 49,422	\$ 62,531

**City of Two Harbors**  
**Notes to Required Supplementary Information**

**General Employees Fund**

**2022 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**2021 Changes**

Changes in Actuarial Assumptions

- The investment return and single discount rates were changed from 7.5% to 6.5% for financial reporting purposes.
- The mortality improvement scale was changed from scale MP-2019 to scale MP-2020.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**2020 Changes**

Changes in Actuarial Assumptions

- The price inflation assumption was decreased from 2.5% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.0%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the Pub-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint and Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint and Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions

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

**City of Two Harbors**  
**Notes to Required Supplementary Information**

**General Employees Fund (Continued)**

**2019 Changes**

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.

**2018 Changes**

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

Changes in Plan Provisions

- 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% to 3.00%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00%, 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% per year with a provision to increase to 2.50% upon attainment of 90.00% funding ratio to 50.00% of the Social Security Cost of Living Adjustment, not less than 1.00% and not more than 1.50%, 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 Changes**

Changes in Actuarial Assumptions

- The CSA loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

Changes in Plan Provisions

- 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.



**City of Two Harbors**  
**Notes to Required Supplementary Information**

**General Employees Fund (Continued)**

**2016 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**2015 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- 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; the State's contribution of \$6.0 million, which meets the special funding situation definition, was due September 2015.

**City of Two Harbors**  
**Notes to Required Supplementary Information**

**Police and Fire Fund**

**2022 Changes**

Changes in Actuarial Assumptions

- The mortality improvement scale was changed from scale MP-2020 to scale MP-2021.
- The single discount rate was changed from 6.5% to 5.4%.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**2021 Changes**

Changes in Actuarial Assumptions

- The investment return and single discount rates were changed from 7.5% to 6.5% for financial reporting purposes.
- The inflation assumption was changed from 2.5% to 2.25%.
- The payroll growth assumption was changed from 3.25% to 3.0%.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety mortality table. The mortality improvement scale was changed from MP-2019 to MP-2020.
- The base mortality table for disabled annuitants was changed from the RP-2014 healthy annuitant mortality table (with future mortality improvement according to scale MP-2019) to the Pub-2010 Public Safety disabled annuitant mortality table (with future mortality improvement according to scale MP-2020).
- Assumed rates of salary increase were modified as recommended in the July 14, 2020, experience study. The overall impact is a decrease in gross salary increase rates.
- Assumed rates of retirement were changed as recommended in the July 14, 2020, experience study. The changes resulted in slightly more unreduced retirements and fewer assumed early retirements.
- Assumed rates of withdrawal were changed from select and ultimate rates to service-based rates. The changes resulted in more assumed terminations.
- Assumed rates of disability were increased for ages 25-44 and decreased for ages over 49. Overall, proposed rates resulted in more projected disabilities.
- Assumed percent married for active female members was changed from 60% to 70%. Minor changes to form of payment assumptions were applied.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**2020 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**2019 Changes**

Changes in Actuarial Assumptions

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

**City of Two Harbors**  
**Notes to Required Supplementary Information**

**Police and Fire Fund (Continued)**

**2019 Changes (Continued)**

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**2018 Changes**

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2016 to MP-2017.

Changes in Plan Provisions

- Postretirement benefit increases were changed to 1.00% for all years, with no trigger.
- An end date of July 1, 2048, was added to the existing \$9.0 million state contribution.
- New annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter until the plan reaches 100% funding, or July 1, 2048, if earlier.
- Member contributions were changed from 10.80% to 11.30% of pay, effective January 1, 2019, and 11.80% of pay, effective January 1, 2020.
- Employer contributions were changed from 16.20% to 16.95% of pay, effective January 1, 2019, and 17.70% of pay, effective January 1, 2020.
- Interest credited on member contributions decreased from 4.00% to 3.00%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

**2017 Changes**

Changes in Actuarial Assumptions

- Assumed salary increases were changed as recommended in the June 30, 2016, experience study. The net effect is proposed rates that average 0.34% lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The CSA load was 30% for vested and non-vested deferred members. The CSA has been changed to 33% for vested members and 2% for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3% for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65% to 60%.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.

**City of Two Harbors**  
**Notes to Required Supplementary Information**

**Police and Fire Fund (Continued)**

**2017 Changes (Continued)**

Changes in Actuarial Assumptions (Continued)

- The assumed post-retirement benefit increase rate was changed from 1% for all years to 1% per year through 2064 and 2.5% thereafter.
- The single discount rate was changed from 5.6% per annum to 7.5% per annum.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**2016 Changes**

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate changed from 7.9% to 5.6%.
- The single discount rate changed from 7.90% to 5.60%.
- The assumed future salary increases, payroll growth, and inflation was decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**2015 Changes**

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2037 and 2.5% per year thereafter.

Changes in Plan Provisions

- The post-retirement benefit increase to be paid after attainment of the 90% funding threshold was changed, from inflation up to 2.5%, to a fixed rate of 2.5%.

**City of Two Harbors**  
**Notes to Required Supplementary Information**

**Volunteer Fire Fighter's Relief Association**

**2022 Changes**

- The lump sum benefit amount increased from \$3,900 to \$4,400.

**2021 Changes**

- The mortality assumptions were updated from the rates used in the July 1, 2018, Minnesota PERA Police & Fire Plan actuarial valuation to the rates used in the July 1, 2020, Minnesota PERA Police & Fire Plan actuarial valuation.
- The inflation assumption decreased from 2.50% to 2.25%.

**2020 Changes**

- The lump sum benefit amount increased from \$3,800 to \$3,900.

**2019 Changes**

- The expected investment return and discount rate decreased from 6.50% to 6.25% to reflect updated capital market assumptions.
- The mortality and withdrawal assumptions were updated from the rates used in the July 1, 2016, Minnesota PERA Police & Fire Plan actuarial valuation to the rates used in the July 1, 2018, Minnesota PERA Police & Fire Plan actuarial valuation.
- The inflation assumption decreased from 2.75% to 2.50%.

**City of Two Harbors**  
**Notes to Required Supplementary Information**

**Post Employment Health Care Plan**

**2022 Changes**

Changes in Actuarial Assumptions

- The discount rate was changed from 2.00% to 1.84% based on updated 20-year municipal bond rates.
- Healthcare trend rates were reset to reflect updated cost increase expectations.
- Medical per capita claims costs were updated to reflect recent experience and new plan offerings.
- Withdrawal, mortality, and salary increase rates were updated from the rates used in the 7/1/2019 PERA General Employees Plan and 7/1/2019 PERA Police & Fire Plan valuations to the rates used in the 7/1/2021 valuations.
- The inflation assumptions were changed from 2.50% to 2.25% based on an updated historical analysis of inflation rates and forward-looking market expectations.
- The assumed retirement age for Police employees changed from age 50 to age 55 to reflect updated expectations.

**2021 Changes**

Changes in Actuarial Assumptions

- The discount rate was changed from 2.75% to 2.00% based on updated 20-year municipal bond rates.

**2020 Changes**

Changes in Plan Provisions

- Retiree premiums were updated to current levels.

Changes in Actuarial Assumptions

- The discount rate was changed from 3.71% to 2.75% based on updated 20-year municipal bond rates.
- Healthcare trend rates were reset to reflect updated cost increase expectations, including the repeal of the Affordable Care Act's Excise Tax on high-cost health insurance plans.
- Medical per capita claims costs were updated to reflect recent experience and new plan offerings, including an adjustment to reflect age/gender based risk scores published by the Society of Actuaries.
- Withdrawal and salary scale rates were updated from the rates used in the July 1, 2017, PERA of Minnesota General Employees and Police & Fire Retirement Plan actuarial valuations to the rates used in the July 1, 2019, valuations.
- Mortality rates were updated from the RP-2014 headcount-weighted tables to the rates used in the July 1, 2019, PERA of Minnesota General Employees and Police & Fire Retirement Plan actuarial valuations to reflect recently-published mortality rates.
- The inflation assumption was changed from 2.75% to 2.50% based on an updated historical analysis of inflation rates and forward-looking market expectations.

**2019 Changes**

Changes in Actuarial Assumptions

- The discount rate increased from 3.31% to 3.71%.
- The health care trend rates were updated to exclude the Affordable Care Act's Excise Tax on high-cost health insurance plan due to its repeal.

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**SUPPLEMENTARY INFORMATION**



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**City of Two Harbors**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balance -**  
**Budget and Actual - General Fund**  
**Year Ended December 31, 2022**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues</b>				
Taxes				
General property taxes	\$ 2,450,248	\$ 2,450,248	\$ 2,021,269	\$ (428,979)
Cable television franchise tax	28,850	28,850	23,345	(5,505)
Total taxes	<u>2,479,098</u>	<u>2,479,098</u>	<u>2,044,614</u>	<u>(434,484)</u>
Special assessments	-	-	12	12
Licenses and permits	53,700	53,700	53,458	(242)
Intergovernmental revenues				
Federal grants	-	-	385,657	385,657
State grants and aids				
Local government aid	1,853,222	1,853,222	1,853,222	-
Taconite aid	-	-	179,315	179,315
State grant	19,950	19,950	12,664	(7,286)
State fire aid	51,350	51,350	59,406	8,056
State police aid	69,400	69,400	82,636	13,236
County highway grants	22,450	22,450	22,258	(192)
Other grants and aids	-	-	261,445	261,445
Total intergovernmental revenues	<u>2,016,372</u>	<u>2,016,372</u>	<u>2,856,603</u>	<u>840,231</u>
Charges for services				
Fire contract	95,800	95,800	101,688	5,888
Cemetery services	36,800	36,800	41,409	4,609
Other	39,250	39,250	15,377	(23,873)
Total charges for services	<u>171,850</u>	<u>171,850</u>	<u>158,474</u>	<u>(13,376)</u>
Fines and forfeitures	9,900	9,900	5,279	(4,621)
Miscellaneous revenues				
Investment income	10,700	10,700	(366)	(11,066)
Other	24,800	24,800	57,645	32,845
Total miscellaneous revenues	<u>35,500</u>	<u>35,500</u>	<u>57,279</u>	<u>21,779</u>
Total revenues	<u>4,766,420</u>	<u>4,766,420</u>	<u>5,175,719</u>	<u>409,299</u>

**City of Two Harbors**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balance -**  
**Budget and Actual - General Fund**  
**Year Ended December 31, 2022**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Expenditures</b>				
<b>General government</b>				
Mayor and council	\$ 84,100	\$ 84,100	\$ 64,126	\$ (19,974)
Administrative and finance	377,300	377,300	303,004	(74,296)
Other general government	305,800	305,800	359,063	53,263
Total general government	<u>767,200</u>	<u>767,200</u>	<u>726,193</u>	<u>(41,007)</u>
<b>Public safety</b>				
<b>Police</b>				
Current	1,282,350	1,282,350	1,364,074	81,724
Capital outlay	25,000	25,000	-	(25,000)
Total police	<u>1,307,350</u>	<u>1,307,350</u>	<u>1,364,074</u>	<u>56,724</u>
<b>Fire</b>				
Current	237,500	237,500	271,922	34,422
Capital outlay	22,500	22,500	-	(22,500)
Total fire	<u>260,000</u>	<u>260,000</u>	<u>271,922</u>	<u>11,922</u>
<b>Animal control</b>				
Current	13,350	13,350	10,526	(2,824)
<b>Other</b>				
Current	1,600	1,600	2,516	916
Total public safety	<u>1,582,300</u>	<u>1,582,300</u>	<u>1,649,038</u>	<u>66,738</u>
<b>Public works</b>				
<b>Streets and highways</b>				
Street maintenance	1,375,480	1,375,480	1,186,089	(189,391)
Street signs	10,000	10,000	9,144	(856)
Equipment maintenance	53,200	53,200	74,345	21,145
Total streets and highways	<u>1,438,680</u>	<u>1,438,680</u>	<u>1,269,578</u>	<u>(169,102)</u>
<b>Sanitation</b>				
Waste removal	31,750	31,750	49,350	17,600
Tree removal	8,000	8,000	1,200	(6,800)
Total sanitation	<u>39,750</u>	<u>39,750</u>	<u>50,550</u>	<u>10,800</u>
Total public works	<u>1,478,430</u>	<u>1,478,430</u>	<u>1,320,128</u>	<u>(158,302)</u>
<b>Culture and recreation</b>				
Current expenditures	252,750	252,750	206,981	(45,769)
Total culture and recreation	<u>252,750</u>	<u>252,750</u>	<u>206,981</u>	<u>(45,769)</u>
<b>Health and welfare</b>				
<b>Cemetery</b>				
Current	139,950	139,950	120,368	(19,582)

**City of Two Harbors**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balance -**  
**Budget and Actual - General Fund**  
**Year Ended December 31, 2022**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Expenditures (Continued)</b>				
Miscellaneous	\$ 171,850	\$ 171,850	\$ 175,251	\$ 3,401
Total expenditures	<u>4,392,480</u>	<u>4,392,480</u>	<u>4,197,959</u>	<u>(194,521)</u>
Excess of revenues over expenditures	373,940	373,940	977,760	603,820
<b>Other Financing Sources (Uses)</b>				
Insurance proceeds	-	-	11,000	11,000
Transfers in	351,917	351,917	430,967	79,050
Transfers out	<u>(725,250)</u>	<u>(725,250)</u>	<u>(725,250)</u>	<u>-</u>
Total other financing sources (uses)	<u>(373,333)</u>	<u>(373,333)</u>	<u>(283,283)</u>	<u>90,050</u>
Net change in fund balance	<u>\$ 607</u>	<u>\$ 607</u>	694,477	<u>\$ 693,870</u>
<b>Fund Balance</b>				
Beginning of year			<u>2,006,635</u>	
End of year			<u>\$ 2,701,112</u>	

**City of Two Harbors  
Combining Balance Sheet -  
Nonmajor Governmental Funds  
December 31, 2022**

	Special Revenue			Tax Increment Financing (251)
	Library (211)	Airport (231)	Local Sales Tax (261)	
<b>Assets</b>				
Cash and investments	\$ 238,445	\$ 87,731	\$ 626,038	\$ 197,489
Taxes receivable - delinquent	-	-	-	-
Special assessment receivable				
Deferred	-	-	-	-
Accounts receivable	812	6,560	-	-
Interest receivable	356	-	793	1,181
Due from other governments	-	26,879	50,191	-
Notes receivable	-	-	-	-
Inventories	-	31,858	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 239,613</u>	<u>\$ 153,028</u>	<u>\$ 677,022</u>	<u>\$ 198,670</u>
<b>Liabilities</b>				
Accounts payable	\$ 11,153	\$ 2,608	\$ -	\$ -
Contracts payable	-	-	-	-
Accrued payroll	11,014	2,402	-	-
Unearned revenue	-	4,415	-	-
Total liabilities	<u>22,167</u>	<u>9,425</u>	<u>-</u>	<u>-</u>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue - property taxes	-	-	-	-
Unavailable revenue - special assessments	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balances</b>				
Nonspendable	-	31,858	-	-
Restricted	-	-	677,022	198,670
Committed	217,446	111,745	-	-
Assigned	-	-	-	-
Total fund balances	<u>217,446</u>	<u>143,603</u>	<u>677,022</u>	<u>198,670</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 239,613</u>	<u>\$ 153,028</u>	<u>\$ 677,022</u>	<u>\$ 198,670</u>

Special Revenue				Permanent	Capital Projects
Revolving Loan Fund SCDP (205)	City Sales Tax (263)	Golf (241)	Total	Cemetery Perpetual (810)	Capital Equipment Fund (401)
\$ 40,606	\$ 339,036	\$ 108,202	\$ 1,637,547	\$ 145,209	\$ 1,267,945
-	-	-	-	-	-
-	-	-	-	-	19,828
-	-	63	7,435	-	550
-	403	-	2,733	520	2,080
-	50,191	55	127,316	-	73,221
-	-	-	-	-	-
-	-	-	31,858	-	-
<u>\$ 40,606</u>	<u>\$ 389,630</u>	<u>\$ 108,320</u>	<u>\$ 1,806,889</u>	<u>\$ 145,729</u>	<u>\$ 1,363,624</u>
\$ -	\$ -	\$ -	\$ 13,761	\$ -	\$ 96,954
-	-	-	-	-	7,481
-	-	-	13,416	-	-
-	-	-	4,415	-	119,827
-	-	-	31,592	-	224,262
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	31,858	-	-
40,606	389,630	-	1,305,928	145,729	-
-	-	108,320	437,511	-	-
-	-	-	-	-	1,139,362
<u>40,606</u>	<u>389,630</u>	<u>108,320</u>	<u>1,775,297</u>	<u>145,729</u>	<u>1,139,362</u>
<u>\$ 40,606</u>	<u>\$ 389,630</u>	<u>\$ 108,320</u>	<u>\$ 1,806,889</u>	<u>\$ 145,729</u>	<u>\$ 1,363,624</u>

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**City of Two Harbors  
Combining Balance Sheet -  
Nonmajor Governmental Funds  
December 31, 2022**

	Capital Projects	Capital Projects		Total Governmental Funds
	Edna G. Restoration Project (411)	Permanent Improvements (500)	Total	
<b>Assets</b>				
Cash and investments	\$ 460,084	\$ 686,098	\$ 2,414,127	\$ 4,196,883
Taxes receivable - delinquent	-	293	293	293
Special assessment receivable			-	
Deferred	-	-	19,828	19,828
Accounts receivable	-	-	550	7,985
Interest receivable	1,073	1,387	4,540	7,793
Due from other governments	12,946	740	86,907	214,223
Notes receivable	-	173,141	173,141	173,141
Inventories	-	-	-	31,858
	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,858</u>
Total assets	<u>\$ 474,103</u>	<u>\$ 861,659</u>	<u>\$ 2,699,386</u>	<u>\$ 4,652,004</u>
<b>Liabilities</b>				
Accounts payable	\$ 250	\$ 6,198	\$ 103,402	\$ 117,163
Contracts payable	-	-	7,481	7,481
Accrued payroll	-	-	-	13,416
Unearned revenue	-	96,353	216,180	220,595
Total liabilities	<u>250</u>	<u>102,551</u>	<u>327,063</u>	<u>358,655</u>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue - property taxes	-	293	293	293
Unavailable revenue - special assessments	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>293</u>	<u>293</u>	<u>293</u>
<b>Fund Balances</b>				
Nonspendable	-	-	-	31,858
Restricted	-	-	-	1,451,657
Committed	-	-	-	437,511
Assigned	473,853	758,815	2,372,030	2,372,030
Total fund balances	<u>473,853</u>	<u>758,815</u>	<u>2,372,030</u>	<u>4,293,056</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,858</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 474,103</u>	<u>\$ 861,659</u>	<u>\$ 2,699,386</u>	<u>\$ 4,652,004</u>



**City of Two Harbors**  
**Combining Statement of Revenues, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended December 31, 2022**

	Special Revenue			
	Library (211)	Airport (231)	Local Sales Tax (261)	Tax Increment Financing (251)
<b>Revenues</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Sales tax	-	-	479,536	-
Special assessments	-	-	-	-
Intergovernmental				
Federal grants	-	32,189	-	-
State grants and aid	15,722	36,834	-	-
County grants and aid	65,000	7,500	-	-
Arrowhead library system	-	-	-	-
Charges for services	3,359	157,890	-	-
Miscellaneous				
Investment income	452	-	2,581	1,263
Loan payments	-	-	-	-
Other	2,011	-	-	-
Total revenues	<u>86,544</u>	<u>234,413</u>	<u>482,117</u>	<u>1,263</u>
<b>Expenditures</b>				
Current				
General government	-	-	-	-
Culture and recreation	282,060	-	-	-
Economic development	-	-	-	167
Airport	-	183,991	-	-
<b>Debt Service</b>				
Principal	-	-	-	-
Interest	-	-	-	-
Capital outlay				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Airport	-	-	-	-
Total expenditures	<u>282,060</u>	<u>183,991</u>	<u>-</u>	<u>167</u>
Excess of revenues over (under) expenditures	(195,516)	50,422	482,117	1,096
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of capital asset	-	-	-	-
Transfers in	237,000	13,250	-	-
Transfers out	-	-	(420,000)	-
Total other financing sources (uses)	<u>237,000</u>	<u>13,250</u>	<u>(420,000)</u>	<u>-</u>
Net change in fund balances	41,484	63,672	62,117	1,096
<b>Fund Balances</b>				
Beginning of year	<u>175,962</u>	<u>79,931</u>	<u>614,905</u>	<u>197,574</u>
End of year	<u>\$ 217,446</u>	<u>\$ 143,603</u>	<u>\$ 677,022</u>	<u>\$ 198,670</u>

Revolving Loan Fund SCDP (205)	City Sales Tax (263)	Special Revenue			Total	Permanent	Capital Projects
		Two Harbors Convention and Visitors Bureau (291)	Golf (241)			Cemetery Perpetual (810)	Capital Equipment Fund (401)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	479,536	3	-	959,075	-	-	-
-	-	-	-	-	-	-	16,969
-	-	-	-	32,189	-	-	137,066
-	-	-	-	52,556	-	-	1,260
-	-	-	-	72,500	-	-	-
-	-	-	-	-	-	-	-
-	-	-	409,449	570,698	-	-	59,019
-	1,020	-	-	5,316	624	-	3,598
-	-	-	-	-	-	-	-
-	-	14,431	-	16,442	-	-	-
-	480,556	14,434	409,449	1,708,776	624	-	217,912
-	-	-	-	-	-	-	-
-	-	-	449,823	731,883	-	-	-
-	-	-	-	167	-	-	-
-	-	-	-	183,991	-	-	-
-	-	-	-	-	-	-	86,279
-	-	-	-	-	-	-	35,018
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	131,364
-	-	-	-	-	-	-	25,679
-	-	-	-	-	-	-	455,676
-	-	-	-	-	-	-	181,259
-	-	-	-	-	-	-	75,890
-	-	-	449,823	916,041	-	-	991,165
-	480,556	14,434	(40,374)	792,735	624	-	(773,253)
-	-	-	-	-	-	-	42,000
-	-	-	125,000	375,250	-	-	525,678
-	(275,000)	(33,190)	-	(728,190)	(2,017)	-	-
-	(275,000)	(33,190)	125,000	(352,940)	(2,017)	-	567,678
-	205,556	(18,756)	84,626	439,795	(1,393)	-	(205,575)
40,606	184,074	18,756	23,694	1,335,502	147,122	-	1,344,937
\$ 40,606	\$ 389,630	\$ -	\$ 108,320	\$ 1,775,297	\$ 145,729	-	\$ 1,139,362

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**City of Two Harbors**  
**Combining Statement of Revenues, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended December 31, 2022**

	Capital Projects	Capital Projects		Total Governmental Funds
	Edna G. Restoration Project (411)	Permanent Improvements (500)	Total	
<b>Revenues</b>				
Taxes	\$ -	13,164	\$ 13,164	\$ 13,164
Sales tax	96,916	-	96,916	1,055,991
Special assessments	-	-	16,969	16,969
Intergovernmental			-	
Federal grants	-	-	137,066	169,255
State grants and aid	-	-	1,260	53,816
County grants and aid	-	-	-	72,500
Arrowhead library system	-	1,025	1,025	1,025
Charges for services	-	20,000	79,019	649,717
Miscellaneous			-	
Investment income	1,890	-	5,488	11,428
Loan payments	-	4,886	4,886	4,886
Other	-	-	-	16,442
Total revenues	<u>98,806</u>	<u>39,075</u>	<u>355,793</u>	<u>2,065,193</u>
<b>Expenditures</b>				
Current				
General government	-	525	525	525
Culture and recreation	-	-	-	731,883
Economic development	-	-	-	167
Airport	-	-	-	183,991
<b>Debt Service</b>				
Principal	-	-	86,279	86,279
Interest	-	-	35,018	35,018
Capital outlay				
General government	-	38,377	169,741	169,741
Public safety	-	-	25,679	25,679
Public works	-	-	455,676	455,676
Culture and recreation	12,700	-	193,959	193,959
Airport	-	-	75,890	75,890
Total expenditures	<u>12,700</u>	<u>38,902</u>	<u>1,042,767</u>	<u>1,958,808</u>
Excess of revenues over (under) expenditures	86,106	173	(686,974)	106,385
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of capital asset	-	-	42,000	42,000
Transfers in	-	-	525,678	900,928
Transfers out	-	-	-	(730,207)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>567,678</u>	<u>212,721</u>
Net change in fund balances	86,106	173	(119,296)	319,106
<b>Fund Balances</b>				
Beginning of year	<u>387,747</u>	<u>758,642</u>	<u>2,491,326</u>	<u>3,973,950</u>
End of year	<u>\$ 473,853</u>	<u>\$ 758,815</u>	<u>\$ 2,372,030</u>	<u>\$ 4,293,056</u>

**City of Two Harbors**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balance - Component Unit -**  
**Two Harbors Development Fund**  
**Year Ended December 31, 2022**

**Revenues**

Miscellaneous	
Principal payments on loans	\$ 1,020
Interest on loans	10,924
Investment income	20
Other	-
Total revenues	<u>11,964</u>

**Expenditures**

Current	
Professional services	1,190
Residual transfer to Two Harbors Development Fund	87,298
Payments to Developers	674,503
Legal fees	4,954
Total expenditures	<u>767,945</u>
Excess of revenues over (under) expenditures	(755,981)

**Fund Balance**

Beginning of year	<u>755,981</u>
End of year	<u>\$ -</u>

Reconciliation of the schedule of revenues, expenditures, and changes  
in fund balance to the Statement of Activities

Net change in fund balance	\$ (755,981)
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Principal payments on loans receivable are recognized as revenues  
in the governmental funds but have no effect on net position in  
the Statement of Activities.

Principal payments	<u>(1,020)</u>
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Change in net position	<u>\$ (757,001)</u>
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**City of Two Harbors  
Balance Sheet - Component Unit -  
Two Harbors Economic Development Authority  
December 31, 2022**

<b>Assets</b>	
Cash and investments	<u>\$ 58,541</u>
<b>Fund Balance</b>	
Committed	<u>\$ 58,541</u>

**City of Two Harbors**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balance - Component Unit -**  
**Two Harbors Economic Development Authority**  
**Year Ended December 31, 2022**

<b>Revenues</b>		
Contributions and donations		\$ -
<b>Expenditures</b>		
Current		
Dues and subscriptions		<u>1,000</u>
Excess of revenues under expenditures		(1,000)
<b>Fund Balance</b>		
Beginning of year		<u>59,541</u>
End of year		<u><u>\$ 58,541</u></u>

**City of Two Harbors**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2022**

Federal Agency/Pass Through Agency/Program Title	Federal Assistance Listing Number	Expenditures
<b>Department of Treasury</b>		
Minnesota Management and Budget		
ARPA - American Rescue Plan	21.017	\$ 385,657
<b>Environmental Protection Agency</b>		
State of Minnesota Public Facility Authority		
Capitalization grants for clean water state revolving funds - loan	66.458	811,340
Capitalization grants for clean water state revolving funds - grant	66.458	<u>1,002,414</u>
Total Minnesota Public Facility Authority		1,813,754
<b>Department of Transportation</b>		
State of Minnesota Department of Transportation		
Airport improvement program	20.106	156,255
COVID - Airport improvement program - emergency assistance to airports	20.106C	<u>13,000</u>
Total Department of Transportation		169,255
<b>National Endowment for the Humanities</b>		
Minnesota Management and Budget		
Grants to States	45.31	<u>15,722</u>
<b>Department of the Interior</b>		
State of Minnesota Department of Natural Resources		
Sport fish restoration	15.605	<u>2,400</u>
Total federal expenditures		<u>\$ 2,386,788</u>



**City of Two Harbors**  
**Notes to Schedule of Expenditures of Federal Awards**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal award activity of the City under programs of the federal government for the year-ended December 31, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

**NOTE 2 – PASS-THROUGH GRANT NUMBERS**

All pass-through entities listed above use the same Assistance Listing numbers as the federal grantors to identify these grants and have not assigned any additional identifying numbers.

**NOTE 3 – INDIRECT COST RATE**

The City did not elect to use the 10 percent de minimis indirect cost rate, as allowed under the Uniform Guidance.

**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***

**Independent Auditor's Report**

Honorable Mayor and Members  
of the City Council  
City of Two Harbors  
Two Harbors, Minnesota

We have audited, 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Two Harbors, Minnesota as of and for the year ended December 31, 2022, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 17, 2023.

**Report on Internal Control over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as Audit Finding 2022-001 to be a material weakness.

### **Internal Control over Financial Reporting (Continued)**

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as Audit Finding 2022-002 to be a significant deficiency.

### **Compliance and Other Matters**

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

### **City's Response to Findings**

The City's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. 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 result of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**BerganKDV, Ltd.**

Minneapolis, Minnesota  
April 17, 2023

**Report on Compliance for each Major Federal Program  
and Report on Internal Control over Compliance Required by  
the Uniform Guidance**

**Independent Auditor’s Report**

Honorable Mayor and Members  
of the City Council  
City of [City]  
[City, State]

**Report on Compliance for Each Major Federal Program**

**Opinion on Each Major Federal Program**

We have audited the City’s compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the City’s major federal program for the year ended April 17, 2023. The City’s major federal program is identified in the summary of auditor’s results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the City complied in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended April 17, 2023.

**Basis for Opinion on Each Major Federal Program**

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City’s compliance with the compliance requirements referred to above.

**Responsibilities of Management for Compliance**

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City’s federal programs.

## **Auditor’s Responsibilities for the Audit of Compliance**

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City’s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City’s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City’s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City’s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Example Entity’s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## **Report on Internal Control over Compliance**

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

### **Report on Internal Control over Compliance (Continued)**

Our consideration of internal control over compliance was for the limited purpose described in Auditor’s Responsibilities for the Audit of Compliance section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*BerganKDV, Ltd.*

Minneapolis, Minnesota  
April 17, 2023

**City of Two Harbors  
Schedule of Findings and Questioned Costs**

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of auditor’s report issued:

We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal control over financial reporting:

- Material weakness(es) identified? Yes, Audit Finding 2022-01
- Significant deficiency(ies) identified? Yes, Audit Finding 2022-02

Noncompliance material to financial statements noted? No

**Federal Awards**

Type of auditor’s report issued on compliance for major programs:

Unmodified

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

No

**Identification of Major Programs**

Assistance Listing No.:

66.458

Name of Federal Program or Cluster:

Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low risk auditee?

No

**City of Two Harbors**  
**Schedule of Findings and Questioned Costs**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Audit Finding 2022-001**

*Criteria or Specific Requirement:*

Internal control that supports the City's ability to initiate record, process, and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties.

*Condition:*

During the year ended December 31, 2022, the City had a lack of segregation of accounting duties due to a limited number of office employees.

Management is aware of this condition and has taken certain steps to compensate for the lack of segregation. However, due to the small accounting staff needed to handle all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct. However, management, along with the City Council, must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

*Context:*

This finding impacts the internal control for all significant accounting functions.

*Effect or Potential Effect:*

The lack of adequate segregation of accounting duties could adversely affect the City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

*Cause:*

There are a limited number of office employees.

*Recommendation:*

Continue to review the accounting system, including changes that may occur. Implement segregation whenever practical.

*Views of Responsible Officials and Planned Corrective Action:*

Management of the City takes its responsibility for internal controls very seriously. The City has weighed the costs and benefits of an additional office employee to eliminate this risk and has determined the benefit does not exceed the cost.

The City's management team diligently follows the City's internal control policies to ensure the protection of public funds.



**City of Two Harbors**  
**Schedule of Findings and Questioned Costs**

**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**Audit Finding 2022-002**

*Criteria or Specific Requirement:*

Internal control that supports the City's ability to initiate record, process, and report financial data consistent with the assertions of management in the financial statements requires adequate internal controls over significant revenue processes.

*Condition:*

During the year ended December 31, 2022, the City had a lack of internal controls over the utility billing process for water charges.

During our audit of water charges, we noted the ratio of gallons billed to gallons pumped was 79%. The American Waterworks Association has developed a benchmark of gallons billed to gallons pumped to equal at least 90%.

*Context:*

This finding impacts the internal control for utility billing.

*Effect or Potential Effect:*

The lack of internal control over water charges could adversely affect the City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

*Cause:*

There are a limited number of office employees to investigate water loss.

*Recommendation:*

Continue to review and investigate the ratio of gallons billed to gallons pumped ratio. We recommend the City increase their awareness of the disparity and strive to meet the benchmark of 90%.

*Views of Responsible Officials and Planned Corrective Action:*

Management of the City takes its responsibility for internal controls very seriously. The City will continue to investigate the ratio of gallons billed to gallons pumped to ensure the utility billing system is adequately capturing data and properly billing for water use.

**City of Two Harbors  
Schedule of Findings and Questioned Costs**

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None

**SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

None

**Minnesota Legal Compliance**

**Independent Auditor's Report**

Honorable Mayor and Members  
of the City Council  
City of Two Harbors  
Two Harbors, Minnesota

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Two Harbors, Minnesota, as of and for the year ended December 31, 2022, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 17, 2023.

In connection with our audit, nothing came to our attention that caused us to believe that the City 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.

*BerganKDV, Ltd.*

Minneapolis, Minnesota  
April 17, 2023

**FORM OF LEGAL OPINION**

(See following pages)

# FRYBERGER

— LAW FIRM —

May 30, 2024

City of Two Harbors  
522 1<sup>st</sup> Avenue  
Two Harbors, MN 55616-1504

[PURCHASER TBD]

**Re: *City of Two Harbors, Minnesota***  
***\$4,605,000 General Obligation Improvement Bonds, Series 2024A***

We have acted as Bond Counsel in connection with the authorization, issuance and delivery by the City of Two Harbors, Lake County, Minnesota (the “Issuer”), of the above-referenced bonds, dated the date hereof (the “Bonds”). The Bonds are issued pursuant to Minnesota Statutes, Chapters 429 and 475.

A. Scope of Examination. For the purpose of rendering this opinion letter, we have examined the following:

1. a resolution of the Issuer adopted on May 13, 2024, authorizing the issuance and delivery of the Bonds (the “Resolution”);
2. the Officers’ Certificate of the Issuer dated the date hereof setting forth and certifying as to certain matters, including but not limited to the use and investment of the proceeds of the Bonds (the “Tax Certificate”);
3. applicable law and certified copies of certain proceedings taken, and certain affidavits and certificates furnished by the Issuer and others with respect to the authorization, sale and issuance of the Bonds; and
4. such other documents as we consider necessary in order to render this opinion.

B. Reliance. As to questions of fact material to our opinion, we have relied upon certified proceedings, documents and certifications furnished to us by public officials and officers of the Issuer and others without undertaking to verify such facts by independent investigation. We have also relied, without independent investigation, upon representations and

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FRYBERGER, BUCHANAN, SMITH & FREDERICK, P.A

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CLOQUET  
813 Cloquet Ave.  
Cloquet, MN 55720  
p: (218) 879-6830

DULUTH  
302 West Superior St,  
Ste 700  
Duluth, MN 55802  
p: (218) 722-0861

SUPERIOR  
1409 Hammond Ave., Suite 330  
Superior, WI 54880  
p: (715)392-7405

ST. PAUL  
c/o 302 West Superior St,  
Ste 700  
Duluth, MN 55802  
p: (651)221-1044

certifications made by the Issuer in the Tax Certificate and the representations and certifications made by the Issuer, agents of the Issuer and others in connection with the issuance of the Bonds as to: (a) the nature, cost, use and useful economic life of the facilities and/or improvements financed by the Bonds, (b) the application to be made of the proceeds of the Bonds, (c) the investment of such proceeds and (d) other matters material to the tax-exempt status of the interest borne by the Bonds, including the anticipated sources of repayment of the Bonds.

C. Assumptions.

1. In rendering the opinions contained in Section D below, we have assumed: (a) the legal capacity for all purposes relevant hereto of all natural persons, (b) with respect to all parties to agreements or instruments relevant hereto other than the Issuer, that such parties had the requisite power and authority (corporate or otherwise) to execute, deliver and perform such agreements or instruments, (c) that such agreements or instruments are the valid, binding and enforceable obligations of each such party, other than the Issuer, (d) the authenticity of all documents submitted to us as originals and the authenticity of the originals, (e) the conformity to original documents of all documents submitted to us as certified or photostatic copies, (f) the genuineness of the signatures on all documents submitted to us, and (g) the accuracy of the facts and representations stated in all documents submitted to us.

2. In rendering the opinions contained in paragraphs 3 and 4 of Section D below, we have assumed that the proceeds of the Bonds will be applied in accordance with the provisions of the Resolution and the representations made by the Issuer in the Tax Certificate and that the Issuer will make or cause to be made any necessary calculations and pay to the United States any amounts required under Section 148 of the Internal Revenue Code of 1986, as amended (the "Code").

3. For the purpose of rendering the opinion set forth in paragraph 3 of Section D, below, we have also assumed compliance by the Issuer with requirements of the Code that must be satisfied subsequent to the issuance of the Bonds. The Issuer has covenanted to comply with each such requirement.

D. Opinions. Based upon such examination, assumptions and reliance, on the basis of federal and State of Minnesota (the "State") laws, regulations, rulings and decisions in effect on the date hereof, but excluding any pending legislation which may have a retroactive date prior to the date hereof, and subject to certain limitations set forth in Section E below, it is our opinion that:

1. The Bonds are valid and binding general obligations of the Issuer enforceable in accordance with their terms.

2. All taxable property in the territory of the Issuer is subject to ad valorem taxation without limitation as to rate or amount to pay the principal of and interest on the Bonds.

3. The Bonds, as of their date of issuance, bear interest which is not includable in gross income of the recipient for federal income tax purposes or in taxable net income of individuals, trusts and estates for State income tax purposes, but such interest is includable in taxable income of corporations and financial institutions for purposes of State franchise tax. Interest on the Bonds is not an item of tax preference which is included in alternative minimum taxable income for purposes of the federal alternative minimum tax or the State alternative minimum tax imposed on individuals, trusts and estates; however, such interest is taken into account in determining the annual adjusted financial statement income of certain corporations for the purpose of computing the federal alternative minimum tax imposed on corporations for tax years beginning after December 31, 2022.

4. Based solely on factual representations by the Issuer, the Bonds have been designated by the Issuer as “qualified tax-exempt obligations” under and within the meaning of Section 265(b)(3)(b) of the Code.

E. Qualifications and Limitations. The opinions expressed in Section D above are subject to the following:

1. We express no opinion as to federal or state tax consequences arising from ownership of the Bonds other than as set forth in Section D hereof.

2. The rights of the owners and enforceability of the Bonds are subject to and may be limited by (a) state and federal laws, rulings, decisions and principles of equity affecting remedies, including (without limitation) concepts of materiality, reasonableness, good faith and fair dealing, and other similar doctrines affecting the enforceability of agreements generally (regardless of whether considered in a proceeding in equity or at law); (b) the effect of any applicable bankruptcy, moratorium, insolvency, reorganization, fraudulent conveyance or other similar laws affecting the enforcement of creditors’ or secured creditors’ rights or laws relating to creditors’ or secured creditors’ rights against public instrumentalities heretofore or hereafter enacted to the extent constitutionally applicable; (c) the exercise of judicial discretion in appropriate cases; and (d) federal and state securities laws and public policy relating thereto.

3. Failure by the Issuer to comply with applicable requirements of the Code could cause the interest on the Bonds to be includable in the gross income of the owners thereof for federal income taxation, either prospectively or retroactively to the date hereof.

4. Our opinions expressed in Section D above are limited to the law of the State and the federal law of the United States of America, and we assume no responsibility as to the applicability to this transaction, or the effect thereon, of the law of any other jurisdiction.

5. Except as expressly stated in this opinion, we express no opinion as to compliance with any federal securities laws or any state securities or Blue Sky laws.

6. This opinion is rendered as of the date set forth above and we express no opinion as to circumstances or events which may occur subsequent to such date.

7. The foregoing opinions are being furnished to you solely for your benefit and may not be relied upon by, nor may copies be delivered to, any other person without our prior written consent.

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

Respectfully submitted,

Fryberger, Buchanan, Smith & Frederick, P.A.



**BOOK-ENTRY-ONLY SYSTEM**

1. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]
2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).
3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.
4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]
6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.
7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.
9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.
10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the City or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.
11. The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.
12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

**FORM OF CONTINUING DISCLOSURE CERTIFICATE**

(See following pages)

## CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of Two Harbors, Minnesota (the “Issuer”) in connection with the issuance of the \$4,605,000 General Obligation Improvement Bonds, Series 2024A, dated May 30, 2024 (the “Obligations”). The Obligations are being issued pursuant to a Resolution of the Issuer dated May 13, 2024 (the “Resolution”). The Issuer covenants and agrees as follows:

Section 1. (a) Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the holders and beneficial owners of the Obligations and in order to assist the Participating Underwriter in complying with the Rule (defined below). References in this Disclosure Certificate to holders of the Obligations shall include the beneficial owners of the Obligations. This Disclosure Certificate constitutes the written understanding under the Rule.

(b) Filing Requirements. Any filing under this Disclosure Certificate must be made solely by transmitting such filing to the MSRB (defined herein) through the Electronic Municipal Market Access (“EMMA”) System at [www.emma.msrb.org](http://www.emma.msrb.org) in the format prescribed by the MSRB. All documents provided to the MSRB shall be accompanied by the identifying information prescribed by the MSRB.

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

“Annual Report” means any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Audited Financial Statements” means the Issuer’s annual financial statements, which are currently prepared in accordance with generally accepted accounting principles (GAAP) for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and which the Issuer intends to continue to prepare in substantially the same form.

“Code” means the Internal Revenue Code of 1986, as amended.

“Dissemination Agent” means such person from time to time designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

“Financial Obligation” means, with respect to the Issuer a: (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of one of the foregoing. The term “Financial Obligation” shall not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with this rule.

“IRS” means the Internal Revenue Service of the Department of the Treasury.

“Listed Events” means any of the events listed in Sections 5(a) and 5(b) of this Disclosure Certificate.

“MSRB” means the Municipal Securities Rulemaking Board, whose current address is 1300 I Street NW, Suite 1000, Washington, DC 20005.

“Official Statement” means the Official Statement, dated \_\_\_\_\_, 2024, delivered in connection with the original issuance and sale of the Obligations, together with any amendments thereto or supplements thereof.

“Participating Underwriter” means any of the original underwriter(s) of the Obligations required to comply with the Rule in connection with offering of the Obligations.

“Rule” means Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time. Reference is also made to SEC Release No. 34-83885 (File No. S7-01-17) for additional information relating to the Issuer’s compliance with this Certificate.

“SEC” means the Securities and Exchange Commission or any successor to its functions governing state and municipal securities.

Section 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent to, not later than 12 months after the end of the fiscal year (presently December 31), commencing with the fiscal year ended December 31, 2023, provide to the MSRB, filed in accordance with Section 1(b) of this Disclosure Certificate, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the Audited Financial Statements of the Issuer may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date; provided, however, unaudited financial information will be provided and the Audited Financial Statements will be submitted to the MSRB when and if available. The Issuer may provide the Annual Report by specific reference to documents previously provided to the MSRB or filed with the SEC; provided, however, that if the document so referenced is a final official statement within the meaning of the Rule, such final official statement must be available from the MSRB.

(b) Not later than 15 days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the Issuer shall provide the Annual Report to the Dissemination Agent (if the Issuer is not the Dissemination Agent).

(c) If the Issuer is unable or fails to provide an Annual Report by the date required in subsection (a), the Issuer shall send in a timely manner a notice of such fact to

the MSRB in the format prescribed by the MSRB, as described in Section 1(b) of this Disclosure Certificate.

Section 4. Content of Annual Reports. The Issuer's Annual Report shall contain or incorporate by reference the Audited Financial Statements and updates of the following sections of the Official Statement to the extent such financial information and operating data are not included in the Audited Financial Statements:

- (a) Current Property Valuations
- (b) Direct Debt
- (c) Tax Levies & Collections
- (d) U.S. Census Data/Population Trend
- (e) Employment/Unemployment

Section 5. Reporting of Significant Events.

(a) The Issuer shall give, or cause to be given notice of the occurrence of any of the following events with respect to the Obligations, in a timely manner not in excess of 10 business days after the occurrence of the event:

- (1) principal and interest payment delinquencies;
- (2) unscheduled draws on debt service reserves reflecting financial difficulties;
- (3) unscheduled draws on credit enhancements reflecting financial difficulties;
- (4) substitution of credit or liquidity providers, if any, or their failure to perform;
- (5) adverse tax opinions or the issuance by the IRS of proposed or final determinations of taxability or of a Notice of Proposed Issue (IRS Form 5701-TEB);
- (6) tender offers;
- (7) defeasances;
- (8) rating changes;
- (9) bankruptcy, insolvency, receivership or similar event of the Issuer;

or

(10) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation, any of which reflect financial difficulties.

(b) The Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Obligations, *if material*, in a timely manner not in excess of 10 business days after the occurrence of the event:

(1) non-payment related defaults;

(2) unless described in (a)(5) above, other notices or determinations by the IRS with respect to the tax-exempt status of the Obligations, or other events affecting the tax-exempt status of the Obligations;

(3) modifications to rights of holders of the Obligations;

(4) bond calls;

(5) release, substitution or sale of property securing repayment of the Obligations;

(6) the consummation of a merger, consolidation or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;

(7) appointment of a successor or additional trustee or the change of name of a trustee; or

(8) incurrence of a Financial Obligation or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation, any of which affect security holders.

(c) For purposes of the event identified in subsection (a)(9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer.

(d) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event under subsection (b), the Issuer shall as soon as possible determine if such event would constitute material information for holders of Obligations.

(e) Unless otherwise required by law, the Issuer shall submit the information in the format prescribed by the MSRB, as described in Section 1(b) of this Disclosure Certificate.

Section 6. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Obligations.

Section 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Issuer pursuant to this Disclosure Certificate. If at any time there is not any other designated Dissemination Agent, the Issuer shall be the Dissemination Agent.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Issuer may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived if such amendment or waiver is supported by an opinion of nationally recognized bond counsel to the effect that such amendment or waiver would not, in and of itself, cause the undertaking herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Certificate, the Issuer shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate, any holder or beneficial owner of the Obligations may take such action as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Issuer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including



the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Obligations.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Obligations, and shall create no rights in any other person or entity.

Section 13. Reserved Rights. The Issuer reserves the right to discontinue providing any information required under the Rule if a final determination should be made by a court of competent jurisdiction that the Rule is invalid or otherwise unlawful or, subject to the provisions of Section 8 hereof, to modify the undertaking under this Disclosure Certificate if the Issuer determines that such modification is required by the Rule or by a court of competent jurisdiction.

Dated as of May 30, 2024.

CITY OF TWO HARBORS, MINNESOTA

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

By \_\_\_\_\_  
Administrator

**TERMS OF PROPOSAL**

**\$4,605,000\* GENERAL OBLIGATION IMPROVEMENT BONDS, SERIES 2024A  
CITY OF TWO HARBORS, MINNESOTA**

Proposals for the purchase of \$4,605,000\* General Obligation Improvement Bonds, Series 2024A (the "Bonds") of the City of Two Harbors, Minnesota (the "City") will be received at the offices of Ehlers and Associates, Inc. ("Ehlers"), 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, municipal advisors to the City, until 10:30 A.M., Central Time, and **ELECTRONIC PROPOSALS** will be received via [bondsale@ehlers-inc.com](mailto:bondsale@ehlers-inc.com) or **PARITY**, in the manner described below, until 10:30 A.M. Central Time, on May 13, 2024, at which time they will be opened, read and tabulated. The proposals will be presented to the City Council for consideration for award by resolution at a meeting to be held at 6:00 P.M., Central Time, on the same date. The proposal offering to purchase the Bonds upon the terms specified herein and most favorable to the City will be accepted unless all proposals are rejected.

**AUTHORITY; PURPOSE; SECURITY**

The Bonds are being issued pursuant to Minnesota Statutes, Chapters 429 and 475, as amended, by the City, for the purpose of financing various assessable public improvements within the City. The Bonds will be general obligations of the City for which its full faith and credit and taxing powers are pledged.

**DATES AND MATURITIES**

The Bonds will be dated May 30, 2024, will be issued as fully registered Bonds in the denomination of \$5,000 each, or any integral multiple thereof, and will mature on February 1 as follows:

<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>
2026	\$240,000	2031	\$285,000	2036	\$335,000
2027	250,000	2032	290,000	2037	345,000
2028	260,000	2033	300,000	2038	360,000
2029	265,000	2034	315,000	2039	370,000
2030	275,000	2035	325,000	2040	390,000

**ADJUSTMENT OPTION**

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

**TERM BOND OPTION**

Proposals for the Bonds may contain a maturity schedule providing for any combination of serial bonds and term bonds, subject to mandatory redemption, so long as the amount of principal maturing or subject to mandatory redemption in each year conforms to the maturity schedule set forth above. All dates are inclusive.

## INTEREST PAYMENT DATES AND RATES

Interest will be payable on February 1 and August 1 of each year, commencing February 1, 2025, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board. **The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2026 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.)** All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

## BOOK-ENTRY-ONLY FORMAT

Unless otherwise specified by the purchaser, the Bonds will be designated in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds, and will be responsible for maintaining a book-entry system for recording the interests of its participants and the transfers of interests between its participants. The participants will be responsible for maintaining records regarding the beneficial interests of the individual purchasers of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, all payments of principal and interest will be made to the depository which, in turn, will be obligated to remit such payments to its participants for subsequent disbursement to the beneficial owners of the Bonds.

## PAYING AGENT

The City has selected Bond Trust Services Corporation, Roseville, Minnesota ("BTSC"), to act as paying agent (the "Paying Agent"). BTSC and Ehlers are affiliate companies. The City will pay the charges for Paying Agent services. The City reserves the right to remove the Paying Agent and to appoint a successor.

## OPTIONAL REDEMPTION

At the option of the City, the Bonds maturing on or after February 1, 2035 shall be subject to optional redemption prior to maturity on February 1, 2034 or any date thereafter, at a price of par plus accrued interest to the date of optional redemption.

Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the selection of the amounts and maturities of the Bonds to be redeemed shall be at the discretion of the City. If only part of the Bonds having a common maturity date are called for redemption, then the City or Paying Agent, if any, will notify DTC of the particular amount of such maturity to be redeemed. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interest in such maturity to be redeemed.

Notice of redemption shall be sent by mail not more than 60 days and not less than 30 days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the registration books.

## DELIVERY

On or about May 30, 2024, the Bonds will be delivered without cost to the winning bidder at DTC. On the day of closing, the City will furnish to the winning bidder the opinion of bond counsel hereinafter described, an arbitrage certification, and certificates verifying that no litigation in any manner questioning the validity of the Bonds is then pending or, to the best knowledge of officers of the City, threatened. Payment for the Bonds must be received by the City at its designated depository on the date of closing in immediately available funds.

## LEGAL MATTERS

Legal matters incident to the issuance and sale of the Bonds and with regard to the tax-exempt status of interest on the Bonds under existing laws are subject to the approving legal opinion of Fryberger, Buchanan, Smith & Frederick, P.A., as Bond Counsel to the City. Bond Counsel has not examined nor attempted to examine or verify any of the financial or statistical statements or data contained in the Official Statement and will express no opinions with respect to such information. Additionally, except for statements on the cover page of the Official Statement and under the caption "TAX MATTERS" relating to Bond Counsel's opinion that the interest on the Bonds is not includable in gross income for federal income tax purposes, Bond Counsel has not independently verified any of the factual information contained in the Official Statement nor have they conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of the Official Statement. No person is entitled to rely upon their limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the information contained in the Official Statement. See "FORM OF LEGAL OPINION" found in Appendix B.

## SUBMISSION OF PROPOSALS

Proposals must not be for less than \$4,549,740 plus accrued interest on the principal sum of \$4,605,000 from date of original issue of the Bonds to date of delivery. Prior to the time established above for the opening of proposals, interested parties may submit a proposal as follows:

- 1) Electronically to [bondsale@ehlers-inc.com](mailto:bondsale@ehlers-inc.com); or
- 2) Electronically via **PARITY** in accordance with this Terms of Proposal until 10:30 A.M. Central Time, but no proposal will be received after the time for receiving proposals specified above. To the extent any instructions or directions set forth in **PARITY** conflict with this Terms of Proposal, the terms of this Terms of Proposal shall control. For further information about **PARITY**, potential bidders may contact IHS Markit (now part of S&P Global) at <https://ihsmarkit.com/products/municipal-issuance.html> or via telephone (844) 301-7334.

Proposals must be submitted to Ehlers via one of the methods described above and must be received prior to the time established above for the opening of proposals. Each proposal must be unconditional except as to legality. Neither the City nor Ehlers shall be responsible for any failure to receive a facsimile submission.

**A good faith deposit ("Deposit") in the amount of \$92,100 shall be made by the winning bidder by wire transfer of funds. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. Wire transfer instructions will be provided to the winning bidder by Ehlers after the tabulation of proposals.** The City reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the City may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the City as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith.

The City and the winning bidder who chooses to so wire the Deposit hereby agree irrevocably that Ehlers shall be the escrow holder of the Deposit wired to such account subject only to these conditions and duties: 1) All income earned thereon shall be retained by the escrow holder as payment for its expenses; 2) If the proposal is not accepted, Ehlers shall, at its expense, promptly return the Deposit amount to the winning bidder; 3) If the proposal is accepted, the Deposit shall be returned to the winning bidder at the closing; 4) Ehlers shall bear all costs of maintaining the escrow account and returning the funds to the winning bidder; 5) Ehlers shall not be an insurer of the Deposit amount and shall have no liability hereunder except if it willfully fails to perform or recklessly disregards, its duties specified herein; and 6) FDIC insurance on deposits within the escrow account shall be limited to \$250,000 per bidder.

No proposal can be withdrawn after the time set for receiving proposals unless the meeting of the City scheduled for award of the Bonds is adjourned, recessed, or continued to another date without award of the Bonds having been made.

## **AWARD**

The Bonds will be awarded to the bidder offering the lowest interest rate to be determined on a True Interest Cost (TIC) basis. The City's computation of the interest rate of each proposal, in accordance with customary practice, will be controlling. In the event of a tie, the sale of the Bonds will be awarded by lot. The City reserves the right to reject any and all proposals and to waive any informality in any proposal.

## **BOND INSURANCE**

If the Bonds are qualified for any bond insurance policy, the purchase of such policy shall be at the sole option and expense of the winning bidder. Any cost for such insurance policy is to be paid by the winning bidder, except that, if the City requested and received a rating on the Bonds from a rating agency, the City will pay that rating fee. Any rating agency fees not requested by the City are the responsibility of the winning bidder.

Failure of the municipal bond insurer to issue the policy after the Bonds are awarded to the winning bidder shall not constitute cause for failure or refusal by the winning bidder to accept delivery of the Bonds.

## **CUSIP NUMBERS**

The City will assume no obligation for the assignment or printing of CUSIP numbers on the Bonds or for the correctness of any numbers printed thereon, but will permit such numbers to be printed at the expense of the winning bidder, if the winning bidder waives any delay in delivery occasioned thereby.

## **QUALIFIED TAX-EXEMPT OBLIGATIONS**

The City will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

## **CONTINUING DISCLOSURE**

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

## **NEW ISSUE PRICING**

The winning bidder will be required to provide, in a timely manner, certain information necessary to compute the yield on the Bonds pursuant to the provisions of the Internal Revenue Code of 1986, as amended, and to provide a certificate which will be provided by Bond Counsel upon request.

(a) The winning bidder shall assist the City in establishing the issue price of the Bonds and shall execute and deliver to the City at closing an "issue price" or similar certificate satisfactory to Bond Counsel setting forth the reasonably expected initial offering price to the public or the sales price or prices of the Bonds, together with the supporting pricing wires or equivalent communications. All actions to be taken by the City under this Terms of Proposal to establish the issue price of the Bonds may be taken on behalf of the City by the City's municipal advisor identified herein and any notice or report to be provided to the City may be provided to the City's municipal advisor.

(b) The City intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Bonds) will apply to the initial sale of the Bonds (the "competitive sale requirements") because:

- (1) The City shall disseminate this Terms of Proposal to potential underwriters in a manner that is reasonably designed to reach potential investors;
- (2) all bidders shall have an equal opportunity to bid;
- (3) the City may receive proposals from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- (4) the City anticipates awarding the sale of the Bonds to the bidder who submits a firm offer to purchase the Bonds at the highest price (or lowest interest cost), as set forth in this Terms of Proposal.

Any proposal submitted pursuant to this Terms of Proposal shall be considered a firm offer for the purchase of the Bonds, as specified in this proposal.

(c) If all of the requirements of a "competitive sale" are not satisfied, the City shall advise the winning bidder of such fact prior to the time of award of the sale of the Bonds to the winning bidder. In such event, any proposal submitted will not be subject to cancellation or withdrawal and the City agrees to use the rule selected by the winning bidder on its proposal form to determine the issue price for the Bonds. On its proposal form, each bidder must select one of the following two rules for determining the issue price of the Bonds: (1) the first price at which 10% of a maturity of the Bonds (the "10% test") is sold to the public as the issue price of that maturity or (2) the initial offering price to the public as of the sale date as the issue price of each maturity of the Bonds (the "hold-the-offering-price rule").

(d) If all of the requirements of a "competitive sale" are not satisfied and the winning bidder selects the hold-the-offering-price rule, the winning bidder shall (i) confirm that the underwriters have offered or will offer the Bonds to the public on or before the date of award at the offering price or prices (the "initial offering price"), or at the corresponding yield or yields, set forth in the proposal submitted by the winning bidder and (ii) agree, on behalf of the underwriters participating in the purchase of the Bonds, that the underwriters will neither offer nor sell unsold Bonds of any maturity to which the hold-the-offering-price rule shall apply to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

- (1) the close of the fifth (5<sup>th</sup>) business day after the sale date; or
- (2) the date on which the underwriters have sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The winning bidder will advise the City promptly after the close of the fifth (5<sup>th</sup>) business day after the sale whether it has sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The City acknowledges that in making the representation set forth above, the winning bidder will rely on:

(i) the agreement of each underwriter to comply with requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-price rule, if applicable to the Bonds, as set forth in an agreement among underwriters and the related pricing wires,

(ii) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in a selling group agreement and the related pricing wires, and

(iii) in the event that an underwriter or dealer who is a member of the selling group is a party to a third-party distribution agreement that was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is party to such agreement to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in the third-party distribution agreement and the related pricing wires. The City further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the requirements for establishing issue price rule of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a third-party distribution agreement to comply with its corresponding agreement to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule as applicable to the Bonds.

(e) If all of the requirements of a "competitive sale" are not satisfied and the winning bidder selects the 10% test, the winning bidder agrees to promptly report to the City, Bond Counsel and Ehlers the prices at which the Bonds have been sold to the public. That reporting obligation shall continue, whether or not the closing date has occurred, until either (i) all Bonds of that maturity have been sold or (ii) the 10% test has been satisfied as to each maturity of the Bonds, provided that, the winning bidder's reporting obligation after the Closing Date may be at reasonable periodic intervals or otherwise upon request of the City or bond counsel.

(f) By submitting a proposal, each bidder confirms that:

(i) any agreement among underwriters, any selling group agreement and each third-party distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is party to such third-party distribution agreement, as applicable, to:

(A) report the prices at which it sells to the public the unsold Bonds of each maturity allocated to it, whether or not the Closing Date has occurred until either all securities of that maturity allocated to it have been sold or it is notified by the winning bidder that either the 10% test has been satisfied as to the Bonds of that maturity, provided that, the reporting obligation after the Closing Date may be at reasonable periodic intervals or otherwise upon request of the City or bond counsel.

(B) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and

(ii) any agreement among underwriters or selling group agreement relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group and each broker dealer that is a party to a third-party distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require each broker-dealer that is a party to such third-party distribution agreement to:

(A) to promptly notify the winning bidder of any sales of Bonds that, to its knowledge, are made to a purchaser who is a related party to an underwriter participating in the initial sale of the Bonds to the public (each such term being used as defined below), and

(B) to acknowledge that, unless otherwise advised by the underwriter, dealer or broker-dealer, the winning bidder shall assume that each order submitted by the underwriter, dealer or broker-dealer is a sale to the public.

(g) Sales of any Bonds to any person that is a related party to an underwriter participating in the initial sale of the Bonds to the public (each term being used as defined below) shall not constitute sales to the public for purposes of this Terms of Proposal. Further, for purposes of this Terms of Proposal:

- (i) "public" means any person other than an underwriter or a related party,
- (ii) "underwriter" means (A) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a third-party distribution agreement participating in the initial sale of the Bonds to the public),
- (iii) a purchaser of any of the Bonds is a "related party" to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (A) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (B) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (C) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and
- (iv) "sale date" means the date that the Bonds are awarded by the City to the winning bidder.

### **PRELIMINARY OFFICIAL STATEMENT**

Bidders may obtain a copy of the Preliminary Official Statement relating to the Bonds prior to the proposal opening by request from Ehlers at [www.ehlers-inc.com](http://www.ehlers-inc.com) by connecting to the Bond Sales link. The Underwriter (Syndicate Manager) will be provided with an electronic copy of the Final Official Statement within seven business days of the proposal acceptance. Up to 10 printed copies of the Final Official Statement will be provided upon request. Additional copies of the Final Official Statement will be available at a cost of \$10.00 per copy.

Information for bidders and proposal forms may be obtained from Ehlers at 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, Telephone (651) 697-8500.

By Order of the City Council

City of Two Harbors, Minnesota



# PROPOSAL FORM

The City Council  
City of Two Harbors, Minnesota (the "City")

May 13, 2024

RE: \$4,605,000\* General Obligation Improvement Bonds, Series 2024A (the "Bonds")  
DATED: May 30, 2024

For all or none of the above Bonds, in accordance with the Terms of Proposal and terms of the Global Book-Entry System (unless otherwise specified by the Purchaser) as stated in this Official Statement, we will pay you \$ \_\_\_\_\_ (not less than \$4,549,740) plus accrued interest to date of delivery for fully registered Bonds bearing interest rates and maturing in the stated years as follows:

_____ % due	2026	_____ % due	2031	_____ % due	2036
_____ % due	2027	_____ % due	2032	_____ % due	2037
_____ % due	2028	_____ % due	2033	_____ % due	2038
_____ % due	2029	_____ % due	2034	_____ % due	2039
_____ % due	2030	_____ % due	2035	_____ % due	2040

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

**The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2026 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.)** All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

**A good faith deposit ("Deposit") in the amount of \$92,100 shall be made by the winning bidder by wire transfer of funds. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. Wire transfer instructions will be provided to the winning bidder by Ehlers after the tabulation of proposals.** The City reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the City may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the City as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith. We agree to the conditions and duties of Ehlers and Associates, Inc., as escrow holder of the Deposit, pursuant to the Terms of Proposal. This proposal is for prompt acceptance and is conditional upon delivery of said Bonds to The Depository Trust Company, New York, New York, in accordance with the Terms of Proposal. Delivery is anticipated to be on or about May 30, 2024.

This proposal is subject to the City's agreement to enter into a written undertaking to provide continuing disclosure under Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 as described in the Preliminary Official Statement for the Bonds.

We have received and reviewed the Official Statement, and any addenda thereto, and have submitted our requests for additional information or corrections to the Final Official Statement. As Underwriter (Syndicate Manager), we agree to provide the City with the reoffering price of the Bonds within 24 hours of the proposal acceptance.

This proposal is a firm offer for the purchase of the Bonds identified in the Terms of Proposal, on the terms set forth in this proposal form and the Terms of Proposal, and is not subject to any conditions, except as permitted by the Terms of Proposal.

By submitting this proposal, we confirm that we are an underwriter and have an established industry reputation for underwriting new issuances of municipal bonds. YES:  NO: .

If the competitive sale requirements are not met, we elect to use either the:  10% test, or the  hold-the-offering-price rule to determine the issue price of the Bonds.

Account Manager: \_\_\_\_\_ By: \_\_\_\_\_  
Account Members: \_\_\_\_\_

**Award will be on a true interest cost basis.** According to our computations (the correct computation being controlling in the award), the total dollar interest cost (including any discount or less any premium) computed from May 30, 2024 of the above proposal is \$ \_\_\_\_\_ and the true interest cost (TIC) is \_\_\_\_\_ %.

The foregoing offer is hereby accepted by and on behalf of the City Council of the City of Two Harbors, Minnesota, on May 13, 2024.

By: \_\_\_\_\_ By: \_\_\_\_\_  
Title: \_\_\_\_\_ Title: \_\_\_\_\_