

CITY OF HARMONY

Harmony, Minnesota

FINANCIAL STATEMENTS

as of 12/31/03

Together with Auditor's Report

LLOYD D. JOHNSON

Certified Public Accountant

**120 North Broadway
Spring Valley, MN 55975**

CITY OF HARMONY, MINNESOTA

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CITY OF HARMONY, MINNESOTA

CITY OFFICIALS

For the Year Ended December 31, 2003

		<u>Term Expires</u>
David Runkel	Mayor	12-31-04
Mark McKay	Council Member	12-31-04
David Kingsley	Council Member	12-31-04
Gerald Shuck	Council Member	12-31-06
Sherry Hines	Council Member	12-31-06
Jerome Illg	City Administrator	Appointed
Eileen Schansberg	Deputy Clerk	Appointed

For the Year Ending December 31, 2004

David Runkel	Mayor	12-31-04
Mark McKay	Council Member	12-31-04
David Kingsley	Council Member	12-31-04
Gerald Shuck	Council Member	12-31-06
Sherry Hines	Council Member	12-31-06
Jerome Illg	City Administrator	Appointed
Eileen Schansberg	Deputy Clerk	Appointed

LLOYD D. JOHNSON

Certified Public Accountant



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120 North Broadway
P. O. Box 193
Spring Valley, MN 55975

INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council
City of Harmony
Harmony, Minnesota 55939

We have audited the accompanying general purpose financial statements of the City of Harmony, Minnesota, as of and for the year ended December 31, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the City of Harmony, Minnesota's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 and Note 6, the City has not maintained adequate historical fixed asset records. Accordingly, fixed assets are not recorded as required by generally accepted accounting principles in the General Fixed Asset Group of Accounts. Also, Water, Sewer, and Garbage Enterprise Funds do not maintain fixed assets in accordance with generally accepted accounting principles, except for 2003 Sewer Fund additions and the wastewater treatment plant maintained in the Sewer Fund. The amounts, by which the financial statements would change, if these items were included, while material, cannot be determined. Because of the material effect of the above omissions, which are at variance with generally accepted accounting principles, in our opinion, the financial statements referred to above, do not present fairly the financial position of the Enterprise Funds and the General Fixed Asset Group of Accounts of the City of Harmony, Minnesota, at December 31, 2003, nor the results of operations or changes in its financial position of the Enterprise Funds for the year then ended in conformity with generally accepted accounting principles.

In our opinion, except for the effects on the general purpose financial statements of the matters discussed in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Harmony, Minnesota, at December 31, 2003, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated March 17, 2004, on our consideration of the City of Harmony's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining, individual fund and account group financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City of Harmony, Minnesota. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.


LLOYD D. JOHNSON
Certified Public Accountant

March 17, 2004
Spring Valley, Minnesota

CITY OF HARMONY, MINNESOTA

ALL FUND TYPES AND ACCOUNT GROUPS

COMBINED BALANCE SHEET

December 31, 2003

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 143,431	\$ 257,722	\$ 71,148	\$ 466,283
Receivables				
Accounts	505	34,398	-	-
Taxes	-	-	-	-
Special Assessments	110	-	-	269,705
Contracts/Grants	-	2,250	-	-
Note	95,833	-	-	-
Due from Other Funds	223,165	40,000	-	-
Inventory	-	-	-	-
Prepaid Insurance/Other	3,259	1,483	-	-
Net Fixed Assets	-	-	-	-
Net Other Assets	-	-	-	-
Amount Available for Long-Term Debt Payment	-	-	-	-
Amount to be Provided	-	-	-	-
TOTAL ASSETS	\$ 466,303	\$ 335,853	\$ 71,148	\$ 735,988
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities</u>				
Accounts Payable	\$ 23,582	\$ 3,121	\$ 88,524	\$ 5,580
Retainage Payable	-	-	36,443	-
Accrued Salaries	1,435	-	-	-
Accrued Sales Tax	14	-	-	-
Other Accrued Expenses	7,175	573	-	-
Due to Other Funds	-	6,458	223,165	-
Meter Deposits/Lease Deposits	-	-	-	-
Deferred Revenue	95,943	-	-	269,705
Bonds/Notes Payable	-	-	-	-
Capital Lease Payable	-	-	-	-
TOTAL LIABILITIES	128,149	10,152	348,132	275,285
<u>Fund Equity (Deficit)</u>				
Contributed Capital	-	-	-	-
Retained Earnings	-	-	-	-
Fund Balances:				
Unreserved, Designated	300,000	28,260	71,148	460,703
Unreserved, Undesignated	38,154	297,441	(348,132)	-
TOTAL FUND EQUITY	338,154	325,701	(276,984)	460,703
TOTAL LIABILITIES AND FUND EQUITY	\$ 466,303	\$ 335,853	\$ 71,148	\$ 735,988

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

Fiduciary Fund Types Non- Expendable Trust	Proprietary Fund Types Enterprise	Account Group General Long-Term Debt	2003 Totals (Memorandum Only)	2002 Totals (Memorandum Only)
\$ 10,011	\$ 426,307	\$ -	\$ 1,374,902	\$ 2,156,924
456	147,741	-	183,100	189,971
-	-	-	-	-
-	18,644	-	288,459	241,770
-	-	-	2,250	2,250
-	-	-	95,833	103,765
-	6,458	-	269,623	40,000
-	19,952	-	19,952	17,139
-	11,019	-	15,761	8,174
-	4,517,624	-	4,517,624	4,804,414
-	128,086	-	128,086	78,263
-	-	460,703	460,703	220,809
-	-	1,643,384	1,643,384	1,815,722
<u>\$ 10,467</u>	<u>\$ 5,275,831</u>	<u>\$ 2,104,087</u>	<u>\$ 8,999,677</u>	<u>\$ 9,679,201</u>
\$ -	\$ 120,303	\$ -	\$ 241,110	\$ 154,798
-	1,822	-	38,265	40,006
-	4,084	-	5,519	3,435
-	2,935	-	2,949	2,899
-	29,091	-	36,839	7,532
-	40,000	-	269,623	40,000
-	21,760	-	21,760	19,440
-	-	-	365,648	338,998
-	3,672,232	2,075,000	5,747,232	5,924,671
-	16,728	29,087	45,815	56,531
-	3,908,955	2,104,087	6,774,760	6,588,310
-	447,208	-	447,208	447,208
-	919,668	-	919,668	991,942
10,000	-	-	870,111	602,125
467	-	-	(12,070)	1,049,616
<u>10,467</u>	<u>1,366,876</u>	<u>-</u>	<u>2,224,917</u>	<u>3,090,891</u>
<u>\$ 10,467</u>	<u>\$ 5,275,831</u>	<u>\$ 2,104,087</u>	<u>\$ 8,999,677</u>	<u>\$ 9,679,201</u>

CITY OF HARMONY, MINNESOTA

ALL GOVERNMENTAL FUND TYPES AND NON-EXPENDABLE TRUST
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Year Ended December 31, 2003

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>
<u>REVENUES</u>				
Taxes	\$ 187,034	\$ 103,486	\$ -	\$ 119,993
Special Assessments	1,097	-	-	65,901
Intergovernmental	373,253	50,998	-	-
Licenses and Permits	8,189	-	-	-
Charges for Service	11,467	113,913	-	-
Fines and Forfeits	1,266	-	-	-
Note - Nursing Home/Hospital	20,000	-	-	-
Interest Earnings	9,511	12,184	2,981	25
Refunds and Reimbursements	8,941	2,025	-	-
Miscellaneous	10,332	110,755	5,000	-
TOTAL REVENUES	631,090	393,361	7,981	185,919
<u>EXPENDITURES</u>				
General Government	114,499	-	-	-
Public Safety	78,090	131,367	-	-
Highways and Streets	84,957	-	-	-
Library	-	62,349	-	-
Parks and Recreation	106,382	23,014	-	-
Unallocated	16,804	32,533	-	-
Capital Outlay/Capital Projects	23,580	121,229	1,161,231	-
<u>Debt Service</u>				
Principal	-	-	-	120,000
Interest and Fees	-	-	-	72,369
TOTAL EXPENDITURES	424,312	370,492	1,161,231	192,369
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	206,778	22,869	(1,153,250)	(6,450)
<u>OTHER FINANCING SOURCES (USES)</u>				
Proceeds from Bonds/Notes	-	-	-	215,000
Operating Transfers In	38,500	161,924	45,144	31,344
Operating Transfers Out	(298,952)	(40,608)	(16,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	(260,452)	121,316	29,144	246,344
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(53,674)	144,185	(1,124,106)	239,894
FUND BALANCE - BEGINNING OF YEAR	391,828	181,516	847,122	220,809
FUND BALANCE - END OF YEAR	\$ 338,154	\$ 325,701	\$ (276,984)	\$ 460,703

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

Fiduciary Fund Types Non- Expendable Trust	2003 Totals (Memorandum Only)	2002 Totals (Memorandum Only)
\$ -	\$ 410,513	\$ 339,360
-	66,998	61,536
-	424,251	456,309
-	8,189	6,664
-	125,380	110,988
-	1,266	1,952
-	20,000	20,000
913	25,614	16,753
-	10,966	982,126
-	126,087	154,167
913	1,219,264	2,149,855
-	114,499	95,246
-	209,457	191,690
-	84,957	129,112
-	62,349	67,376
-	129,396	114,105
-	49,337	20,841
-	1,306,040	2,717,050
-	120,000	150,000
-	72,369	138,685
-	2,148,404	3,624,105
913	(929,140)	(1,474,250)
-	215,000	970,000
-	276,912	309,375
(912)	(356,472)	(640,051)
(912)	135,440	639,324
1	(793,700)	(834,926)
10,466	1,651,741	2,486,667
\$ 10,467	\$ 858,041	\$ 1,651,741

CITY OF HARMONY, MINNESOTA

GENERAL AND SPECIAL REVENUE FUNDS
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET (GAAP BASIS) AND ACTUAL
For the Year Ended December 31, 2003

	<u>General Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>REVENUES</u>			
Taxes	\$ 221,287	\$ 187,034	\$ (34,253)
Special Assessments	750	1,097	347
Intergovernmental	351,446	373,253	21,807
Licenses and Permits	6,375	8,189	1,814
Fines and Forfeits	2,500	1,266	(1,234)
Other Revenues	5,125	9,712	4,587
Rental Income	8,700	11,467	2,767
Donations	5,000	620	(4,380)
Note - Nursing Home/Hospital	20,000	20,000	-
Interest Earnings	9,000	9,511	511
Refunds and Reimbursements	-	8,941	8,941
	<u>630,183</u>	<u>631,090</u>	<u>907</u>
<u>TOTAL REVENUES</u>			
<u>EXPENDITURES</u>			
General Governmental	95,401	114,499	(19,098)
Public Safety	62,214	78,090	(15,876)
Highways and Streets	94,421	84,957	9,464
Library	-	-	-
Parks and Recreation	102,140	106,382	(4,242)
Unallocated	29,202	16,804	12,398
Capital Outlay	11,390	23,580	(12,190)
	<u>394,768</u>	<u>424,312</u>	<u>(29,544)</u>
<u>TOTAL EXPENDITURES</u>			
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	235,415	206,778	(28,637)
<u>OTHER FINANCING SOURCES (USES)</u>			
Proceeds from Bonds/Notes	-	-	-
Operating Transfers In	22,500	38,500	16,000
Operating Transfers Out	(257,916)	(298,952)	(41,036)
	<u>(235,416)</u>	<u>(260,452)</u>	<u>(25,036)</u>
<u>TOTAL OTHER FINANCING SOURCES (USES)</u>			
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(1)	(53,674)	(53,673)
FUND BALANCE - BEGINNING OF YEAR	<u>391,828</u>	<u>391,828</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 391,827</u>	<u>\$ 338,154</u>	<u>\$ (53,673)</u>

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

Special Revenue Funds		
Budget	Actual	Variance Favorable (Unfavorable)
\$ 71,500	\$ 103,486	\$ 31,986
-	-	-
48,479	50,998	2,519
-	-	-
-	-	-
221,111	224,668	3,557
-	-	-
-	-	-
-	-	-
7,225	12,184	4,959
900	2,025	1,125
<u>349,215</u>	<u>393,361</u>	<u>44,146</u>
-	-	-
104,012	131,367	(27,355)
-	-	-
76,644	62,349	14,295
30,928	23,014	7,914
85,860	32,533	53,327
<u>105,541</u>	<u>121,229</u>	<u>(15,688)</u>
<u>402,985</u>	<u>370,492</u>	<u>32,493</u>
(53,770)	22,869	76,639
-	-	-
120,897	161,924	41,027
<u>(40,613)</u>	<u>(40,608)</u>	<u>5</u>
<u>80,284</u>	<u>121,316</u>	<u>41,032</u>
26,514	144,185	117,671
<u>181,516</u>	<u>181,516</u>	<u>-</u>
<u>\$ 208,030</u>	<u>\$ 325,701</u>	<u>\$ 117,671</u>

CITY OF HARMONY, MINNESOTA

ALL PROPRIETARY FUND TYPES
COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
For the Years Ended December 31, 2003 and 2002

	<u>2003 Totals</u>	<u>2002 Totals</u>
<u>OPERATING REVENUES</u>		
Sales and Charges for Service	<u>\$ 1,515,715</u>	<u>\$ 1,289,564</u>
TOTAL OPERATING REVENUES	1,515,715	1,289,564
<u>OPERATING EXPENSES</u>		
Purchased Power	426,364	413,538
Other Operating Expenses	845,251	715,496
Depreciation	<u>201,489</u>	<u>158,098</u>
TOTAL OPERATING EXPENSES	<u>1,473,104</u>	<u>1,287,132</u>
OPERATING INCOME (LOSS)	42,611	2,432
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest Income	3,008	10,216
Special Assessments	20,637	1,763
Capital Credits and Miscellaneous	24,841	(4,540)
Interest Expense	(209,774)	(131,427)
Loss on Sale of Fixed Assets	<u>(33,157)</u>	<u>-</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(194,445)</u>	<u>(123,988)</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	(151,834)	(121,556)
Operating Transfers In (Out)	<u>79,560</u>	<u>275,964</u>
NET INCOME (LOSS)	(72,274)	154,408
RETAINED EARNINGS - BEGINNING OF YEAR	<u>991,942</u>	<u>837,534</u>
RETAINED EARNINGS - END OF YEAR	<u>\$ 919,668</u>	<u>\$ 991,942</u>

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

CITY OF HARMONY, MINNESOTA

ALL PROPRIETARY FUND TYPES
 COMBINED STATEMENT OF CASH FLOWS
 For the Years Ended December 31, 2003 and 2002

	2003 Totals	2002 Totals
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Operating Income (Loss)	\$ 42,611	\$ 2,432
<u>Adjustments to Reconcile Operating Income (Loss) to Net cash</u>		
<u>Provided From Operating Activities:</u>		
Depreciation and Amortization	201,489	158,098
(Increase) Decrease In:		
Receivables	(7,267)	(39,317)
Inventory	(2,813)	(2,244)
Prepaid Insurance/Other	152	(1,498)
Due From Other Funds	(6,458)	-
Increase (Decrease) In:		
Due to Other Funds	-	40,000
Accounts Payable	35,860	28,132
Accrued Expenses	23,911	23
Customer Meter/Lease Deposits	2,320	7,113
	<u>289,805</u>	<u>192,739</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>		
Operating Transfers In (Out) to Other Funds	79,560	275,964
Other Income	24,841	(5,200)
	<u>104,401</u>	<u>270,764</u>
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES		
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Acquisition of Fixed Assets	(112,035)	(3,102,960)
Loan Costs and Financing Fees	-	(81,524)
Sale of Fixed Assets	131,086	-
Proceeds from Bonds/Notes Payable	-	3,000,000
Principal Payments on Bonds Payable	(272,439)	(64,572)
Interest Payments on Bonds Payable	(209,774)	(131,426)
Special Assessments Received	20,637	2,469
Contributed Capital	-	151,868
	<u>(442,525)</u>	<u>(226,145)</u>
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES		
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest Received	3,008	10,171
	<u>3,008</u>	<u>10,171</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(45,311)	247,529
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	471,618	224,089
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 426,307</u>	<u>\$ 471,618</u>

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

CITY OF HARMONY, MINNESOTA

STATEMENT OF CHANGES IN GENERAL LONG-TERM DEBT ACCOUNT GROUP
For the Year Ended December 31, 2003

<u>BONDED INDEBTEDNESS</u>	<u>Interest Rates</u>	<u>Authorized</u>	<u>Issued</u>
<u>General Obligations</u>			
G.O. Fire Station Bonds - Series 1994A	4.80 - 5.00%	\$ 380,000	\$ 380,000
G.O. Improvement Bonds - Series 1994B	5.87%	135,000	135,000
G.O. Tax Increment Bonds - Series 1995A	4.30 - 5.60%	300,000	300,000
G.O. Improvement Bonds - Series 1998A	4.00 - 4.60%	400,000	400,000
G.O. Improvement Bonds - Series 2000A	5.25 - 5.75%	250,000	250,000
G.O. Water and Sewer Bond 2002A	2.00 -4.30%	455,000	455,000
G.O. Improvement Bond 2002B	2.00 -4.30%	515,000	515,000
G.O. Refunding Bonds - 2003	1.55-3.50%	215,000	215,000
 <u>Capital Leases</u>			
1997 Fire Truck Capital Lease	5.95%	137,239	137,239
2000 Tractor Capital Lease	6.15%	21,720	21,720
TOTAL BONDED INDEBTEDNESS		<u>\$ 2,808,959</u>	<u>\$ 2,808,959</u>

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

Balance January 1 2003	Issued	Retired	Balance December 31 2003	Principal Due in 2004	Interest Due in 2004
\$ 265,000	\$ -	\$ (25,000)	\$ 240,000	\$ 30,000	\$ 13,203
15,000	-	(15,000)	-	-	-
205,000	-	(20,000)	185,000	20,000	9,350
295,000	-	(40,000)	255,000	40,000	10,467
230,000	-	(20,000)	210,000	-	-
455,000	-	-	455,000	45,000	15,300
515,000	-	-	515,000	60,000	16,605
-	215,000	-	215,000	20,000	11,195
45,024	-	(21,862)	23,162	23,162	1,378
11,507	-	(5,582)	5,925	5,925	364
<u>\$ 2,036,531</u>	<u>\$ 215,000</u>	<u>\$ (147,444)</u>	<u>\$ 2,104,087</u>	<u>\$ 244,087</u>	<u>\$ 77,862</u>

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

Note 1 Summary of Significant Accounting Policies

The accounting policies of the City of Harmony conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

Financial Reporting Entity

The City's financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether the organization is legally separate (can sue and be sued in their own name), the City holds the corporate powers of the organization, the City appoints a voting majority of the organization's board, the City is able to impose its will on the organization, the organization has the potential to impose a financial benefit/burden on the City, and there is fiscal dependency by the organization on the City. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the City's reporting entity.

Excluded -

Fire Relief Association - This association is organized as a nonprofit organization by their members to provide pension and other benefits to such members in accordance with Minnesota statutes. Their board of directors are appointed by the membership of the organization. All funding is conducted in accordance with Minnesota statutes, whereby state aids flow to the association, tax levies are determined by the association and are only reviewed by the City, and the associations pay benefits directly to their members.

Fund Accounting

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, for the general purpose financial statements in this report, into six generic fund types and three broad fund categories as follows:

Governmental Funds

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Project Funds - Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those fully financed by Proprietary Funds.)

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs.

Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Fiduciary Funds

Non-Expendable Trust Funds - Non-Expendable Trust Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Non-Expendable Trust Funds are accounted for in essentially the same manner as Governmental Funds. The City currently has a restricted balance of \$10,100 in non-expendable funds whose interest earnings are allowed for Library Fund expenditures.

Account Groups

General Fixed Assets Account Group - Accounts for fixed assets used in governmental fund type operations for control purposes.

The City has not maintained a record of its general fixed assets and, accordingly, a statement of general fixed assets, required by generally accepted accounting principles, is not included in these financial statements.

General Long-Term Debt Account Group - Accounts for all City general obligation long-term debt expected to be financed from governmental fund types.

The two account groups are not funds. They are concerned only with the measurement of financial position and are not involved with measurement of results of operations.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental and Fiduciary Funds are accounted for on a spending or financial flow measurement focus. This means that only current assets and current liabilities are generally included on the balance sheet. The reported fund balance (net current assets) is considered a measure of available spendable resources. Governmental and fiduciary fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, the statements present a summary of sources and uses of available spendable resources during a period.

All Proprietary Funds are accounted for on a cost of services or capital maintenance measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with the operations of these funds are included on the balance sheet. The reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary Fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The modified accrual basis of accounting is used by all governmental and fiduciary fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means that the amount of the transaction can be determined and "available" means that the amount of the transaction is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

Those revenues susceptible to accrual are property taxes, special assessments, licenses, interest revenue and charges for services. Fines and permits are not susceptible to accrual because generally they are not measurable until received in cash.

The City reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

All Proprietary Funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

Budgets and Budgetary Accounting

Each fall, the City Council adopts an annual budget for the following year. The budgets are, in all material respects, prepared on the same basis of accounting used to prepare the general purpose financial statements. Budgeted amounts for the General Fund and Special Revenue Funds have been presented in the general purpose financial statements.

Spending control for City monies is at the fund level, but management control is exercised at budgetary line item level within each fund. The City Council may amend the budget after it is approved using the same procedures necessary to approve the original budget. The budgetary data presented represents the approved budget as amended. All annual appropriations lapse at year-end.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of applicable appropriation - is not utilized in any of the fund types. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. There are no encumbrances at December 31, 2003.

Cash and Cash Equivalents

Cash and cash equivalents consist of checking accounts, savings accounts, certificates of deposit, corporate bonds, and U.S. Treasury bonds.

Inventory

Inventories are valued at the lower of cost or market by applying the first-in, first-out method.

Special Assessments Receivable and Deferred Revenue

Special assessments receivable represent uncollected assessments, which will be collected by the County. In the Governmental Fund Types, special assessments receivable are offset by an equal amount in a liability account titled "Deferred Revenue". These special assessments are thus recognized only as collected.

Fixed Assets - Proprietary Fund Types

The City maintains fixed asset records for the Electric Fund and EDA Fund.

For the other Enterprise Funds; Water Fund, Sewer Fund, and Garbage Fund, the City does not maintain fixed asset records, except for the wastewater treatment plant and new sewer additions beginning in 2003. Acquisitions are recorded as an expense when incurred. This policy is not in accordance with generally accepted accounting principles.

Additions to the Electric Fund, EDA Fund and Sewer Fund fixed assets are recorded at cost. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of fixed assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income. Depreciation in the Electric Fund and Sewer Fund (for the wastewater treatment plant) has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings	25 Years
Building Improvements	5 - 25 Years
Furniture and Fixtures	5 - 10 Years
Production and Distribution Systems	30 - 35 Years

Accumulated Unpaid Vacation, Sick Pay, and Other Employee Benefit Amounts

Vacation benefits are earned for full-time city employees based upon length of service and can be accrued up to one and one-half times the annual amount. Full-time city employees are entitled to sick leave at the rate of one day after each monthly pay period. Sick leave may accumulate to a maximum of 960 hours.

The current liability related to such employee benefits is not considered to be material for disclosure in the financial statements. Both vacation and sick pay are expensed as paid.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Data

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative data have not been presented in all of the statements since their inclusion would make the statements unduly complex and difficult to read.

Total Columns on Combined Statements - Overview

Total columns on the Combined Statements - Overview are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or change in financial position in conformity with generally accepted accounting principles, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Note 2 Property Tax

Property Tax levies are set by the City Council in December each year and are certified to Fillmore County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes.

The county spreads all levies over taxable property. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. Revenues are recognized in the year collectible, net of delinquencies.

Real Property taxes may be paid by taxpayers in two equal installments, on May 15 and October 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to cities and other taxing districts four times a year in January, June, November, and December.

Taxes, which remain unpaid at December 31, are classified as delinquent taxes receivable, and are fully offset by deferred revenue because they are not known to be available to finance current expenditures. These offsetting balances are not reflected in the combined financial statements because of their non-effect on current year operations. As of December 31, 2003, the offsetting balances for prior tax levy years totaled \$5,998.

Note 3 Stewardship, Compliance, and Accountability

Deficit Fund Equity Balances

The following funds had deficit fund balances or fund equity at December 31, 2003:

Special Revenue Funds

Fire Fund	\$ (42,874)
Tax Increment #3	(382)
Tax Increment #4	(10,917)

Debt Service Funds

1994 G.O. Improvement Bonds	(8,378)
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Enterprise Funds

Garbage Fund	(23,889)
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Capital Project Funds

Community Center Roof Project	(193,720)
Southview Addition Imp. Project	(10,223)
TH 139 Main Avenue Improvement Project	(144,189)

These deficits will be offset with future revenues, permanent fund transfers from the General Fund, a USDA loan in 2004 for the Community Center Roof Project, and additional revenues from the State for the TH 139 Main Avenue Improvement Project.

Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts in the following funds:

	<u>Expenditures</u>	<u>Budget</u>
<u>General Fund</u>	\$ 424,312	\$ 394,768
<u>Special Revenue Funds</u>		
Ambulance Fund	92,620	65,989
Tax Increment Financing Dist. #2	7,013	2,205
Tax Increment Financing Dist. #4	6,470	2,205
Small City Grant Fund	16,024	690
Fire Fund	145,075	143,564
 <u>Debt Service Funds</u>		
1994 G.O. Fire Station Bonds	46,059	40,480
1995 G.O. Increment Bonds	31,090	30,715
2002 G.O. Improvement Bonds	15,120	15,110

Note 4 Cash and Investments

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents" under each fund's caption.

Deposits

In accordance with Minnesota statutes, the City maintains deposits at the depository banks, which are authorized by the City Council and are members of the Federal Reserve System.

Minnesota statutes require that all deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes the legal investments described below, as well as certain first mortgage notes, and certain other state or local government obligations. Minnesota statutes require that securities pledged as collateral be held in safekeeping by the City or in a financial institution other than that furnishing the collateral.

Balances at December 31, 2003:

	<u>Bank Balances</u>	<u>Carrying Amount</u>
Insured or collateralized by securities held by the City or its agent's in the City's name	\$ 856,629	\$ 777,938
Collateralized with securities held by the pledging institution's trust department in the City's name.	-	-
Uninsured and uncollateralized	-	-
Totals	<u>\$ 856,629</u>	<u>\$ 777,938</u>

Investments

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

- (a) Direct obligations or obligations guaranteed by the United States or its agencies.
- (b) Shares of investment companies registered under Federal Investment Company Act of 1940 or Federal Securities Act of 1933.
- (c) General obligations rated "A" or better and revenue obligations rated "AA" or better of a state or local government.
- (d) Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System.
- (e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- (f) Repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities in the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

Balance at December 31, 2003:

	Category			Carrying Amount	Market Value
	1	2	3		
U.S. Treasury Bonds	\$ 10,000	\$ -	\$ -	\$ 10,000	\$ 10,000
Bonds & Money Market Funds	<u>586,964</u>	<u>-</u>	<u>-</u>	<u>586,964</u>	<u>586,964</u>
Total Investments				596,964	
Total Deposits				<u>777,938</u>	
Total Cash and Cash Equivalents				<u>\$1,374,902</u>	

The City's investments are categorized above to give an indication of the level of risk assumed at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name.

Note 5 Note Receivable

On November 21, 1988, the City entered into a lease agreement (superseding a June 28, 1985 agreement) with the Harmony Community Hospital Association, Inc. for the hospital and nursing home building and the land on which it resides. On August 1, 1994, the City sold the hospital and nursing home building and the land on which it resides for \$229,000 to the Harmony Community Hospital Association, Inc. (the Hospital). The City has a mortgage deed and promissory note with the Hospital in the amount of \$229,000 dated August 1, 1994. The promissory note calls for payments of \$1,667 per month, due on the first day of each month commencing September 1, 1994, including interest at 3%. The mortgage deed and promissory note supersede the lease agreement dated November 21, 1988.

The following is a schedule by years of the required remaining payments as of December 31, 2003:

2004	\$ 20,000
2005	20,000
2006	20,000
2007	20,000
2008	20,000
2009	<u>3,591</u>
Total Obligation	103,591
Less: Amount Representing Interest	<u>(7,758)</u>
Net Obligation	<u>\$ 95,833</u>

Note 6 Changes in Fixed Assets

As discussed in Note 1, Summary of Significant Accounting Policies, the City does not maintain a record of general fixed assets in a General Fixed Asset Account Group as required by generally accepted accounting principles.

Also disclosed in Note 1, Summary of Significant Accounting Policies, fixed assets in the Water Fund, Sewer Fund, and Garbage Fund are not capitalized as required by generally accepted accounting principles, except for the wastewater treatment plant and sewer additions beginning in 2003.

The following is a summary of changes in the Proprietary Fund type fixed assets:

	Balance January 1, <u>2003</u>	Additions	Disposals	Balance December 31, <u>2003</u>
Land	\$ 283,482	\$ -	\$ (5,620)	\$ 277,862
Building and Improvements	4,701,894	46,173	(239,045)	4,509,022
Furniture and Fixtures/ Production and Distribution Systems	<u>911,165</u>	<u>29,507</u>	<u>-</u>	<u>940,672</u>
TOTAL	5,896,541	75,680	(244,665)	5,727,556
Less: Accumulated Depreciation	<u>(1,092,127)</u>	<u>(198,427)</u>	<u>80,622</u>	<u>(1,209,932)</u>
NET FIXED ASSETS	<u>\$4,804,414</u>	<u>\$ (122,747)</u>	<u>\$ (164,043)</u>	<u>\$4,517,624</u>

Note 7 Changes in Long-Term Debt

The following is a summary of total bond/note transactions of the City for the year ended December 31, 2003:

	<u>Total</u>
Bonds/Notes Payable at January 1, 2003	\$5,981,202
Bonds/Notes Issued	231,728
Bonds/Notes Retired	<u>(419,883)</u>
Bonds/Notes Payable at December 31, 2003	<u>\$5,793,047</u>

Bonds Payable at December 31, 2003, are comprised of the following individual issues:

GENERAL LONG TERM DEBT:
General Obligation Bonds:

\$380,000 General Obligation Fire Station Bonds, Series 1994A.

Due in annual installments of \$20,000 - \$40,000 through 2010; interest paid semi-annually at 4.80% - 6.00%.

Proceeds used to finance construction of new fire station.

\$ 240,000

\$300,000 General Obligation Tax Increment Bonds, Series 1995A. Due in annual installments of \$15,000 - \$30,000 through 2010; interest paid semi-annually at 4.30% - 5.6%. Proceeds used to finance highway/street improvements.	185,000
\$400,000 General Obligation Improvement Bonds, Series 1998A Due in annual installments of \$30,000 - \$45,000 through 2009; interest paid semi-annually at 4.00% - 4.60%. Proceeds used to finance construction of various improvements.	255,000
\$250,000 General Obligation Improvement Bonds, Series 2000A. Due in annual installments of \$20,000 - \$30,000 through 2001; interest paid semi-annually at 5.25% - 5.75%. Proceeds used to finance several improvement projects for 2000.	210,000
\$455,000 General Obligation Water and Sewer Revenue Bonds, Series 2002A. Due in annual installments of \$45,000 - \$50,000 through 2013; interest paid semi-annually at 2.00% - 4.30%. Proceeds used to finance various improvements to the water and sewer systems.	455,000
\$515,000 General Obligation Refunding and Improvement Bonds, Series 2002B. Due in annual installments of \$45,000 - \$60,000 through 2013; interest paid semi-annually at 2.00% - 4.30%. Proceeds used for refunding the G.O. Improvement Bonds, Series 1994B and to finance construction of various improvements.	515,000
\$215,000 General Obligation Refunding Bonds, Series 2003. Due in annual installments of \$33,000 - \$38,000 through 2010; interest paid semi-annually at 1.55% - 3.50%. Proceeds will be used in 2004 for refunding the G.O. Fire Station Bonds, Series 1994A.	<u>215,000</u>
Total General Obligation Bonds	2,075,000
Capital Leases:	
Fire Truck Lease. Annual payments of \$24,540 until May, 2004, including interest at 5.95%.	23,162
Tractor Lease. Annual payments of \$6,290 until February, 2004, including interest at 6.15%.	<u>5,925</u>
Total Capital Leases	<u>29,087</u>
TOTAL GENERAL LONG-TERM DEBT	2,104,087
PROPRIETARY FUND LONG-TERM DEBT:	
\$3,000,000 Economic Development Authority Housing Bonds of 2001. Due in annual installments of \$75,000 - \$210,000 through 2026; interest paid semi-annually at 4.10% - 5.75% Proceeds used to finance construction of a residential rental housing facility.	2,925,000
\$1,216,700 General Obligation Sewer Note, Series 1993. Issued by the Minnesota Public Facilities Authority (PFA) on a draw down basis. Loan proceeds received to December 31, 1997, are \$1,216,700. Due in semi-annual installments of \$41,940 including interest at 3.34% through 2014. Proceeds used to finance construction of the wastewater treatment facility.	730,713

\$62,500 Promissory Note, due Tri-County Electric Cooperative in annual installments of \$6,958 including interest at 2.0%. Proceeds used for EDA building construction.	13,509
\$12,500 Promissory Note, due Tri-County Electric Cooperative in annual installments of \$1,619 including interest at 5.0%. Proceeds used for EDA building construction.	<u>3,010</u>
Total Proprietary Bonds and Notes	3,672,232

Capital Lease:

Heritage Grove Van Lease. Annual payments of \$5,460 until May 2007, including interest at 5.00%.	<u>16,728</u>
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TOTAL PROPRIETARY FUND LONG-TERM DEBT 3,688,960

TOTAL LONG-TERM DEBT \$5,793,047

The annual requirements to amortize long-term debt as of December 31, 2003, are as follows:

Year Ending December 31	General Long-Term Debt		Proprietary Fund Debt		Total
	Principal	Interest	Principal	Interest	
2004	\$ 244,087	\$ 82,246	\$ 152,858	\$ 179,119	\$ 658,310
2005	263,000	73,622	155,327	173,290	665,239
2006	248,000	64,249	149,306	167,294	628,849
2007	262,000	54,047	153,031	161,402	630,480
2008	260,000	42,975	158,467	155,328	616,770
2009 On	<u>827,000</u>	<u>69,183</u>	<u>2,919,971</u>	<u>1,558,150</u>	<u>5,374,304</u>
TOTAL	<u>\$2,104,087</u>	<u>\$ 386,322</u>	<u>\$3,688,960</u>	<u>\$2,394,583</u>	<u>\$8,573,952</u>

The City has entered into capital lease agreements for a fire truck, a tractor, and a van. The following is a schedule of the minimum lease payments under the capital leases together with the present value of the minimum lease payments as of December 31, 2003:

Minimum Lease	
Payments in 2004	\$ 36,290
2005	5,460
2006	5,460
2007	5,460
Total Payments	<u>52,670</u>
Less Amount Representing Interest	<u>(6,855)</u>
Present Value of Minimum Lease Payments	<u>\$ 45,815</u>

Note 8 Conduit Debt Obligations

To provide for the acquisition and construction of various multi-family housing projects by a non-profit corporation, the City of Harmony issued \$12,000,000 of Housing Revenue Bonds during 1996. It has also entered into a joint-powers agreement with other participating cities in Minnesota. During 1997, the 1996 Bonds were refunded by three series of Housing Revenue Refunding Bonds. These bonds are special limited obligations of the City, payable solely from rental income sources of the non-profit corporation. The bonds do not constitute a debt or pledge of the faith and credit of the City, and accordingly have not been reported in the accompanying financial statements.

At December 31, 2003, the Housing Revenue Refunding Bonds outstanding aggregated \$9,060,000.

Note 9 Interfund Receivables and Payables

Interfund Payables/Receivables as of December 31, 2003, consist of the following:

	<u>Due From Other Fund</u>	<u>Due To Other Fund</u>
General Fund	\$ 223,165	\$ -
<u>Special Revenue Funds</u>		
Revolving Loan Fund	40,000	-
TIF #4	-	6,458
<u>Capital Project Funds</u>		
Community Center Roof Project	-	155,202
Southview Addition	-	10,223
TH 139 Main Ave. Imp. Project	-	57,740
<u>Enterprise Funds</u>		
Heritage Grove	-	40,000
EDA	<u>6,458</u>	<u>-</u>
Total	<u>\$ 269,623</u>	<u>\$ 269,623</u>

Note 10 Designated Fund Balances

Fund balances in various funds at December 31, 2003, has been designated for the following purposes:

General Fund:	
Designated for Working Capital	<u>\$ 300,000</u>
Special Revenue Funds:	
Small City Grant Repayments	<u>\$ 28,260</u>
Capital Projects Fund:	
Designated for future Capital Outlay	<u>\$ 71,148</u>
Debt Service Funds:	
Debt Service on Bonds	<u>\$ 460,703</u>
Non-Expendable Trust Fund:	
Library Donations	<u>\$ 10,000</u>

Note 11 Transfers

Transfers during the year ended December 31, 2003, were as follows:

<u>Fund</u>	<u>Transfer Out</u>	<u>Transfer In</u>
General	\$ 298,952	\$ 38,500
Park	-	34,044
Library	-	57,060
Fire	-	70,820
Ambulance	9,264	-
Tax Increment Financing District #1	30,540	-
Tax Increment Financing District #2	804	-
Capital Projects Fund	16,000	45,144
1995A TIF Bonds	-	31,344
Sanderson Memorial Trust Fund	912	-
Water Fund	24,107	-
Sewer Fund	-	56,112
Electric Fund	39,996	-
EDA Fund	-	63,444
Heritage Grove	-	24,107
	<u>\$ 420,575</u>	<u>\$ 420,575</u>

Note 12 Pension Plans

DEFINED BENEFIT PENSION PLANS - STATEWIDE:

Plan Description:

All full-time and certain part-time employees of the City of Harmony are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire-fighters and peace officers who qualify for membership by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERF's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF

members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF members and PERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is fifty-five for PEPFF members and sixty-five for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at sixty-six for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree - no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. 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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF and PEPFF. That report may be obtained on the web at mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

Funding Policy:

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 5.10%, respectively, of their annual covered salary. The City of Harmony is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 5.53% for Coordinated Plan PERF members. The City's contributions to the Public Employee's Retirement Fund for the years ending December 31, 2003, 2002, 2001, were \$21,434, \$16,902, and \$15,612, respectively. The City's contributions were equal to the contractually required contributions for each year as set by the state statute.

Note 13 Tax Increment Financing

The City of Harmony is the administering authority for Redevelopment District #1, a tax increment financing district adopted August 13, 1985; Redevelopment District #2, a tax increment financing district adopted January 16, 1990; Redevelopment District #3, a tax increment financing district adopted July 15, 1997; and Redevelopment District #4, a tax increment financing district adopted September 14, 1999. The duration of the tax increment districts are 25 years each from the date of receipt of the first tax increments.

Tax increment financing is being used to finance the City's cost of the main street project, the skating rink project, parking lot property, motel and grocery expansion projects, vet clinic construction, and industrial park projects. Tax increment financing is a technique by which increased property tax revenues are used to repay the project costs.

Note 14 Economic Development

The City of Harmony entered into a Grant Agreement with the Minnesota Department of Trade and Economic Development dated December 15, 1988, for which \$113,000 in Economic Recovery Funds (ERF Funds) were received and loaned to an enterprise within the City to help finance a recovery/expansion project. Repayment of the loan, together with interest is to be used to establish and maintain a Revolving Loan Fund to further future economic development in the City of Harmony. The City may retain payment of principal up to \$100,000 and all interest accrued to that point. After the \$100,000 principal has been repaid, all subsequent payments of principal and interest received by the City are to be submitted to the Minnesota Department of Trade and Economic Development.

The initial grant loan consists of cash proceeds of \$113,000 to be repaid to the City in monthly installments of \$876.23 including interest at 7.0% through January 1, 2009. Total monthly installments received to date by the City are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Total	\$ 63,826	\$ 92,142	\$ 155,968

In addition to the initial grant loan, the City of Harmony has the following revolving loan funds outstanding as of December 31, 2003:

	<u>Date of Loan</u>	<u>Initial Loan Amount</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Principal Balance Outstanding 12-31-03</u>
RLF #22	6-13-97	10,000	7.0%	60 Months	8,036
RLF #27	9-1-98	15,000	5.0%	84 Months	4,444
RLF #30	3-1-99	20,000	4.0%	120 Months	19,158
RLF #32	5-19-99	10,000	5.0%	120 Months	6,139
RLF #34	10-23-00	7,000	7.0%	48 Months	1,829
RLF #35	5-31-01	15,000	6.0%	120 Months	11,890
RLF #36	11-20-03	<u>10,000</u>	4.0%	60 Months	<u>9,831</u>
Totals		<u>\$ 87,000</u>			<u>\$ 61,327</u>

In addition to these loans, a \$40,000 loan was given to Heritage Grove (an Enterprise Fund of the City). The terms are 4.0% for 12 months. This is recorded in Due To/Due From on the Balance Sheet.

Note 15 Segment Information for Enterprise Funds

The City maintains six Enterprise Funds, four pertaining to utilities operations and two to economic development. Segment information for the year ended December 31, 2003, is as follows:

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>
Operating Revenues	\$ 113,983	\$ 197,761	\$ 36,667
Depreciation Expense*	-	51,311	-
Operating Income (Loss)	54,027	(3,961)	(122)
Fund Transfers			
In	-	56,112	-
Out	(24,107)	-	-
Tax Revenues	-	-	-
Net Income (Loss)	29,529	32,401	(122)
Plant, Property, and Equipment			
Additions*	-	100,268	-
Deletions	-	-	-
Net Working Capital	160,447	(261,303)	(23,889)
Bonds and Other Long-Term Liabilities			
Payable From Operating Revenues	-	730,713	-
Payable From Other Sources	-	-	-
Total Equity	160,447	215,533	(23,889)

* See Note 1 and Note 6 pertaining to maintenance of fixed assets in the Water Fund, Sewer Fund, and Garbage Fund.

	<u>Electric Fund</u>	<u>EDA Fund</u>	<u>Heritage Grove</u>
Operating Revenues	\$ 584,301	\$ 24,340	\$ 558,663
Depreciation Expense*	25,229	9,482	115,467
Operating Income (Loss)	81,496	(61,707)	(27,084)
Fund Transfers			
In	-	63,444	24,107
Out	(39,996)	-	-
Tax Revenues	-	-	-
Net Income (Loss)	59,505	(31,690)	(161,897)
Plant, Property, and Equipment			
Additions*	28,495	-	-
Deletions	-	(244,665)	-
Net Working Capital	501,345	(77,261)	(46,572)
Bonds and Other Long-Term Liabilities			
Payable From Operating Revenues	-	16,519	2,925,000
Payable From Other Sources	-	-	-
Total Equity	942,848	39,674	32,263

* See Note 1 and Note 6 pertaining to maintenance of fixed assets in the Water Fund, Sewer Fund, and Garbage Fund.

Note 16 Government Aid and Grants

Intergovernmental Revenues as reflected in these financial statements consist of the following:

Local

Township Ambulance Contributions	\$ 5,577
Township Fire Contributions	21,892
County Ambulance Subsidy	4,500
County Library Funds	17,979
Park Subsidy	<u>1,050</u>

Total Local 50,998

State

Local Government Aid	294,256
Market Value Credit	54,610
Fire State Aid	9,348
PERA Rate Increase	864
State Arts Board Grant	12,175
DNR Park & Recreation Grant	<u>2,000</u>

Total State 373,253

TOTAL INTERGOVERNMENTAL \$ 424,251

Note 17 Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees health and life; and natural disasters. The City manages these various risks of loss through commercial insurance coverage. Insurance claims have not exceeded coverage during the past three years and there have not been any significant reductions in coverage.

Note 18 Accounting Pronouncements Not Yet Adopted

The Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments, in June 1999 and related subsequent statements, which have not yet been adopted by the City. These statements impose new standards for financial reporting. The City will be required to adopt these statements for the fiscal year ending December 31, 2004. Management has not yet completed their assessment of these statements to determine the effect on the financial statements of the City of Harmony.

CITY OF HARMONY, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET (GAAP BASIS) AND ACTUAL
For the Year Ended December 31, 2003

With Comparative Actual Amounts for the Year Ended December 31, 2002

	2003 Budget	2003 Actual	Variance Favorable (Unfavorable)	2002 Actual
REVENUES				
General Property Taxes	\$ 221,287	\$ 187,034	\$ (34,253)	\$ 171,196
Special Assessments	750	1,097	347	1,491
Intergovernmental Revenue				
Federal Disaster Aid	-	-	-	-
Local Governmental Aid	342,582	294,256	(48,326)	346,431
Homestead/Ag Credit	-	54,610	54,610	52,810
Police State Aid	-	-	-	-
Fire State Aid	8,000	9,348	1,348	7,602
PERA Rate Increase Aid	864	864	-	864
Other State Aid	-	14,175	14,175	-
Licenses and Permits	6,375	8,189	1,814	6,664
Traffic Ordinances and Fines	2,500	1,266	(1,234)	1,952
Other Revenues	5,125	5,640	515	39,209
Rental Income	8,700	11,467	2,767	10,368
Donations	5,000	620	(4,380)	1,150
Interest Earnings	9,000	9,511	511	5,846
Refunds and Reimbursements	-	8,941	8,941	8,929
Note-Nursing Home/Hospital	20,000	20,000	-	20,000
Sale of Fixed Assets	-	4,072	4,072	85
TOTAL REVENUES	630,183	631,090	907	674,597
EXPENDITURES				
General Government				
Mayor and Council				
Salaries	6,800	5,989	811	6,800
FICA and PERA	520	520	-	520
Insurance	578	549	29	(2)
Dues	1,500	50	1,450	1,350
Travel and Training/Supplies	-	210	(210)	313
Printing and Publishing	-	107	(107)	133
Total Mayor and Council	9,398	7,425	1,973	9,114
Administration				
Salaries	35,706	52,758	(17,052)	41,065
FICA and PERA	3,374	6,691	(3,317)	3,821
Employee Benefits	11,010	13,438	(2,428)	8,722
Office Supplies and Postage	4,475	6,178	(1,703)	2,492
General Supplies and Repair	1,250	1,951	(701)	1,894
Insurance	-	-	-	540
Printing and Publishing	1,500	1,137	363	880
Travel, Conferences and Conventions	350	187	163	482
Professional Fees	13,310	9,556	3,754	15,732
Miscellaneous	6,342	7,711	(1,369)	1,402
Capital Outlay	5,100	-	5,100	-
Total Administration	\$ 82,417	\$ 99,607	\$ (17,190)	\$ 77,030

CITY OF HARMONY, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET (GAAP BASIS) AND ACTUAL
For the Year Ended December 31, 2003

With Comparative Actual Amounts for the Year Ended December 31, 2002

EXPENDITURES - (Continued)	2003 Budget	2003 Actual	Variance Favorable (Unfavorable)	2002 Actual
<u>Planning and Zoning</u>				
Salaries	\$ -	\$ -	\$ -	\$ -
FICA and PERA	-	-	-	-
Miscellaneous	175	22	153	30
Total Planning and Zoning	175	22	153	30
<u>Other General Government</u>				
Elections	-	-	-	1,638
Legal	7,075	6,025	1,050	6,007
Civil Defense	1,436	1,420	16	1,427
Total Other General Government	8,511	7,445	1,066	9,072
<u>Community Center</u>				
Salaries	20,868	22,305	(1,437)	21,857
FICA and PERA	2,751	2,930	(179)	2,856
Employee Benefits	6,690	8,693	(2,003)	5,579
Supplies	2,250	2,515	(265)	3,915
Maintenance and Repairs	1,200	5,197	(3,997)	3,532
Insurance	5,608	5,546	62	5,878
Telephone	2,500	2,351	149	2,078
Utilities	28,650	33,355	(4,705)	22,360
Miscellaneous	-	360	(360)	480
Capital Outlay	-	-	-	-
Total Community Center	70,517	83,252	(12,735)	68,535
<u>Visitor Center</u>				
Salaries	14,499	8,792	5,707	9,731
FICA and PERA	1,911	1,168	743	1,282
Employee Benefits	4,637	3,345	1,292	2,425
Supplies	800	1,155	(355)	223
Maintenance and Repairs	-	964	(964)	176
Insurance	539	528	11	717
Utilities	6,250	7,178	(928)	6,361
Total Visitor Center	28,636	23,130	5,506	20,915
<u>Animal Control</u>				
Salary	1,850	2,816	(966)	1,848
FICA and PERA	142	142	-	139
Employee Benefits	35	29	6	-
Contracted Services	800	-	800	690
Miscellaneous	160	201	(41)	157
Total Animal Control	\$ 2,987	\$ 3,188	\$ (201)	\$ 2,834

CITY OF HARMONY, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET (GAAP BASIS) AND ACTUAL

For the Year Ended December 31, 2003

With Comparative Actual Amounts for the Year Ended December 31, 2002

<u>EXPENDITURES - (Continued)</u>	<u>2003 Budget</u>	<u>2003 Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>2002 Actual</u>
<u>Police Protection</u>				
Contracted Services	\$ 57,751	\$ 54,077	\$ 3,674	\$ 54,068
Vehicle Expense	2,500	2,367	133	2,542
Insurance	353	324	29	332
Supplies	110	325	(215)	45
Maintenance and Repairs	500	2,639	(2,139)	589
Miscellaneous	1,000	822	178	1,072
Capital Outlay	-	17,290	(17,290)	-
Total Police Protection	62,214	77,844	(15,630)	58,648
<u>Highways, Streets and Alleys</u>				
Salaries	25,592	25,461	131	23,516
FICA and PERA	3,343	3,367	(24)	3,002
Employee Benefits	7,545	7,385	160	4,323
Asphalt, Road Oil, and Other Street Maintenance Supplies	10,650	13,425	(2,775)	9,843
Vehicle Expense	3,850	2,376	1,474	2,483
Repair and Maintenance	18,300	18,620	(320)	69,083
Insurance	2,991	3,604	(613)	3,800
Telephone	1,250	1,015	235	1,242
Utilities	20,900	9,704	11,196	9,604
Snow Removal	-	-	-	2,216
Capital Outlay	6,290	6,290	-	6,290
Total Highways, Streets and Alleys	100,711	91,247	9,464	135,402
<u>Unallocated</u>				
Employee Benefits	\$ -	\$ -	\$ -	\$ -
Insurance	11,092	7,164	3,928	10,451
Community Events/Tourism	-	7,944	(7,944)	3,374
Tourism Capital Outlay	-	-	-	-
Community Development	5,110	1,696	3,414	3,626
Fire Pension Contributions	13,000	14,348	(1,348)	12,602
Total Unallocated	29,202	31,152	(1,950)	30,053
TOTAL EXPENDITURES	394,768	424,312	(29,544)	411,633
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 235,415	\$ 206,778	\$ (28,637)	\$ (262,964)

CITY OF HARMONY, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET (GAAP BASIS) AND ACTUAL
For the Year Ended December 31, 2003

With Comparative Actual Amounts for the Year Ended December 31, 2002

	2003 Budget	2003 Actual	Variance Favorable (Unfavorable)	2002 Actual
<u>OTHER FINANCING SOURCES (USES)</u>				
<u>Operating Transfers In</u>				
Capital Projects Fund	-	16,000	16,000	37,169
Electric Fund	22,500	22,500	-	17,500
<u>Operating Transfers Out</u>				
Library Fund	(56,148)	(56,148)	-	(53,469)
Fire Fund	(29,789)	(70,820)	(41,031)	(13,585)
Park Fund	(31,547)	(31,548)	(1)	(27,372)
Sewer Fund	(56,115)	(56,112)	3	(41,940)
EDA Fund	(48,440)	(48,444)	(4)	(70,000)
Capital Projects Fund	(35,877)	(35,880)	(3)	(49,475)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(235,416)</u>	<u>(260,452)</u>	<u>(25,036)</u>	<u>(201,172)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(1)	(53,674)	(53,673)	61,792
FUND BALANCE - BEGINNING OF YEAR	<u>391,828</u>	<u>391,828</u>	<u>-</u>	<u>330,036</u>
FUND BALANCE - END OF YEAR	<u>\$ 391,827</u>	<u>\$ 338,154</u>	<u>\$ (53,673)</u>	<u>\$ 391,828</u>

CITY OF HARMONY, MINNESOTA

SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
December 31, 2003

	<u>Park Fund</u>	<u>Library Fund</u>	<u>Fire Fund</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 21,000	\$ 3,395	\$ (48,083)
<u>Receivables</u>			
Accounts	-	-	6,000
County Contract	-	-	-
Due From Other Funds	-	-	-
Prepaid Insurance	228	66	822
	<u>228</u>	<u>66</u>	<u>822</u>
TOTAL ASSETS	<u>\$ 21,228</u>	<u>\$ 3,461</u>	<u>\$ (41,261)</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts Payable	\$ 95	\$ 212	\$ 1,613
Accrued Expenses	-	543	-
Due to Other Funds	-	-	-
	<u>95</u>	<u>755</u>	<u>1,613</u>
TOTAL LIABILITIES	95	755	1,613
<u>FUND BALANCES</u>			
Unreserved - Designated	-	-	-
Unreserved - Undesignated	21,133	2,706	(42,874)
	<u>21,133</u>	<u>2,706</u>	<u>(42,874)</u>
TOTAL FUND BALANCES	21,133	2,706	(42,874)
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 21,228</u>	<u>\$ 3,461</u>	<u>\$ (41,261)</u>

<u>Small Cities Grant Fund</u>	<u>Ambulance Fund</u>	<u>Revolving Loan Fund</u>	<u>Tax Increment Financing District #1</u>	<u>Tax Increment Financing District #2</u>	<u>Tax Increment Financing District #3</u>
\$ 28,260	\$ 22,359	\$ 95,484	\$ 66,520	\$ 73,628	\$ (382)
-	28,398	-	-	-	-
-	2,250	-	-	-	-
-	-	40,000	-	-	-
-	367	-	-	-	-
<u>\$ 28,260</u>	<u>\$ 53,374</u>	<u>\$ 135,484</u>	<u>\$ 66,520</u>	<u>\$ 73,628</u>	<u>\$ (382)</u>
\$ -	\$ 1,201	\$ -	\$ -	\$ -	\$ -
-	30	-	-	-	-
-	-	-	-	-	-
-	1,231	-	-	-	-
28,260	-	-	-	-	-
-	52,143	135,484	66,520	73,628	(382)
<u>28,260</u>	<u>52,143</u>	<u>135,484</u>	<u>66,520</u>	<u>73,628</u>	<u>(382)</u>
<u>\$ 28,260</u>	<u>\$ 53,374</u>	<u>\$ 135,484</u>	<u>\$ 66,520</u>	<u>\$ 73,628</u>	<u>\$ (382)</u>

CITY OF HARMONY, MINNESOTA

SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
December 31, 2003

	<u>Tax Increment Financing District #4</u>	<u>2003 Totals</u>	<u>2002 Totals</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ (4,459)	\$ 257,722	\$ 105,066
<u>Receivables</u>			
Accounts	-	34,398	36,697
County Contract	-	2,250	2,250
Due From Other Funds	-	40,000	40,000
Prepaid Insurance	-	1,483	1,502
TOTAL ASSETS	<u>\$ (4,459)</u>	<u>\$ 335,853</u>	<u>\$ 185,515</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts Payable	\$ -	\$ 3,121	\$ 3,417
Accrued Expenses	-	573	582
Due to Other Funds	<u>6,458</u>	<u>6,458</u>	<u>-</u>
TOTAL LIABILITIES	6,458	10,152	3,999
 <u>FUND BALANCES</u>			
Unreserved - Designated	-	28,260	34,312
Unreserved - Undesignated	<u>(10,917)</u>	<u>297,441</u>	<u>147,204</u>
TOTAL FUND BALANCES	<u>(10,917)</u>	<u>325,701</u>	<u>181,516</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ (4,459)</u>	<u>\$ 335,853</u>	<u>\$ 185,515</u>

CITY OF HARMONY, MINNESOTA

SPECIAL REVENUE FUNDS

COMBINING STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Year Ended December 31, 2003

	<u>Park Fund</u>	<u>Library Fund</u>	<u>Fire Fund</u>
<u>REVENUES</u>			
Taxes	\$ -	\$ -	\$ -
Intergovernmental	1,050	17,979	21,892
Charges for Services	3,915	1,491	7,890
Miscellaneous	3,391	2,985	75,304
Interest Earnings	-	-	-
Refunds and Reimbursements	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	8,356	22,455	105,086
<u>EXPENDITURES</u>			
Salaries and Fees	5,969	38,550	8,585
PERA and FICA	614	5,086	653
Employee Benefits	979	9,534	1,108
Vehicle Expense	278	-	846
General Supplies	7,754	7,615	8,293
Bad Debts	-	-	350
Professional Fees	-	-	29
Travel, Schools and Conventions	-	206	1,735
Telephone	-	453	1,036
Insurance	871	138	3,722
Utilities	2,320	-	3,905
Repairs and Maintenance	1,494	618	5,075
Capital Outlay/Capital Lease	1,200	6,701	106,328
Miscellaneous	2,735	149	3,410
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	24,214	69,050	145,075
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(15,858)	(46,595)	(39,989)
<u>OTHER FINANCING SOURCES (USES)</u>			
Proceeds from Bonds/Notes	-	-	-
Operating Transfers In	34,044	57,060	70,820
Operating Transfers Out	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	34,044	57,060	70,820
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	18,186	10,465	30,831
FUND BALANCE - BEGINNING OF YEAR	<hr/>	<hr/>	<hr/>
	2,947	(7,759)	(73,705)
FUND BALANCE - END OF YEAR	<hr/>	<hr/>	<hr/>
	\$ 21,133	\$ 2,706	\$ (42,874)

<u>Small Cities Grant Fund</u>	<u>Ambulance Fund</u>	<u>Revolving Loan Fund</u>	<u>Tax Increment Financing District #1</u>	<u>Tax Increment Financing District #2</u>	<u>Tax Increment Financing District #3</u>
\$ -	\$ -	\$ -	\$ 76,771	\$ 20,951	\$ 2,387
-	10,077	-	-	-	-
-	100,617	-	-	-	-
9,972	-	16,103	-	3,000	-
-	3,065	6,361	632	1,892	234
-	2,025	-	-	-	-
<u>9,972</u>	<u>115,784</u>	<u>22,464</u>	<u>77,403</u>	<u>25,843</u>	<u>2,621</u>
-	23,024	-	-	-	-
-	4,662	-	-	-	-
-	2,634	-	-	-	-
-	1,564	-	-	-	-
-	2,910	-	-	-	-
-	45,245	-	-	-	-
3,571	3,246	-	-	-	-
-	122	-	-	-	-
-	-	-	-	-	-
-	927	-	-	-	-
-	-	-	-	-	-
-	1,027	-	-	-	-
-	-	-	-	7,000	-
<u>12,453</u>	<u>7,259</u>	<u>10,000</u>	<u>13</u>	<u>13</u>	<u>13</u>
<u>16,024</u>	<u>92,620</u>	<u>10,000</u>	<u>13</u>	<u>7,013</u>	<u>13</u>
(6,052)	23,164	12,464	77,390	18,830	2,608
-	-	-	-	-	-
-	-	-	-	-	-
-	(9,264)	-	(30,540)	(804)	-
-	(9,264)	-	(30,540)	(804)	-
(6,052)	13,900	12,464	46,850	18,026	2,608
<u>34,312</u>	<u>38,243</u>	<u>123,020</u>	<u>19,670</u>	<u>55,602</u>	<u>(2,990)</u>
<u>\$ 28,260</u>	<u>\$ 52,143</u>	<u>\$ 135,484</u>	<u>\$ 66,520</u>	<u>\$ 73,628</u>	<u>\$ (382)</u>

CITY OF HARMONY, MINNESOTA

SPECIAL REVENUE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Year Ended December 31, 2003

	<u>Tax Increment Financing District #4</u>	<u>2003 Totals</u>	<u>2002 Totals</u>
<u>REVENUES</u>			
Taxes	\$ 3,377	\$ 103,486	\$ 72,751
Intergovernmental	-	50,998	48,602
Charges for Services	-	113,913	100,620
Miscellaneous	-	110,755	113,723
Interest Earnings	-	12,184	2,016
Refunds and Reimbursements	-	2,025	450
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	3,377	393,361	338,162
<u>EXPENDITURES</u>			
Salaries and Fees	-	76,128	79,870
PERA and FICA	-	11,015	16,992
Employee Benefits	-	14,255	9,546
Vehicle Expense	-	2,688	2,319
General Supplies	-	26,572	22,523
Bad Debts	-	45,595	31,329
Professional Fees	6,458	13,304	2,898
Travel, Schools and Conventions	-	2,063	3,662
Telephone	-	1,489	1,848
Insurance	-	5,658	7,141
Utilities	-	6,225	8,628
Repairs and Maintenance	-	8,214	11,073
Capital Outlay/Capital Lease	-	121,229	140,028
Miscellaneous	12	36,057	15,198
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	6,470	370,492	353,055
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(3,093)	22,869	(14,893)
<u>OTHER FINANCING SOURCES (USES)</u>			
Proceeds from Bonds/Notes	-	-	-
Operating Transfers In	-	161,924	162,109
Operating Transfers Out	-	(40,608)	(87,372)
	<hr/>	<hr/>	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	-	121,316	74,737
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(3,093)	144,185	59,844
FUND BALANCE - BEGINNING OF YEAR	<hr/>	<hr/>	<hr/>
	(7,824)	181,516	121,672
FUND BALANCE - END OF YEAR	<hr/> <u>\$ (10,917)</u>	<hr/> <u>\$ 325,701</u>	<hr/> <u>\$ 181,516</u>

CITY OF HARMONY, MINNESOTA

CAPITAL PROJECT FUNDS
COMBINING BALANCE SHEET
December 31, 2003

	<u>Capital Projects Fund</u>	<u>Community Center Roof Project</u>	<u>Southview Addition Imp. Project</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 71,148	\$ -	\$ -
<u>Receivables</u>			
Grants/Loan	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 71,148</u>	<u>\$ -</u>	<u>\$ -</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts Payable	\$ -	\$ 20,075	\$ -
Retainage Payable	-	18,443	-
Due to Other Funds	<u>-</u>	<u>155,202</u>	<u>10,223</u>
TOTAL LIABILITIES	-	193,720	10,223
FUND BALANCES	<u>71,148</u>	<u>(193,720)</u>	<u>(10,223)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 71,148</u>	<u>\$ -</u>	<u>\$ -</u>

TH 139 Main Ave. Imp. Project	<u>2003 Totals</u>	<u>2002 Totals</u>
\$ -	\$ 71,148	\$ 923,825
<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ 71,148</u>	<u>\$ 923,825</u>
\$ 68,449	\$ 88,524	\$ 36,697
18,000	36,443	40,006
<u>57,740</u>	<u>223,165</u>	<u>-</u>
144,189	348,132	76,703
<u>(144,189)</u>	<u>(276,984)</u>	<u>847,122</u>
<u>\$ -</u>	<u>\$ 71,148</u>	<u>\$ 923,825</u>

CITY OF HARMONY, MINNESOTA

CAPITAL PROJECT FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Year Ended December 31, 2003

	<u>Capital Projects Fund</u>	<u>Community Center Roof Project</u>	<u>Southview Addition Imp. Project</u>
<u>REVENUES</u>			
Intergovernmental - DTED	\$ -	\$ -	\$ -
Refunds and Reimbursements	-	-	-
Interest Earnings	-	-	-
Other Revenues	<u>5,000</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES	5,000	-	-
<u>EXPENDITURES</u>			
Engineering Fees	-	9,290	1,200
Contractors/Capital Project	-	184,430	17,276
DTED Redevelopment Grant	-	-	-
Miscellaneous/Other	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>-</u>	<u>193,720</u>	<u>18,476</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	5,000	(193,720)	(18,476)
<u>OTHER FINANCING SOURCES (USES)</u>			
Proceeds from Bonds/Notes	-	-	-
Operating Transfers In	45,144	-	-
Operating Transfers Out	<u>(16,000)</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>29,144</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	34,144	(193,720)	(18,476)
FUND BALANCE - BEGINNING OF YEAR	<u>37,004</u>	<u>-</u>	<u>8,253</u>
FUND BALANCE - END OF YEAR	<u>\$ 71,148</u>	<u>\$ (193,720)</u>	<u>\$ (10,223)</u>

TH 139 Main Ave. Imp. Project	<u>2003 Totals</u>	<u>2002 Totals</u>
\$ -	\$ -	\$ -
-	-	972,747
2,981	2,981	4,111
-	5,000	-
<u>2,981</u>	<u>7,981</u>	<u>976,858</u>
106,028	116,518	181,699
840,846	1,042,552	2,327,434
-	-	-
<u>2,161</u>	<u>2,161</u>	<u>61,599</u>
<u>949,035</u>	<u>1,161,231</u>	<u>2,570,732</u>
(946,054)	(1,153,250)	(1,593,874)
-	-	939,186
-	45,144	59,475
-	(16,000)	(168,629)
<u>-</u>	<u>29,144</u>	<u>830,032</u>
(946,054)	(1,124,106)	(763,842)
<u>801,865</u>	<u>847,122</u>	<u>1,610,964</u>
<u>\$ (144,189)</u>	<u>\$ (276,984)</u>	<u>\$ 847,122</u>

CITY OF HARMONY, MINNESOTA

DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
December 31, 2003

	<u>1994 G.O. Fire Station Bonds</u>	<u>1994 G.O. Improvement Bonds</u>	<u>1995 G.O. Increment Bonds</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 251,480	\$ (8,378)	\$ 25,532
<u>Receivables</u>			
Taxes	-	-	-
Special Assessments	-	2,211	-
Due From Other Funds	-	-	-
TOTAL ASSETS	<u>\$ 251,480</u>	<u>\$ (6,167)</u>	<u>\$ 25,532</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts Payable	\$ 5,580	\$ -	\$ -
Due to Other Funds	-	-	-
Deferred Revenue	-	2,211	-
TOTAL LIABILITIES	5,580	2,211	-
FUND BALANCES	<u>245,900</u>	<u>(8,378)</u>	<u>25,532</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 251,480</u>	<u>\$ (6,167)</u>	<u>\$ 25,532</u>

<u>1998 G.O. Improvement Bonds</u>	<u>2000 G.O. Improvement Bonds</u>	<u>2002 G.O. Improvement Bonds</u>	<u>2003 Totals</u>	<u>2002 Totals</u>
\$ 84,489	\$ 40,269	\$ 72,891	\$ 466,283	\$ 220,809
-	-	-	-	-
97,025	39,484	130,985	269,705	235,233
-	-	-	-	-
<u>\$ 181,514</u>	<u>\$ 79,753</u>	<u>\$ 203,876</u>	<u>\$ 735,988</u>	<u>\$ 456,042</u>

\$ -	\$ -	\$ -	\$ 5,580	\$ -
-	-	-	-	-
97,025	39,484	130,985	269,705	235,233
97,025	39,484	130,985	275,285	235,233
84,489	40,269	72,891	460,703	220,809
<u>\$ 181,514</u>	<u>\$ 79,753</u>	<u>\$ 203,876</u>	<u>\$ 735,988</u>	<u>\$ 456,042</u>

CITY OF HARMONY, MINNESOTA

DEBT SERVICE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Year Ended December 31, 2003

	<u>1994 G.O. Fire Station Bonds</u>	<u>1994 G.O. Improvement Bonds</u>	<u>1995 G.O. Increment Bonds</u>
<u>REVENUES</u>			
Taxes	\$ 39,083	\$ 12,323	\$ -
Special Assessments	-	-	-
Intergovernmental	-	-	-
Interest/Other	-	-	-
TOTAL REVENUES	<u>39,083</u>	<u>12,323</u>	<u>-</u>
<u>EXPENDITURES</u>			
Bond Principal Payments	25,000	15,000	20,000
Interest on Bonds	14,730	441	10,340
Fiscal Agent Fees/Other	6,329	-	750
TOTAL EXPENDITURES	<u>46,059</u>	<u>15,441</u>	<u>31,090</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(6,976)	(3,118)	(31,090)
<u>OTHER FINANCING SOURCES (USES)</u>			
Bond Proceeds	215,000	-	-
Operating Transfers In	-	-	31,344
Operating Transfers Out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>215,000</u>	<u>-</u>	<u>31,344</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	208,024	(3,118)	254
FUND BALANCE - BEGINNING OF YEAR	<u>37,876</u>	<u>(5,260)</u>	<u>25,278</u>
FUND BALANCE - END OF YEAR	<u>\$ 245,900</u>	<u>\$ (8,378)</u>	<u>\$ 25,532</u>

<u>1998 G.O. Improvement Bonds</u>	<u>2000 G.O. Improvement Bonds</u>	<u>2002 G.O. Improvement Bonds</u>	<u>2003 Totals</u>	<u>2002 Totals</u>
\$ 25,809	\$ 19,976	\$ 22,802	\$ 119,993	\$ 95,413
22,186	7,195	36,520	65,901	60,045
-	-	-	-	-
23	2	-	25	3,857
48,018	27,173	59,322	185,919	159,315
40,000	20,000	-	120,000	150,000
12,388	12,271	14,338	64,508	136,756
-	-	782	7,861	1,929
52,388	32,271	15,120	192,369	288,685
(4,370)	(5,098)	44,202	(6,450)	(129,370)
-	-	-	215,000	30,814
-	-	-	31,344	33,122
-	-	-	-	(127,296)
-	-	-	246,344	(63,360)
(4,370)	(5,098)	44,202	239,894	(192,730)
88,859	45,367	28,689	220,809	413,539
<u>\$ 84,489</u>	<u>\$ 40,269</u>	<u>\$ 72,891</u>	<u>\$ 460,703</u>	<u>\$ 220,809</u>

CITY OF HARMONY, MINNESOTA

ENTERPRISE FUNDS
COMBINING BALANCE SHEET
December 31, 2003

	<u>Water Fund</u>	<u>Sewer Fund</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$ 141,784	\$ (226,927)
<u>Receivables</u>		
Accounts	10,435	24,054
Special Assessments	1,185	17,459
Inventory	8,750	-
Prepaid Insurance/Other	384	102
Due from Other Funds	-	-
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	162,538	(185,312)
<u>FIXED ASSETS</u>		
Land	-	-
Buildings and Improvements	-	1,560,398
Furniture and Equipment	-	1,012
Less: -Accumulated Depreciation	-	(466,916)
	<hr/>	<hr/>
TOTAL FIXED ASSETS	-	1,094,494
<u>OTHER ASSETS</u>		
Loan Costs and Financing Fees	-	-
Less: -Accumulated Amortization	-	-
Work in Progress - WWTP Improvements	-	53,084
	<hr/>	<hr/>
TOTAL OTHER ASSETS	-	53,084
	<hr/>	<hr/>
TOTAL ASSETS	\$ 162,538	\$ 962,266
<u>LIABILITIES AND FUND BALANCES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 1,613	\$ 13,856
Accrued Salaries	350	342
Accrued Management Fees	-	-
Accrued Interest	-	-
Accrued Property Insurance	-	-
Accrued Replacement Reserve	-	-
Accrued Sales Tax	128	-
Meter Deposits/Lease Deposits	-	-
Retainage Payable	-	1,822
Due to Other Funds	-	-
Current Portion of Long-Term Debt	-	59,971
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	2,091	75,991
<u>LONG-TERM DEBT</u>		
Bonds/Notes Payable	-	730,713
Capital Lease Payable	-	-
Less: Current Portion	-	(59,971)
	<hr/>	<hr/>
TOTAL LONG-TERM DEBT	-	670,742
	<hr/>	<hr/>
TOTAL LIABILITIES	2,091	746,733
<u>FUND EQUITY</u>		
Contributed Capital	-	295,340
Retained Earnings (Deficit)	160,447	(79,807)
	<hr/>	<hr/>
TOTAL FUND EQUITY	160,447	215,533
	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND EQUITY	\$ 162,538	\$ 962,266

<u>Garbage Fund</u>	<u>Electric Fund</u>	<u>EDA Fund</u>	<u>Heritage Grove</u>	<u>2003 Totals</u>	<u>2002 Totals</u>
\$ (27,598)	\$ 464,001	\$ (82,216)	\$ 157,263	\$ 426,307	\$ 471,618
4,033	77,054	7,275	24,890	147,741	152,582
-	-	-	-	18,644	6,537
-	11,202	-	-	19,952	17,139
39	883	22	9,589	11,019	2,671
-	-	6,458	-	6,458	-
<u>(23,526)</u>	<u>553,140</u>	<u>(68,461)</u>	<u>191,742</u>	<u>630,121</u>	<u>650,547</u>
-	5,000	125,298	147,564	277,862	283,482
-	257,515	-	2,691,109	4,509,022	4,701,894
-	738,745	-	200,915	940,672	911,165
-	(559,757)	-	(183,259)	(1,209,932)	(1,092,127)
-	441,503	125,298	2,856,329	4,517,624	4,804,414
-	-	-	81,524	81,524	81,524
-	-	-	(6,522)	(6,522)	(3,261)
-	-	-	-	53,084	-
-	-	-	75,002	128,086	78,263
<u>\$ (23,526)</u>	<u>\$ 994,643</u>	<u>\$ 56,837</u>	<u>\$ 3,123,073</u>	<u>\$ 5,275,831</u>	<u>\$ 5,533,224</u>
\$ -	\$ 42,891	\$ 456	\$ 61,487	\$ 120,303	\$ 86,264
215	460	113	2,604	4,084	810
-	-	-	2,674	2,674	-
-	-	-	12,838	12,838	-
-	-	-	5,079	5,079	-
-	-	-	8,500	8,500	-
148	2,659	-	-	2,935	2,889
-	5,785	75	15,900	21,760	19,440
-	-	-	-	1,822	-
-	-	-	40,000	40,000	40,000
-	-	8,156	89,232	157,359	140,972
363	51,795	8,800	238,314	377,354	290,375
-	-	16,519	2,925,000	3,672,232	3,944,671
-	-	-	16,728	16,728	-
-	-	(8,156)	(89,232)	(157,359)	(140,972)
-	-	8,363	2,852,496	3,531,601	3,803,699
363	51,795	17,163	3,090,810	3,908,955	4,094,074
-	-	-	151,868	447,208	447,208
(23,889)	942,848	39,674	(119,605)	919,668	991,942
<u>(23,889)</u>	<u>942,848</u>	<u>39,674</u>	<u>32,263</u>	<u>1,366,876</u>	<u>1,439,150</u>
<u>\$ (23,526)</u>	<u>\$ 994,643</u>	<u>\$ 56,837</u>	<u>\$ 3,123,073</u>	<u>\$ 5,275,831</u>	<u>\$ 5,533,224</u>

CITY OF HARMONY, MINNESOTA

ENTERPRISE FUNDS

COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGES IN RETAINED EARNINGS

For the Year Ended December 31, 2003

	<u>Water Fund</u>	<u>Sewer Fund</u>
<u>OPERATING REVENUE</u>		
Sales and Rentals	\$ 113,983	\$ 197,761
 TOTAL OPERATING REVENUE	 113,983	 197,761
 <u>OPERATING EXPENSES</u>		
<u>Operations</u>		
Salaries	16,970	8,001
PERA and FICA	2,234	1,040
Employee Benefits	4,845	2,234
Service Contracts	-	73,062
Purchased Power	-	-
Supplies	9,327	2,490
Utilities	8,500	25,970
Maintenance and Repairs	9,722	25,448
Travel and Training	-	-
Professional Services	-	2,977
Miscellaneous	898	462
<u>Administration</u>		
Salaries	2,931	2,862
PERA and FICA	366	357
Employee Benefits	859	838
Professional Services	-	373
Insurance	1,492	214
Office/Store Expense	914	948
Miscellaneous	898	3,135
Capital Outlay	-	-
Depreciation Expense	-	51,311
 TOTAL OPERATING EXPENSES	 <u>59,956</u>	 <u>201,722</u>
 OPERATING INCOME (LOSS)	 54,027	 (3,961)
 <u>NON-OPERATING INCOME (EXPENSE)</u>		
Interest Income	-	-
Special Assessments	(437)	18,509
Capital Credits and Miscellaneous	46	729
Interest Expense	-	(38,988)
Loss on Sale of Fixed Assets	-	-
 TOTAL NON-OPERATING INCOME (EXPENSES)	 <u>(391)</u>	 <u>(19,750)</u>
 INCOME (LOSS) BEFORE OPERATING TRANSFERS	 53,636	 (23,711)
 <u>OPERATING TRANSFERS</u>		
Operating Transfers In	-	56,112
Operating Transfers Out	<u>(24,107)</u>	<u>-</u>
 NET INCOME (LOSS)	 29,529	 32,401
 RETAINED EARNINGS - BEGINNING OF YEAR	 <u>130,918</u>	 <u>(112,208)</u>
 RETAINED EARNINGS - END OF YEAR	 <u>\$ 160,447</u>	 <u>\$ (79,807)</u>

<u>Garbage Fund</u>	<u>Electric Fund</u>	<u>EDA Fund</u>	<u>Heritage Grove</u>	<u>2003 Totals</u>	<u>2002 Totals</u>
\$ 36,667	\$ 584,301	\$ 24,340	\$ 558,663	\$ 1,515,715	\$ 1,289,564
36,667	584,301	24,340	558,663	1,515,715	1,289,564
4,946	9,570	-	232,161	271,648	158,798
645	1,221	-	-	5,140	4,495
1,397	2,534	-	22,339	33,349	17,184
25,034	-	-	-	98,096	99,020
-	426,364	-	-	426,364	413,538
17	1,669	1	33,236	46,740	20,057
-	-	527	30,191	65,188	51,540
-	24,453	1,217	22,909	83,749	136,148
-	-	29	1,027	1,056	242
-	-	535	-	3,512	3,881
-	-	47,561	55,885	104,806	23,873
2,768	3,595	3,471	44,819	60,446	56,328
345	449	365	-	1,882	2,555
807	1,056	595	1,854	6,009	6,816
-	-	22,033	1,251	23,657	63,981
-	4,787	106	21,128	27,727	23,378
830	975	79	1,483	5,229	10,722
-	941	46	1,997	7,017	36,478
-	-	-	-	-	-
-	25,229	9,482	115,467	201,489	158,098
36,789	502,843	86,047	585,747	1,473,104	1,287,132
(122)	81,458	(61,707)	(27,084)	42,611	2,432
-	2,387	-	621	3,008	10,216
-	2,565	-	-	20,637	1,763
-	13,091	10,968	7	24,841	(4,540)
-	-	(11,238)	(159,548)	(209,774)	(131,427)
-	-	(33,157)	-	(33,157)	-
-	18,043	(33,427)	(158,920)	(194,445)	(123,988)
(122)	99,501	(95,134)	(186,004)	(151,834)	(121,556)
-	-	63,444	24,107	143,663	310,964
-	(39,996)	-	-	(64,103)	(35,000)
(122)	59,505	(31,690)	(161,897)	(72,274)	154,408
(23,767)	883,343	71,364	42,292	991,942	837,534
\$ (23,889)	\$ 942,848	\$ 39,674	\$ (119,605)	\$ 919,668	\$ 991,942

CITY OF HARMONY, MINNESOTA

ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2003

	<u>Water Fund</u>	<u>Sewer Fund</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Operating Income (Loss)	\$ 54,027	\$ (3,961)
<u>Adjustments to Reconcile Operating Income (Loss) to</u>		
<u>Net Cash Provided from Operating Activities:</u>		
Depreciation and Amortization	-	51,311
(Increase) Decrease In:		
Receivables	66	(21,420)
Inventory	(1,112)	-
Prepaid Insurance/Other	16	7
Due From Other Funds	-	-
Increase (Decrease) In:		
Due to Other Funds	-	-
Accounts Payable	(572)	4,138
Accrued Expenses	77	146
Customer Meter/Lease Deposits	-	-
	<hr/>	<hr/>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	52,502	30,221
 <u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>		
Operating Transfers In	-	56,112
Operating Transfers Out	(24,107)	-
Other Income	46	729
	<hr/>	<hr/>
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING		
ACTIVITIES	(24,061)	56,841
 <u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Acquisition of Fixed Assets	-	(100,268)
Loan Costs and Financing Fees	-	-
Sale of Fixed Assets	-	-
Proceeds from Bonds/Notes Payable	-	-
Principal Payments on Bonds/Notes Payable	-	(58,016)
Interest Payments on Bonds/Notes Payable	-	(38,988)
Special Assessments Received	(437)	18,509
Contributed Capital	-	-
	<hr/>	<hr/>
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED		
FINANCING ACTIVITIES	(437)	(178,763)
 <u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest Received	-	-
	<hr/>	<hr/>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	-	-
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	28,004	(91,701)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	113,780	(135,226)
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 141,784</u>	<u>\$ (226,927)</u>

<u>Garbage Fund</u>	<u>Electric Fund</u>	<u>EDA Fund</u>	<u>Heritage Grove</u>	<u>2003 Totals</u>	<u>2002 Totals</u>
\$ (122)	\$ 81,458	\$ (61,707)	\$ (27,084)	\$ 42,611	\$ 2,432
-	25,229	9,482	115,467	201,489	158,098
(361)	(4,346)	(650)	19,444	(7,267)	(39,317)
-	(1,701)	-	-	(2,813)	(2,244)
7	(201)	(3)	326	152	(1,498)
-	-	(6,458)	-	(6,458)	-
-	-	-	-	-	40,000
(1,997)	4,490	419	29,382	35,860	28,132
(41)	532	2	23,195	23,911	23
-	595	(675)	2,400	2,320	7,113
(2,514)	106,056	(59,590)	163,130	289,805	192,739
-	-	63,444	24,107	143,663	310,964
-	(39,996)	-	-	(64,103)	(35,000)
-	13,091	10,968	7	24,841	(5,200)
-	(26,905)	74,412	24,114	104,401	270,764
-	(28,495)	-	16,728	(112,035)	(3,102,960)
-	-	-	-	-	(81,524)
-	-	131,086	-	131,086	-
-	-	-	-	-	3,000,000
-	-	(139,423)	(75,000)	(272,439)	(64,572)
-	-	(11,238)	(159,548)	(209,774)	(131,426)
-	2,565	-	-	20,637	2,469
-	-	-	-	-	151,868
-	(25,930)	(19,575)	(217,820)	(442,525)	(226,145)
-	2,387	-	621	3,008	10,171
-	2,387	-	621	3,008	10,171
(2,514)	55,608	(4,753)	(29,955)	(45,311)	247,529
(25,084)	408,393	(77,463)	187,218	471,618	224,089
<u>\$ (27,598)</u>	<u>\$ 464,001</u>	<u>\$ (82,216)</u>	<u>\$ 157,263</u>	<u>\$ 426,307</u>	<u>\$ 471,618</u>

CITY OF HARMONY, MINNESOTAELECTRIC ENTERPRISE FUND
BALANCE SHEETS
December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 464,001	\$ 408,393
Accounts Receivable	77,054	72,708
Inventory	11,202	9,501
Prepaid Insurance/Other	<u>883</u>	<u>682</u>
TOTAL CURRENT ASSETS	553,140	491,284
<u>Fixed Assets</u>		
Poles, Towers, and Fixtures	201,255	201,255
Overhead Conductors and Devices	223,951	223,951
Underground Conductors and Devices	25,103	25,103
Line Transformers	85,272	85,272
Services	154,110	154,110
Meters	19,006	19,006
Street Lights	100,555	72,060
Sub Station	192,008	192,008
Less: Accumulated Depreciation	<u>(559,757)</u>	<u>(534,528)</u>
NET FIXED ASSETS	<u>441,503</u>	<u>438,237</u>
TOTAL ASSETS	<u>\$ 994,643</u>	<u>\$ 929,521</u>
<u>LIABILITIES AND RETAINED EARNINGS</u>		
<u>Current Liabilities</u>		
Accounts Payable	\$ 42,891	\$ 38,401
Accrued Salaries	460	93
Accrued Sales Tax	2,659	2,494
Meter Deposits	5,785	5,190
Due to Other Funds	<u>-</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	<u>51,795</u>	<u>46,178</u>
TOTAL LIABILITIES	51,795	46,178
<u>RETAINED EARNINGS</u>		
BALANCES BEGINNING OF YEAR	883,343	835,757
Add: Net Income (Loss) for the Year	<u>59,505</u>	<u>47,586</u>
TOTAL RETAINED EARNINGS	<u>942,848</u>	<u>883,343</u>
TOTAL LIABILITIES AND RETAINED EARNINGS	<u>\$ 994,643</u>	<u>\$ 929,521</u>

CITY OF HARMONY, MINNESOTA

ELECTRIC ENTERPRISE FUND

INCOME STATEMENTS

For the Years Ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
<u>OPERATING REVENUES</u>		
Electrical Sales	\$ 584,301	\$ 579,427
TOTAL OPERATING REVENUES	584,301	579,427
<u>OPERATING EXPENSES</u>		
Purchased Power	426,364	413,538
Transmission and Distribution		
Salaries	9,570	7,838
Operating Supplies	1,669	5,907
Repair and Maintenance	24,453	50,399
Administrative and Clerical		
Salaries	3,595	5,449
PERA and FICA	1,670	1,632
Employee Benefits	3,590	2,734
Insurance	4,787	3,427
Office Supplies and Postage	975	936
Miscellaneous	941	4,414
Depreciation	25,229	23,727
TOTAL OPERATING EXPENSES	<u>502,843</u>	<u>520,001</u>
OPERATING INCOME (LOSS)	81,458	59,426
<u>NON-OPERATING INCOME (EXPENSE)</u>		
Interest Income	2,387	7,500
Capital Credit and Miscellaneous	13,091	15,660
Special Assessments	2,565	-
TOTAL NON-OPERATING INCOME	<u>18,043</u>	<u>23,160</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	99,501	82,586
<u>OPERATING TRANSFERS</u>		
Operating Transfers Out	<u>(39,996)</u>	<u>(35,000)</u>
NET INCOME (LOSS)	<u>\$ 59,505</u>	<u>\$ 47,586</u>

CITY OF HARMONY, MINNESOTA

ELECTRIC ENTERPRISE FUND
STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Operating Income (Loss)	\$ 81,458	\$ 59,426
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided From Operating Activities:</u>		
Depreciation and Amortization	25,229	23,727
(Increase) Decrease In:		
Accounts Receivable	(4,346)	(4,101)
Inventory	(1,701)	(2,178)
Prepaid Insurance/Other	(201)	(3)
Increase (Decrease) In:		
Due to City Funds	-	-
Accounts Payable	4,490	(855)
Accrued Expenses	532	(225)
Customer Meter Deposits	595	(2,811)
	<u>106,056</u>	<u>72,980</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>		
Operating Transfers In	-	-
Operating Transfers Out	(39,996)	(35,000)
Other Income	13,091	15,000
	<u>(26,905)</u>	<u>(20,000)</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Acquisition of Fixed Assets	(28,495)	(61,372)
Special Assessments Received	2,565	706
	<u>(25,930)</u>	<u>(60,666)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest Received	2,387	7,455
	<u>2,387</u>	<u>7,455</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	55,608	(231)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	408,393	408,624
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 464,001</u>	<u>\$ 408,393</u>

COMPLIANCE AND INTERNAL CONTROL REPORT

LLOYD D. JOHNSON

Certified Public Accountant



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P. O. Box 193
Spring Valley, MN 55975

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

To the Mayor and City Council
City of Harmony
Harmony, Minnesota 55939

We have audited the general purpose financial statements of the City of Harmony, Minnesota, as of and for the year ended December 31, 2003, and have issued our report thereon dated March 17, 2004, in which our report was qualified because historical costs records of general fixed assets are not maintained. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the provisions of the Minnesota Legal Compliance Audit Guide for Local Government promulgated by the Legal Compliance Task Force pursuant to Minnesota Statutes Section 6.65.

Compliance

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

The Minnesota Legal Compliance Audit Guide for Local Government covers five main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interests, public indebtedness, and claims and disbursements. Our study included all of the listed categories. The results of our test indicate that for the items tested, the City of Harmony, Minnesota, complied with the material terms and conditions of applicable legal provisions. Further, for the items not tested, based on our audit and the procedures referred to above, nothing came to our attention to indicate that the City of Harmony, Minnesota, had not complied with such legal provisions.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Harmony, Minnesota's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the City of Harmony, Minnesota's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. The matters that we consider to be reportable conditions are described below.

Limited Segregation of Duties

A limited number of people have the primary responsibility for most of the accounting and financial duties. This prevents proper segregation of accounting functions necessary to assure adequate internal control. This is not unusual in an organization of your size, but the City Council should constantly be aware of this condition and realize that the concentration of duties in a limited number of individuals is not desirable from a control point of view.

General Fixed Assets

Currently, the City does not have detailed property and fixed asset records.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe the reportable condition described above relating to general fixed assets is a material weakness.

This report is intended for the information of the management of the City of Harmony, Minnesota, and the Minnesota State Auditor's Office, and is not intended to be and should not be used by anyone other than these specified parties.


LLOYD D. JOHNSON
Certified Public Accountant

March 17, 2004
Spring Valley, Minnesota

CITY OF HARMONY
HARMONY, MINNESOTA

SCHEDULE OF FINDINGS

Finding: Internal Control

As disclosed in previous years' reports and again in the current year, the City's limited number of office personnel does not provide for proper segregation of duties.

Response:

Segregation of duties have been established to the extent deemed necessary by the City given the cost/benefit of additional business office staff.

Finding: General Fixed Assets

As disclosed in previous years reports and again in the current year, the City does not maintain detailed property and fixed asset records.

Response:

The City is beginning the process to compile adequate fixed asset records to be able to adopt GASB Stmt. No. 34 for the year ending December 31, 2004, financial reporting.

CITY OF HARMONY
HARMONY, MINNESOTA

FOLLOW-UP ON PRIOR AUDIT FINDINGS

Prior Finding: Lack of Collateral

The City of Harmony was not in compliance with Minnesota Statute No. 118.005, subdivision 2 pertaining to insuring or securing bank deposits over the FDIC insurance limit amount.

A portion of the City of Harmony's deposits held at an authorized depository bank were uncollateralized at June 30, 2002.

Minnesota Statute No. 118.03, Subdivision 3 requires the collateral be pledged by depository banks for bank balances that exceed the federally insured limits. The market value of pledged collateral must equal 110% of the deposits not covered by insurance.

Response:

The City of Harmony obtained proper collateral coverage for all bank deposits for the year ended December 31, 2003, as required by Minnesota Statutes.

Prior Finding: Internal Control

As disclosed in previous years' reports and again in the current year, the City's limited number of office personnel does not provide for proper segregation of duties.

Response:

Segregation of duties have been established to the extent deemed necessary by the City given the cost/benefit of additional business office staff.

Prior Finding: General Fixed Assets

As disclosed in previous years reports and again in the current year, the City does not maintain detailed property and fixed asset records.

Response:

The City has begun the process of compiling adequate fixed asset records to be able to adopt GASB Stmt. No. 34 for the year ending December 31, 2004, financial reporting.