

**CITY OF HARMONY**

Harmony, Minnesota

**FINANCIAL STATEMENTS**

as of 12/31/04

**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, 2004

		<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, 2005

David Kingsley	Mayor	12-31-06
Mark McKay	Council Member	12-31-08
Gerald Shuck	Council Member	12-31-06
Sherry Hines	Council Member	12-31-06
Linda Grover	Council Member	12-31-08
Jerome Illg	City Administrator	Appointed
Eileen Schansberg	Deputy Clerk	Appointed





# LLOYD D. JOHNSON

*Certified Public Accountant*



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## MEMBERS

American Institute of C.P.A.'S

Minnesota Society of C.P.A.'S

Iowa Society of C.P.A.'S

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 financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Harmony, Minnesota, as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information of the City of Harmony, Minnesota, at December 31, 2004, and the respective changes in financial position and cash flows, where applicable, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. As described in Note 1, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments, as of December 31, 2004.

The management's discussion and analysis on pages 4 through 13 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Harmony, Minnesota's, basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued a report dated April 6, 2005, on our consideration of the City of Harmony's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

  
LLOYD D. JOHNSON  
Certified Public Accountant

April 6, 2005  
Harmony, Minnesota



**REQUIRED SUPPLEMENTARY INFORMATION**



# Management's Discussion and Analysis

As management of the City of Harmony, we offer readers of the City of Harmony's financial statements this narrative overview and analysis of the financial activities of the City of Harmony for the fiscal year ended December 31, 2004. We encourage readers to consider the information presented here in conjunction with the entire audit report.

## Financial Highlights

- The assets of the City of Harmony exceeded its liabilities at the close of the fiscal year by \$4,481,970 (*net assets*). Of this amount, \$2,463,783 (*unrestricted net assets*) may be used to meet the city's ongoing obligations to citizens and creditors.
- As of the close of the fiscal year, the City of Harmony's governmental funds reported combined ending fund balances of \$1,694,100, of which 100% (percent) is available for use with the City's designations.
- As the end of the fiscal year, unreserved fund balance of the general fund was \$362,635, or 93% of total general fund expenditures.
- The City of Harmony increased the existing debt principal by \$829,979 in the current year. While the dollar amount of the increase is significant, there were several key factors in this increase including the issuance of \$605,000 in tax increment and improvement refunding bonds, which included \$285,000 for industrial park improvement project financed with tax increment along with refinancing \$320,000 of existing bonds. Also, the City of Harmony had refinanced existing bonds in 2003 that were paid in 2004 in the form of refunding bonds in the amount of \$230,000. The City of Harmony financed a Sewer Fund Revenue Bond for improvements to the city's wastewater treatment system in the amount of \$576,469.

## Overview of the Financial Statements

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

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

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





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

The government-wide financial statements distinguish functions of the City of Harmony that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the City of Harmony include general government, public safety, public works, community & economic development, library, parks and recreation. The business-type activities of the City of Harmony include water, sewer, garbage & recycling, electric utilities, economic development authority and senior living facility.

The government-wide financial statements include not only the City of Harmony itself (known as the primary government), but also a legally separate economic development authority, which is reported as a business-type activity. The Economic Development Authority, although legally separate, functions for all practical purposes as a department of the City of Harmony, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 14-16 of this report.

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

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

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



The City of Harmony maintains 21 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered the only major fund. Data from the other 19 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental is provided in the form of combining statements elsewhere in this report.

The City of Harmony adopts an annual appropriated budget for its general and special revenue funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental funds financial statements can be found on pages 17-23 of this report.

**Proprietary Funds.** The City of Harmony maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Harmony uses enterprise funds to account for its water, sewer, garbage & recycling, electric, economic development authority, and senior living (Heritage Grove) operations. The water, garbage and recycling, and economic development authority are considered non-major and therefore the data from these funds are combined into a single, aggregated presentation.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The proprietary fund financial statements can be found on pages 24-33 of this report.

**Fiduciary Fund.** Fiduciary funds are used to account for resources held for the benefit of parties outside the governments control. The accounting used for fiduciary funds is much like that used for proprietary funds. The City of Harmony currently maintains one fiduciary fund that is a non-expendable trust fund for the library.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 35-52 of this report.

**Other Information.** The combining statements referred to earlier in connection with nonmajor governmental funds are presented herewith. Combining and individual financial statements and schedules can be found on pages 53-68.



## Financial Analysis of the City

As noted earlier, net assets may serve, over time, as a useful indicator of a city's financial position. In the case of the City of Harmony, assets exceeded liabilities by \$4,481,970 at the close of the fiscal year, with \$1,411,105 of these net assets from governmental activities and \$3,070,865 from proprietary funds.

A significant portion of the City of Harmony's net assets (\$420,343) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City of Harmony uses these capital assets to provide services; consequently, these assets are not available for future spending. Although the City of Harmony's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	<b>Government Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Current and other assets</b>	\$ 2,314,820	\$ 810,543	\$ 3,125,363
<b>Capital assets</b>	<u>2,064,657</u>	<u>6,579,366</u>	<u>8,644,023</u>
<b>Total assets</b>	<u>\$ 4,379,477</u>	<u>\$ 7,389,909</u>	<u>\$ 11,769,386</u>
<b>Long-term liabilities outstanding</b>	\$ 2,485,000	\$ 4,104,207	\$ 6,589,207
<b>Other liabilities</b>	<u>483,342</u>	<u>214,837</u>	<u>698,179</u>
<b>Total liabilities</b>	<u>2,968,342</u>	<u>4,319,044</u>	<u>7,287,386</u>
<b>Net assets:</b>			
<b>Invested in capital assets, net of related debt</b>	(420,343)	2,403,418	1,983,075
<b>Restricted</b>	35,112	-	35,112
<b>Unrestricted</b>	<u>1,796,336</u>	<u>667,447</u>	<u>2,463,783</u>
<b>Total Net Assets</b>	<u>1,411,105</u>	<u>3,070,865</u>	<u>4,481,970</u>
<b>Total Liabilities &amp; Net Assets</b>	<u>\$ 4,379,447</u>	<u>\$ 7,389,909</u>	<u>\$ 11,769,356</u>

A portion of the City of Harmony's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the City's ongoing obligations to citizens.



At the end of the current fiscal year, the City of Harmony is able to report positive balances in all three categories of net assets, both for the city as a whole, as well as for its separate governmental and business-type activities.

**City of Harmony's Changes in Net Assets**

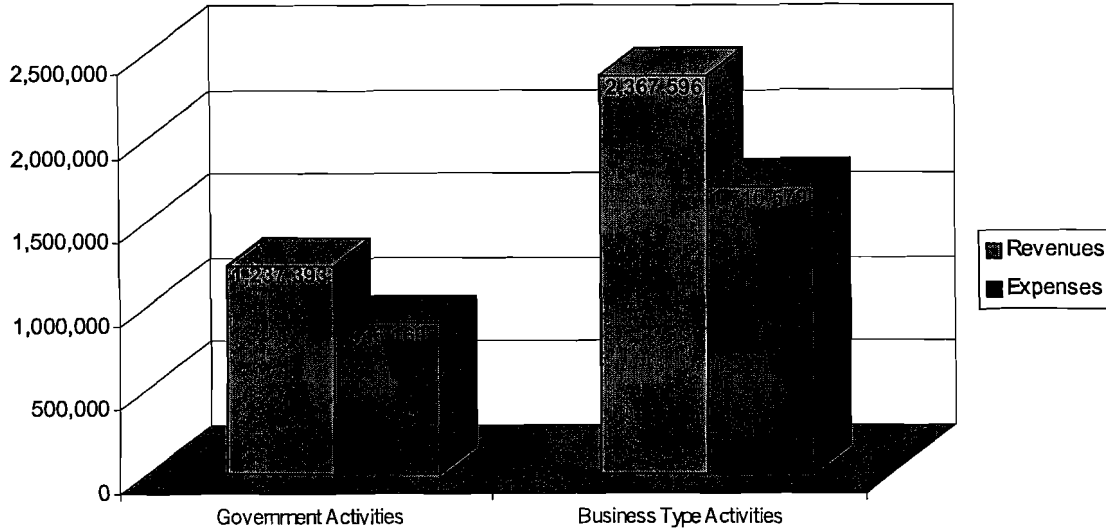
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Revenues:</b>			
<b>Program revenues</b>			
Charges for services	\$ 163,979	\$ 1,720,031	\$ 1,884,010
Operating Grants & Contributions	24,239	-	24,239
Capital Grants & Contributions	132,638	600,877	733,515
<b>General revenues:</b>			
Taxes	460,322	4,303	464,625
Intergovernmental Revenue	369,965	-	369,965
Unrestricted investment earnings	31,608	6,351	37,959
Other	<u>54,642</u>	<u>36,034</u>	<u>90,676</u>
<b>Total revenues</b>	<b>1,237,393</b>	<b>2,367,596</b>	<b>3,604,989</b>
<b>Expenses:</b>			
General government	90,488	-	90,488
Public safety	226,160	-	226,160
Highway and Streets	146,942	-	146,942
Library	69,781	-	69,781
Bond Interest and Fiscal Charges	86,732	-	86,732
Capital Outlay	9,900	-	9,900
Other	121,858	-	121,858
Parks and Recreation	144,308	-	144,308
Water	-	80,715	80,715
Sewer	-	257,194	257,194
Garbage & Recycling	-	39,633	39,633
Electric	-	536,084	536,084
Economic Development Authority	-	72,360	72,360
Senior Living	-	<u>724,593</u>	<u>724,593</u>
<b>Total expenses</b>	<b><u>896,169</u></b>	<b><u>1,710,579</u></b>	<b><u>2,606,748</u></b>
<b>Increase in net assets before transfers and other items</b>	<b>341,224</b>	<b>657,017</b>	<b>998,241</b>
<b>Transfers</b>	<b><u>(26,230)</u></b>	<b><u>26,686</u></b>	<b><u>-</u></b>
<b>Increase in net assets</b>	<b>314,994</b>	<b>683,703</b>	<b>998,697</b>
<b>Net Assets – January 1, 2004</b>	<b>1,096,111</b>	<b>1,366,876</b>	<b>2,462,987</b>
<b>Prior Period Adjustment</b>	<b><u>0</u></b>	<b><u>1,020,286</u></b>	<b><u>1,020,286</u></b>
<b>Net Assets – December 31, 2004</b>	<b><u>\$ 1,411,105</u></b>	<b><u>\$ 3,070,865</u></b>	<b><u>\$ 4,481,970</u></b>





The following graph shows 2004 revenues and expenses for both government activities and business-type activities.

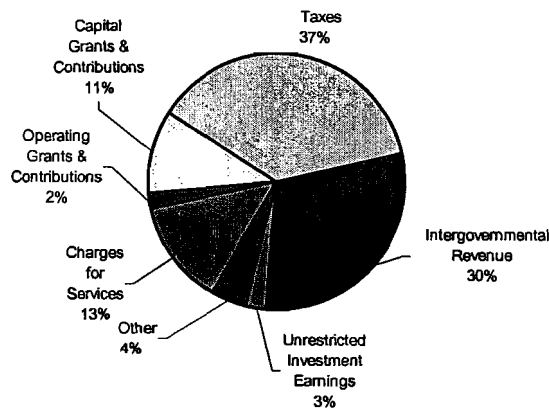
**City of Harmony's Revenues & Expenses**



**Government Activities.** Government activities account for 31% of the City of Harmony's net assets.

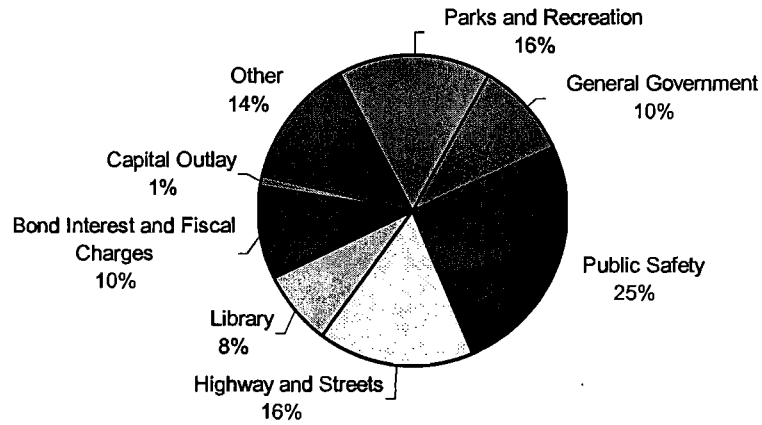
The total increase in net assets for governmental activities is \$314,994 for the year ended December 31, 2004. The total revenues for governmental activities amounted to \$1,237,393 while total expenses were \$896,169 and transfers out were \$26,230, which is illustrated in the chart above.

**Government Activities Revenues**



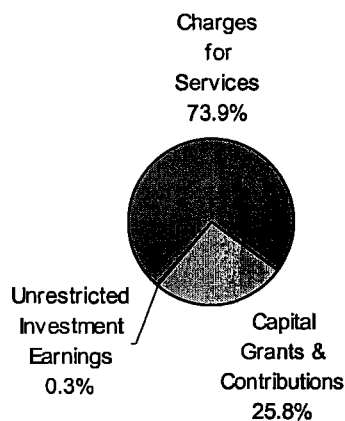


## Government Activities Expenses



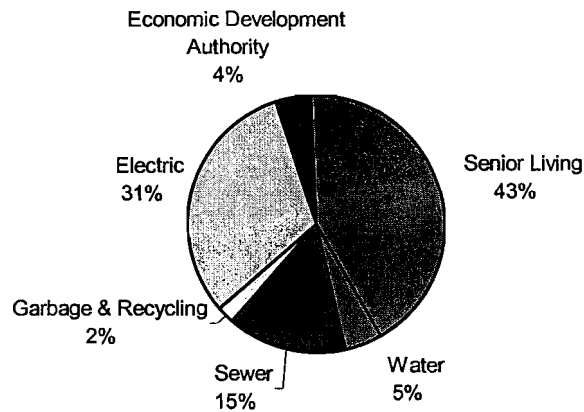
**Business-type activities.** Business-type activities increased the City of Harmony net assets \$683,703 for the year ended December 31, 2004. Business-type activities revenues and expenses are illustrated in the charts below. It should be noted that the net assets increased an additional \$1,020,286, due to a prior period adjustment for fixed assets to comply with GASB 34 reporting requirements.

## Business-Type Activities Revenues





## Business-Type Activities Expenses



## Financial Analysis of the City's Funds

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

At the end of the current fiscal year, the City of Harmony's governmental funds reported combined ending fund balances of \$1,694,100

The general fund is the chief operating fund of the City of Harmony and of the governmental funds. At the end of the current fiscal year, unreserved fund balance of the general fund was \$362,635.

The fund balance of the City of Harmony's general fund increased by \$24,481 during the current year. Key factors in this change are as follows:

- Community Center rent increased by over \$8,000 due to rent increases for the tenants to incorporate the costs in the rent for a new roof.
- Property taxes were over the budgeted amount by \$34,000 due to not budgeting the market value homestead credit.
- Expenditures were over budget by over \$34,500, due primarily to closing out net assets deficit positions in two capital project funds from construction projects that overran expenditures.

The debt service funds have a total fund balance of \$559,339, all of which is reserved for the payment of debt service. The net increase in fund balance during the current year in the debt service fund is related to refunding three bond issues along with new bonds for a capital improvement project in our industrial park.



**Proprietary Funds.** The City of Harmony's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the proprietary funds at year-end are as follows:

Water	\$157,580
Sewer	(\$ 66,459)
Garbage & Recycling	(\$ 24,711)
Electric	\$520,887
Economic Development	(\$ 47,057)
Heritage Grove	\$127,207

**General Fund Budgetary Highlights.** The City of Harmony anticipated the repayment of debt association with the community center roof project in 2004, which did not get completed until the beginning of 2004, with the first payment not due until 2005, which contributed to favorable variance of \$19,000. After the 2004 budget was developed, the electricity for street lights are being expensed in the electric fund, and not in the general fund.

**Capital Asset Administration.** The City of Harmony's investment in capital assets for its governmental and business type activities as of December 31, 2004 amounts to \$8,572,282 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, furniture, infrastructure.

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

- \$214,000 Community Center Roof Project. These improvements to the community center roof were financed through a USDA loan at 4.25%-4.375%.
- \$575,000 Sewer Plant and Lift Station Rehabilitation and Improvement Project. Sewer improvements were financed through a Minnesota Public Finance Authority Loan at 1%.
- \$765,000 Highway 139 Street Improvements. Improvements and rehabilitation of Main Street were financed with bonds issued in 2002.

More detailed information on the City of Harmony's capital assets is presented in the Notes to the Financial Statements on page 41.

**Long-Term Debt.** At the end of the fiscal year, the City of Harmony had long-term debt of \$6,589,207. Because a refunding was done at the end of 2004 on three bond issues, \$315,000 of debt will be retired in February of 2005 to pay off the old bonds. General obligation debt outstanding of \$2,845,000 was used to finance construction of a senior living facility that is backed by the full faith and credit of the city. State statute limits the amount of general obligation debt a government entity may issue to 2% of its total market value. In addition, those outstanding debt obligations with specific revenue sources pledged towards debt repayment are deducted from the debt limitation.

Additional information on the City of Harmony's long-term debt can be found in the Notes to the Financial Statements on pages 47-49.





## **Factors on the City of Harmony's Future**

The City of Harmony entered into a cooperative housing tax abatement project with Fillmore County for the development of 14 residential lots with a developer financing the project. The City of Harmony should continue to see growth in the area of residential and industrial.

Two businesses expanded their industrial and commercial operations with the building of two buildings along with another locating a new business in the industrial park. With the assistance of the Minnesota Department of Employment and Economic Development with a \$192,000 grant and City of Harmony's tax increment revenue, the city will be extending utilities and infrastructure in its industrial park that should continue to support that growth in industry.

The City of Harmony continues to monitor its utility rates. There has been significant rate increases in sewer rates to maintain the current sanitary sewer system. In order to finance future utility projects, rates are being reviewed on an annual basis.

The City of Harmony's senior living facility continues to operate well, however, with similar facilities anticipating on opening in the area in 2005, occupancy will need to be monitored. The operations of the facility continue to finance the debt outstanding with a local management company managing the facility.

While the City of Harmony has significant long-term debt burden, which has financed some recent projects, it does not anticipate any issuance of new debt in the coming years, which should alleviate the tax burden to the local taxpayers.

## **Requests for Information**

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



**BASIC FINANCIAL STATEMENTS**



## CITY OF HARMONY, MINNESOTA

## STATEMENT OF NET ASSETS

December 31, 2004

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 1,615,906	\$ 631,327	\$ 2,247,233
Receivables			
Accounts	37,904	137,241	175,145
Taxes	16,828	297	17,125
Special Assessments	201,485	12,325	213,810
Note	78,478	-	78,478
Due from Other Funds	24,086	5,641	29,727
Due from Other Governments	130,658	-	130,658
Inventory	-	20,270	20,270
Loans Receivable	204,429	-	204,429
Prepaid Insurance/Other	5,016	3,442	8,458
Capital Assets, Net of Accumulated Depreciation	2,064,657	6,507,625	8,572,282
Loan Costs and Financing Fees, Net of Amortization	-	71,741	71,741
	<u>          -</u>	<u>          71,741</u>	<u>          71,741</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 4,379,447</b></u>	<u><b>\$ 7,389,909</b></u>	<u><b>\$11,769,356</b></u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>Liabilities</b>			
Accounts Payable	\$ 53,162	\$ 102,020	\$ 155,182
Retainage Payable	-	6,765	6,765
Accrued Salaries	2,543	5,861	8,404
Accrued Sales Tax	3	2,690	2,693
Accrued Interest Payable	30,550	22,286	52,836
Other Accrued Expenses	404	5,292	5,696
Due to Other Funds	5,641	24,086	29,727
Due to Other Governments	74,545	-	74,545
Meter Deposits/Lease Deposits	-	24,305	24,305
Deferred Revenue	279,963	-	279,963
Accrued Compensated Absences	36,531	21,532	58,063
<b>Long-Term Liabilities</b>			
Due Within One Year	244,207	172,429	416,636
Due in More than One Year	2,240,793	3,931,778	6,172,571
	<u>          2,968,342</u>	<u>          4,319,044</u>	<u>          7,287,386</u>
<b>TOTAL LIABILITIES</b>	<u><b>2,968,342</b></u>	<u><b>4,319,044</b></u>	<u><b>7,287,386</b></u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	(420,343)	2,403,418	1,983,075
Restricted For Small City Grant	35,112	-	35,112
Unrestricted	1,796,336	667,447	2,463,783
	<u>          1,411,105</u>	<u>          3,070,865</u>	<u>          4,481,970</u>
<b>TOTAL NET ASSETS</b>	<u><b>1,411,105</b></u>	<u><b>3,070,865</b></u>	<u><b>4,481,970</b></u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$ 4,379,447</b></u>	<u><b>\$ 7,389,909</b></u>	<u><b>\$11,769,356</b></u>

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

CITY OF HARMONY, MINNESOTA

STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2004

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<u>GOVERNMENTAL ACTIVITIES:</u>				
General Government	\$ 90,488	\$ 24,961	\$ -	\$ -
Public Safety	226,160	130,111	5,575	-
Highways and Streets	146,942	6,189	-	-
Library	69,781	-	-	-
Parks and Recreation	144,308	2,718	18,664	1,979
Unallocated	121,858	-	-	-
Capital Outlay/Capital Projects	9,900	-	-	130,659
Interest and Fees	86,732	-	-	-
	<u>896,169</u>	<u>163,979</u>	<u>24,239</u>	<u>132,638</u>
<u>TOTAL GOVERNMENTAL ACTIVITIES</u>				
	<u>896,169</u>	<u>163,979</u>	<u>24,239</u>	<u>132,638</u>
<u>BUSINESS-TYPE ACTIVITIES:</u>				
Water Fund	80,715	117,231	-	96,206
Sewer Fund	257,194	269,483	-	439,569
Garbage Fund	39,633	41,511	-	-
Electric Fund	536,084	583,270	-	65,102
EDA Fund	72,360	3,708	-	-
Heritage Grove	724,593	704,828	-	-
	<u>1,710,579</u>	<u>1,720,031</u>	<u>-</u>	<u>600,877</u>
<u>TOTAL BUSINESS-TYPE ACTIVITIES</u>				
	<u>1,710,579</u>	<u>1,720,031</u>	<u>-</u>	<u>600,877</u>
<u>TOTAL PRIMARY GOVERNMENT</u>	<u>\$ 2,606,748</u>	<u>\$ 1,884,010</u>	<u>\$ 24,239</u>	<u>\$ 733,515</u>

General Revenues:

Taxes

Property Taxes, Levied for General Purposes

Property Taxes, Levied for Debt

Tax Increments

Special Assessments

Intergovernmental Revenue, Unrestricted

Interest and Investment Earnings

Gain (Loss) on Sale of Fixed Assets

Miscellaneous

Transfers, Net

TOTAL GENERAL REVENUES

CHANGE IN NET ASSETS

NET ASSETS - BEGINNING OF YEAR

Prior Period Adjustment

NET ASSETS - END OF YEAR

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

Net (Expense) Revenue and Changes in Net  
Assets

Govern- mental Activities	Business-Type Activities	Total
\$ (65,527)	\$ -	\$ (65,527)
(90,474)	-	(90,474)
(140,753)	-	(140,753)
(69,781)	-	(69,781)
(120,947)	-	(120,947)
(121,858)	-	(121,858)
120,759	-	120,759
(86,732)	-	(86,732)
(575,313)	-	(575,313)
-	132,722	132,722
-	451,858	451,858
-	1,878	1,878
-	112,288	112,288
-	(68,652)	(68,652)
-	(19,765)	(19,765)
-	610,329	610,329
(575,313)	610,329	35,016
219,922	-	219,922
129,514	-	129,514
110,886	-	110,886
-	4,303	4,303
369,965	-	369,965
31,608	6,351	37,959
-	10,275	10,275
54,642	25,759	80,401
(26,230)	26,686	456
890,307	73,374	963,681
314,994	683,703	998,697
1,096,111	1,366,876	2,462,987
-	1,020,286	1,020,286
<u>\$ 1,411,105</u>	<u>\$ 3,070,865</u>	<u>\$ 4,481,970</u>

CITY OF HARMONY, MINNESOTA

BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2004

	<u>General</u>	<u>Community Center Roof Project</u>	<u>1994 G.O. Fire Station Bonds</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 380,480	\$ 7,262	\$ 33,681
Receivables			
Accounts	1,320	-	-
Taxes	6,669	-	1,133
Special Assessments	-	-	-
Contracts/Grants	-	-	-
Note	78,478	-	-
Due from Other Funds	-	-	-
Due from Other Governments	-	-	-
Prepaid Insurance/Other	3,435	-	-
	<u>\$ 470,382</u>	<u>\$ 7,262</u>	<u>\$ 34,814</u>
TOTAL ASSETS			
 <u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 27,036	\$ -	\$ -
Retainage Payable	-	-	-
Accrued Salaries	1,829	-	-
Accrued Sales Tax	-	-	-
Other Accrued Expenses	404	-	-
Due to Other Funds	-	-	-
Due to Other Governments	-	-	-
Deferred Revenue	78,478	-	-
	<u>107,747</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES			
 <u>Fund Balances</u>			
Reserved	-	-	-
Unreserved, Designated	300,000	7,262	34,814
Unreserved, Undesignated	62,635	-	-
	<u>362,635</u>	<u>7,262</u>	<u>34,814</u>
TOTAL FUND BALANCES			
	<u>\$ 470,382</u>	<u>\$ 7,262</u>	<u>\$ 34,814</u>
TOTAL LIABILITIES AND FUND BALANCES			

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



Other Governmental Funds	Total Governmental Funds
\$ 1,194,483	\$ 1,615,906
36,584	37,904
9,026	16,828
201,485	201,485
-	-
-	78,478
24,086	24,086
130,658	130,658
1,581	5,016
<u>\$ 1,597,903</u>	<u>\$ 2,110,361</u>
\$ 26,126	\$ 53,162
-	-
714	2,543
3	3
-	404
5,641	5,641
74,545	74,545
201,485	279,963
<u>308,514</u>	<u>416,261</u>
35,112	35,112
920,784	1,262,860
333,493	396,128
<u>1,289,389</u>	<u>1,694,100</u>
<u>\$ 1,597,903</u>	<u>\$ 2,110,361</u>



CITY OF HARMONY, MINNESOTA

RECONCILIATION OF THE BALANCE SHEET TO THE  
STATEMENT OF NET ASSETS  
GOVERNMENTAL FUNDS  
December 31, 2004

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$1,694,100
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of Capital Assets	3,931,649
Less: Accumulated Depreciation	(1,866,992)
Governmental Funds do not report a receivable for revolving loans.	204,429
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of:	
Bonds Payable	(2,485,000)
Compensated Absences Payable	(36,531)
Governmental Funds do not report a liability for accrued interest until due and payable.	<u>(30,550)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	<u>\$1,411,105</u>

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

CITY OF HARMONY, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended December 31, 2004

	<u>General</u>	<u>Community Center Roof Project</u>	<u>1994 G.O. Fire Station Bonds</u>
<u>REVENUES</u>			
Taxes	\$ 226,156	\$ -	\$ 39,074
Special Assessments	110	-	-
Intergovernmental	366,820	-	-
Licenses and Permits	9,611	-	-
Charges for Service	18,042	-	-
Fines and Forfeits	821	-	-
Note - Nursing Home/Hospital	20,000	-	-
Interest Earnings	3,101	(620)	1,064
Refunds and Reimbursements	8,953	-	-
Miscellaneous	10,385	-	-
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	663,999	(620)	40,138
 <u>EXPENDITURES</u>			
General Government	97,316	-	-
Public Safety	84,275	-	-
Highways and Streets	67,082	-	-
Library	-	-	-
Parks and Recreation	112,125	-	-
Unallocated	18,489	-	-
Capital Outlay/Capital Projects	8,790	28,398	-
<u>Debt Service</u>			
Principal	-	-	240,000
Interest and Fees	-	-	11,224
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	388,077	28,398	251,224
 EXCESS OF REVENUES OVER (UNDER) EXPENDITURES			
	275,922	(29,018)	(211,086)
 <u>OTHER FINANCING SOURCES (USES)</u>			
Proceeds from Bonds/Notes	-	230,000	-
Operating Transfers In	9,996	-	-
Operating Transfers Out	(261,437)	-	-
	<hr/>	<hr/>	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	(251,441)	230,000	-
 NET CHANGE IN FUND BALANCES			
	24,481	200,982	(211,086)
 FUND BALANCE - BEGINNING OF YEAR			
	338,154	(193,720)	245,900
	<hr/>	<hr/>	<hr/>
FUND BALANCE - END OF YEAR	\$ 362,635	\$ 7,262	\$ 34,814
	<hr/>	<hr/>	<hr/>

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

Other Governmental Funds	Total Governmental Funds
\$ 201,328	\$ 466,558
51,785	51,895
60,690	427,510
-	9,611
96,832	114,874
-	821
-	20,000
13,917	17,462
130,659	139,612
83,708	94,093
<u>638,919</u>	<u>1,342,436</u>
-	97,316
104,491	188,766
-	67,082
69,781	69,781
17,951	130,076
112,719	131,208
76,443	113,631
185,000	425,000
<u>70,596</u>	<u>81,820</u>
<u>636,981</u>	<u>1,304,680</u>
1,938	37,756
605,000	835,000
289,209	299,205
<u>(63,998)</u>	<u>(325,435)</u>
<u>830,211</u>	<u>808,770</u>
832,149	846,526
<u>457,240</u>	<u>847,574</u>
<u>\$ 1,289,389</u>	<u>\$ 1,694,100</u>



## CITY OF HARMONY, MINNESOTA

RECONCILIATION OF THE STATEMENT OF  
REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES  
TO STATEMENT OF ACTIVITIES  
GOVERNMENTAL FUNDS  
December 31, 2004

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ 846,526
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Proceeds from a bond or note are recorded as revenues in the governmental funds, but increase the liability in the Statement of Net Assets.</p>	
Bond/Note Proceeds	(835,000)
<p>Revolving Loan Principal is recorded as a revenue in the governmental funds, but reduces a receivable in the statement of net assets.</p>	(105,043)
<p>Revolving Loans issued adds to the receivable on the Statement of Net Assets.</p>	9,350
<p>Capital outlays are reported in governmental funds as expenditures. However in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.</p>	
Capital Outlays	103,731
Depreciation Expense	(161,390)
<p>Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>	454,087
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>	(4,912)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>	
Change in Compensated Absences	<u>7,645</u>
CHANGES IN NET ASSETS - GOVERNMENTAL ACTIVITIES	<u>\$ 314,994</u>

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





## CITY OF HARMONY, MINNESOTA

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

## BUDGET AND ACTUAL

## GENERAL FUND

For the Year Ended December 31, 2004

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
<u>REVENUES</u>				
Taxes	\$ 251,443	\$ 251,443	\$ 226,156	\$ (25,287)
Special Assessments	1,500	1,500	110	(1,390)
Intergovernmental	303,120	303,120	366,820	63,700
Licenses and Permits	7,350	7,350	9,611	2,261
Fines and Forfeits	2,000	2,000	821	(1,179)
Other Revenues	4,100	4,100	9,850	5,750
Rental Income	8,000	8,000	18,042	10,042
Donations	-	-	535	535
Note - Nursing Home/Hospital	20,000	20,000	20,000	-
Interest Earnings	7,500	7,500	3,101	(4,399)
Refunds and Reimbursements	-	-	8,953	8,953
TOTAL REVENUES	605,013	605,013	663,999	58,986
<u>EXPENDITURES</u>				
General Governmental	101,225	101,225	97,316	3,909
Public Safety	83,173	83,173	84,275	(1,102)
Highways and Streets	80,723	80,723	67,082	13,641
Parks and Recreation	121,833	121,833	112,125	9,708
Unallocated	8,802	8,802	18,489	(9,687)
Capital Outlay	7,300	7,300	8,790	(1,490)
TOTAL EXPENDITURES	403,056	403,056	388,077	14,979
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	201,957	201,957	275,922	73,965
<u>OTHER FINANCING SOURCES (USES)</u>				
Proceeds from Bonds/Notes	-	-	-	-
Operating Transfers In	10,000	10,000	9,996	(4)
Operating Transfers Out	(211,941)	(211,941)	(261,437)	(49,496)
TOTAL OTHER FINANCING SOURCES (USES)	(201,941)	(201,941)	(251,441)	(49,500)
NET CHANGE IN FUND BALANCES	16	16	24,481	24,465
FUND BALANCE - BEGINNING OF YEAR	338,154	338,154	338,154	-
FUND BALANCE - END OF YEAR	\$ 338,170	\$ 338,170	\$ 362,635	\$ 24,465

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

CITY OF HARMONY, MINNESOTA

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

December 31, 2004

	<u>Sewer Fund</u>	<u>Electric Fund</u>	<u>Heritage Grove</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ (49,403)	\$ 499,895	\$ 114,069
Receivables			
Accounts	24,522	69,814	21,521
Taxes	-	297	-
Special Assessments	11,732	-	-
Due from Other Funds	-	-	-
Inventory	-	11,218	-
Prepaid Insurance/Other	172	1,047	1,768
Capital Assets, Net of Accumulated			
Depreciation	2,664,038	601,466	2,745,864
Loan Costs and Financing Fees, Net of			
Amortization	-	-	71,741
	<u>\$ 2,651,061</u>	<u>\$ 1,183,737</u>	<u>\$ 2,954,963</u>
 <u>LIABILITIES AND NET ASSETS</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 32,670	\$ 47,211	\$ 17,542
Retainage Payable	6,765	-	-
Accrued Salaries	182	699	4,113
Accrued Sales Tax	-	2,373	-
Accrued Interest Payable	9,727	-	12,559
Meter Deposits/Lease Deposits	-	6,005	18,300
Other Accrued Expenses	-	-	5,292
Due to Other Funds	-	-	24,086
Accrued Compensated Absences	4,138	5,096	-
Bonds/Notes Payable	1,247,211	-	2,845,000
Capital Lease Payable	-	-	11,996
	<u>1,300,693</u>	<u>61,384</u>	<u>2,938,888</u>
 <u>NET ASSETS</u>			
Invested in Capital Assets, Net of			
Related Debt	1,416,827	601,466	(111,132)
Unrestricted	(66,459)	520,887	127,207
	<u>1,350,368</u>	<u>1,122,353</u>	<u>16,075</u>
 TOTAL NET ASSETS	 <u>\$ 2,651,061</u>	 <u>\$ 1,183,737</u>	 <u>\$ 2,954,963</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 2,651,061</u>	 <u>\$ 1,183,737</u>	 <u>\$ 2,954,963</u>

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

Other Proprietary Funds	Total Proprietary Funds
\$ 66,766	\$ 631,327
21,384	137,241
-	297
593	12,325
5,641	5,641
9,052	20,270
455	3,442
496,257	6,507,625
-	71,741
<u>\$ 600,148</u>	<u>\$ 7,389,909</u>

\$ 4,597	\$ 102,020
-	6,765
867	5,861
317	2,690
-	22,286
-	24,305
-	5,292
-	24,086
12,298	21,532
-	4,092,211
-	11,996
18,079	4,319,044
496,257	2,403,418
85,812	667,447
<u>582,069</u>	<u>3,070,865</u>
<u>\$ 600,148</u>	<u>\$ 7,389,909</u>

CITY OF HARMONY, MINNESOTA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

For the Year Ended December 31, 2004

	<u>Sewer Fund</u>	<u>Electric Fund</u>	<u>Heritage Grove</u>
<u>OPERATING REVENUE</u>			
Sales and Rentals	\$ 269,483	\$ 583,270	\$ 704,828
TOTAL OPERATING REVENUE	269,483	583,270	704,828
 <u>OPERATING EXPENSES</u>			
<u>Operations</u>			
Salaries	8,414	12,616	206,699
PERA and FICA	1,134	1,635	11,759
Employee Benefits	2,772	3,767	940
Service Contracts	75,386	-	-
Purchased Power	-	442,198	-
Supplies	3,456	2,691	35,074
Utilities	31,744	7,803	26,421
Maintenance and Repairs	7,488	9,947	16,474
Travel and Training	1,688	-	-
Professional Services	333	-	-
Miscellaneous	-	-	50,455
<u>Administration</u>			
Salaries	4,884	5,343	35,688
PERA and FICA	639	699	2,395
Employee Benefits	1,559	1,758	-
Professional Services	3,105	-	-
Insurance	384	5,529	60,632
Office/Store Expense	906	2,163	4,992
Miscellaneous	1,450	1,376	1,756
Depreciation/Amortization	78,216	38,559	115,467
TOTAL OPERATING EXPENSES	223,558	536,084	568,752
OPERATING INCOME (LOSS)	\$ 45,925	\$ 47,186	\$ 136,076
 <u>NON-OPERATING INCOME (EXPENSE)</u>			
Interest Income	\$ (1,721)	\$ 4,742	\$ 1,676
Special Assessments	3,500	979	-
Capital Credits and Miscellaneous	-	8,574	1,901
Interest Expense	(33,636)	-	(155,841)
Gain (Loss) on Sale of Fixed Assets	-	-	-
Capital Contributions	439,569	65,102	-
TOTAL NON-OPERATING INCOME (EXPENSE)	407,712	79,397	(152,264)
INCOME (LOSS) BEFORE OPERATING TRANSFERS	453,637	126,583	(16,188)

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

<u>Other Proprietary Funds</u>	<u>Total Proprietary Funds</u>
<u>\$ 162,450</u>	<u>\$ 1,720,031</u>
162,450	1,720,031
22,610	250,339
2,998	17,526
7,439	14,918
25,493	100,879
-	442,198
9,544	50,765
9,093	75,061
16,517	50,426
272	1,960
569	902
38,175	88,630
18,172	64,087
2,291	6,024
4,974	8,291
19,593	22,698
1,381	67,926
2,717	10,778
2,097	6,679
<u>8,139</u>	<u>240,381</u>
<u>192,074</u>	<u>1,520,468</u>
\$ (29,624)	\$ 199,563
\$ 1,654	\$ 6,351
(176)	4,303
15,284	25,759
(634)	(190,111)
10,275	10,275
96,206	600,877
<u>122,609</u>	<u>457,454</u>
92,985	657,017

CITY OF HARMONY, MINNESOTA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
For the Year Ended December 31, 2004

	<u>Sewer Fund</u>	<u>Electric Fund</u>	<u>Heritage Grove</u>
<u>OPERATING TRANSFERS</u>			
Operating Transfers In	74,440	-	-
Operating Transfers Out	<u>(60,674)</u>	<u>(27,492)</u>	<u>-</u>
NET INCOME (LOSS)	467,403	99,091	(16,188)
NET ASSETS - BEGINNING OF YEAR	215,533	942,848	32,263
Prior Period Adjustment	<u>667,432</u>	<u>80,414</u>	<u>-</u>
NET ASSETS - END OF YEAR	<u>\$ 1,350,368</u>	<u>\$ 1,122,353</u>	<u>\$ 16,075</u>

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

<u>Other Proprietary Funds</u>	<u>Total Proprietary Funds</u>
72,912	147,352
<u>(32,500)</u>	<u>(120,666)</u>
133,424	683,703
176,232	1,366,876
<u>272,440</u>	<u>1,020,286</u>
<u>\$ 582,096</u>	<u>\$ 3,070,865</u>

CITY OF HARMONY, MINNESOTA

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended December 31, 2004

	<u>Sewer Fund</u>	<u>Electric Fund</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash Received From Customers	\$ 274,672	\$ 590,033
Other Cash Receipts	-	-
Cash Paid to Suppliers for Goods and Services	(92,456)	(467,453)
Cash Paid to Employees	(19,062)	(24,946)
Other Cash Payments	-	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	163,154	97,634
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>		
Operating Transfers In (Out) to Other Funds	13,766	(27,492)
Other Income/Expense	-	8,574
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	13,766	(18,918)
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Acquisition of Fixed Assets	(923,606)	(113,645)
Loan Costs and Financing Fees	-	-
Sale of Fixed Assets	-	-
Proceeds from Bonds/Notes Payable	576,469	-
Principal Payments on Bonds Payable	(59,971)	-
Interest Payments on Bonds Payable	(33,636)	-
Special Assessments Received	3,500	979
Capital Contributions	439,569	65,102
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	2,325	(47,564)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest Received	(1,721)	4,742
NET CASH PROVIDED BY INVESTING ACTIVITIES	(1,721)	4,742
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	177,524	35,894
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	(226,927)	464,001
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ (49,403)</u>	<u>\$ 499,895</u>

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



Heritage Grove	Other Proprietary Funds	Total Proprietary Funds
\$ 716,018	\$ 163,088	\$ 1,743,811
-	818	818
(248,589)	(122,957)	(931,455)
(255,971)	(56,688)	(356,667)
(15,914)	-	(15,914)
195,544	(15,739)	440,593
-	40,412	26,686
1,901	15,108	25,583
1,901	55,520	52,269
(1,742)	(109,692)	(1,148,685)
-	-	-
-	24,000	24,000
-	-	576,469
(84,732)	(16,519)	(161,222)
(155,841)	(634)	(190,111)
-	-	4,479
-	96,206	600,877
(242,315)	(6,639)	(294,193)
1,676	1,654	6,351
1,676	1,654	6,351
(43,194)	34,796	205,020
157,263	31,970	426,307
<u>\$ 114,069</u>	<u>\$ 66,766</u>	<u>\$ 631,327</u>

CITY OF HARMONY, MINNESOTA

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended December 31, 2004

	<u>Sewer Fund</u>	<u>Electric Fund</u>
<u>RECONCILIATION OF OPERATING GAIN (LOSS) TO NET CASH PROVIDED</u>		
<u>(USED) BY OPERATING ACTIVITIES:</u>		
Operating Gain (Loss)	\$ 45,925	\$ 47,186
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation Expense	78,216	38,559
Changes in assets and liabilities:		
Receivables	5,259	6,943
Inventory	-	(16)
Prepaid Insurance/Other	(70)	(164)
Due from Other Funds	-	-
Due to Other Funds	-	-
Accounts Payable	18,814	4,320
Retainage Payable	4,943	-
Accrued Interest Payable	9,727	-
Accrued Expenses	340	586
Customer Meter/Lease Deposits	-	220
	<u>\$ 163,154</u>	<u>\$ 97,634</u>
Net Cash Provided (Used) by Operating Activities		

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

<u>Heritage Grove</u>	<u>Other Proprietary Funds</u>	<u>Total Proprietary Funds</u>
\$ 136,077	\$ (29,624)	\$ 199,564
115,467	8,139	240,381
3,369	951	16,522
-	(302)	(318)
7,821	(11)	7,576
-	818	818
(15,914)	-	(15,914)
(43,945)	2,527	(18,284)
-	-	4,943
(279)	-	9,448
(9,452)	1,838	(6,688)
2,400	(75)	2,545
<u>\$ 195,544</u>	<u>\$ (15,739)</u>	<u>\$ 440,593</u>



## CITY OF HARMONY, MINNESOTA

STATEMENT OF FIDUCIARY NET ASSETS  
December 31, 2004

	<u>Total</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 10,490
Interest Receivable	-
TOTAL ASSETS	<u>\$ 10,490</u>
<u>LIABILITIES AND NET ASSETS</u>	
<u>Liabilities</u>	
Accounts Payable	\$ -
TOTAL LIABILITIES	-
<u>Net Assets</u>	
Restricted	-
Unrestricted	10,490
TOTAL NET ASSETS	<u>10,490</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,490</u>

STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS  
For the Fiscal Year Ended December 31, 2004

<u>REVENUES</u>	
Interest Earnings	\$ 479
TOTAL REVENUES	479
<u>OTHER FINANCING SOURCES (USES)</u>	
Operating Transfer Out	(456)
TOTAL OTHER FINANCING SOURCES (USES)	(456)
NET CHANGE IN FUND BALANCES	23
NET ASSETS - BEGINNING OF YEAR	10,467
NET ASSETS - END OF YEAR	<u>\$ 10,490</u>

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



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), holds the corporate powers of the organization, appoints a voting majority of the organization's Council, 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 Council 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.

Basic Financial Statement Presentation

The Government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the City.

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





When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first. The Council reports all direct expenses by function in the Statement of Activities. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material interfund activity has been removed from the Government-wide financial statements.

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

#### MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Government-wide financial statements were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33 "Accounting and Financial Reporting for Nonexchange Transactions." Property taxes are generally recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. State aids are recorded as revenue in the fiscal year for which the aids are designated by statute.

All Governmental Funds are accounted for using the modified accrual basis of accounting. 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 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.

#### Description of Funds

The accounts of the City are organized on the basis of funds, 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.

GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures of the individual funds in the governmental fund category) for the determination of major funds. The City electively added as major funds, those which had specific community focus. The major funds of the City are presented 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 or otherwise accounted for in another fund.

Community Center Roof Project - Used to track the activity for the capital project of the new community center roof.

1994 G.O. Fire Station Bonds - Debt Service Fund used for the payment of principal and interest on bonds used to finance construction of new fire station.

## Proprietary Funds

Sewer Fund - Used to account for the provisions of sewer services to the residents of the City.

Electric Fund - Used to account for the provisions of electric services to the residents of the City.

Heritage Grove Fund - Used to account for the provisions of the Assisted Living Center of the City.

## 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.

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.

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. 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 financial statements. Budgeted amounts for the General and Major Special Revenue Funds have been presented in the 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, 2004.

#### USE OF ESTIMATES

The preparation of financial statements in conformity with United States 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.

#### CASH AND CASH EQUIVALENTS

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

#### ACCOUNTS RECEIVABLE

Accounts receivables are carried at original invoice. Management determines bad debts by regularly evaluating individual customer accounts receivables and considering a customer's financial condition, credit history, and current economic conditions. Trade receivables are written off when deemed uncollectible. Recoveries of accounts receivables previously written off are recorded when received. No allowance for doubtful accounts is considered necessary.

#### SPECIAL ASSESSMENTS RECEIVABLE

Special assessments receivable represent uncollected assessments, which will be collected by the County. 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.

#### INVENTORY

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



## DEFERRED REVENUES

The City reports deferred revenue on its 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. Deferred revenues have been reported for deferred special assessments and delinquent taxes.

## PREPAID EXPENDITURES

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. Prepaid items are reported using the consumption method and recorded as an expense or expenditure at the time of consumption.

## CAPITAL ASSETS

Capital assets are recorded at historical cost and depreciated over their estimated useful lives (excluding salvage value). The capitalization threshold is \$1,000. Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight-line depreciation is used based on the following estimated useful lives:

Buildings/Building Improvements	10-50 years
Electrical Distribution	10-50 years
Machinery and Equipment	5-25 years
Computer Software and Equipment	5-10 years
Infrastructure	20-50 years

Capital assets not being depreciated include land.

## ACCUMULATED UNPAID VACATION AND SICK PAY

All regular full-time employees earn vacation benefits based upon length of service and can be accrued up to one and one-half times the annual amount. Accumulated vacation benefits are vested.

All regular full-time employees receive sick leave benefits. Sick leave shall accumulate at the rate of one day after each monthly pay period, to a maximum of 960 hours. Sick leave benefits are vested.





## NET ASSETS

Net assets represent the difference between assets and liabilities in the District-wide financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net assets are reported as restricted in the Government-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Restricted net assets are reported only in the Government-wide financial statements. The restricted assets include the Small City Grant.

## CHANGES IN ACCOUNTING PRINCIPLES

For the year ended December 31, 2004, the City has implemented Governmental Accounting Standards Council (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.

GASB Statement No. 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on the accrual basis of accounting, and fund financial statements which present information for individual major funds rather than by fund type, which had been the mode of presentation in previously issued financial statements.

The implementation of GASB Statement No. 34 caused the opening fund balance at December 31, 2003, to be restated in terms of "net assets" as follows:

Total Fund Balances - Governmental Funds - at December 31, 2003	\$ 847,574
Add: Cost of capital assets at December 31, 2003	3,827,918
Less: Accumulated depreciation at December 31, 2003	(1,705,602)
Loans Receivable	294,656
Less: Long-debt debt:	
Bond principal and capital loans, etc.	(2,104,087)
Accrued interest payable at December 31, 2003	(35,462)
Accrued Compensated Absences	<u>(28,886)</u>
Net assets at December 31, 2003	<u>\$1,096,111</u>

## ELIMINATION AND RECLASSIFICATIONS

In the process of aggregating data for the statement of net assets and the statement of activities, amounts reported as interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

### 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, 2004, the offsetting balances for prior tax levy years totaled \$6,146.

Note 3 CHANGES IN CAPITAL ASSETS

A summary of changes in general capital assets follows:

	Balance <u>1-1-04</u>	Additions	Deletions	Balance <u>12-31-04</u>
Land	\$ 120,268	\$ -	\$ -	\$ 120,268
Buildings and Improvements	610,331	214,374	-	824,705
Vehicles	617,186	-	-	617,186
Machinery and Equipment	102,029	-	-	102,029
Other Equipment	194,693	12,694	-	207,387
Infrastructure	1,896,708	163,366	-	2,060,074
Work in Progress	286,703	46,154	(332,857)	-
TOTAL	3,827,918	436,588	(332,857)	3,931,649
Less: Accumulated Depreciation	(1,705,602)	(161,390)	-	(1,866,992)
NET CAPITAL ASSETS	<u>\$2,122,316</u>	<u>\$ 275,198</u>	<u>\$ (332,857)</u>	<u>\$2,064,657</u>

Depreciation Expense was charged to governmental activities as follows:

General Government	\$ 6,742
Public Safety	60,556
Highways and Streets	79,860
Parks and Recreation	14,232
Total Depreciation Expense	<u>\$ 161,390</u>

A summary of changes in Proprietary Fund type property, plant, and equipment is as follows:

	Balance <u>1-1-04</u>	Additions	Deletions	Balance <u>12-31-04</u>
Land	\$ 293,411	\$ -	\$ (13,725)	\$ 279,686
Buildings and Improvements	4,392,343	393,292	-	4,785,635
Production and Distribution Systems	481,740	17,387	-	499,127
Vehicles	28,700	-	-	28,700
Infrastructure	1,536,460	791,090	-	2,327,550
Work in Progress	53,083	318,905	(371,988)	-
TOTAL	6,785,737	1,520,674	(385,713)	7,920,698
Less: Accumulated Depreciation	(1,175,952)	(237,121)	-	(1,413,073)
NET CAPITAL ASSETS	<u>\$5,609,785</u>	<u>\$1,283,553</u>	<u>\$ (385,713)</u>	<u>\$6,507,625</u>



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) which is a cost-sharing, multiple-employer retirement plan. 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.

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 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 all 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 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 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. That report may be obtained on the web at [mnpera.org](http://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, 2004, 2003, and 2002 were \$27,944, \$21,434 and \$16,902 respectively. The City's contributions were equal to the contractually required contributions for each year as set by the state statute.

### Note 5 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 City deposits be protected by insurance, surety bond or collateral. The market value of the collateral pledged must equal 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes legal investments as well as certain first year 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, 2004:

	<u>Bank Balances</u>	<u>Carrying Amount</u>
Insured or collateralized by securities or first mortgages held by the City or its agent's in the City's name	<u>\$2,039,878</u>	<u>\$2,018,058</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, 2004:

	Category			Carrying Amount	Market Value
	1	2	3		
Bonds & Money Market Funds	\$ 239,665	\$ -	\$ -	\$ 239,665	\$ 239,665
Total Deposits				2,018,058	
Total Cash and Cash Equivalents				\$2,257,723	

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 6 RECONCILIATION OF OPERATING TRANSFERS IN AND OUT

The following is a reconciliation of transfers in and out at December 31, 2004:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General	\$ 9,996	\$ 261,437
Park	22,800	504
Library	50,808	-
Fire	20,940	4,982
Ambulance	-	20,004
Tax Increment Financing District #1	-	30,000
Tax Increment Financing District #2	-	4,008
Capital Projects Fund	50,486	4,500
Southview Addition Imp. Project	10,223	-
TH 139 Main Imp. Ave. Project	32,482	-
1994 G.O. Improvement Bonds	6,788	-
1995A TIF Bonds	34,008	-
2002 G.O. Improvement Bonds	60,674	-
Water Fund	-	32,500
Sewer Fund	74,440	60,674
Electric Fund	-	27,492
EDA Fund	72,912	-
Sanderson Memorial Trust Fund	-	456
	<u>\$ 446,557</u>	<u>\$ 446,557</u>

Note 7 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 to coverage.

Note 8 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, 2004:

2005	\$ 20,000
2006	20,000
2007	20,000
2008	20,000
2009	<u>20,000</u>
Total Obligation	100,000
Less: Amount Representing Interest	<u>(21,522)</u>
Net Obligation	<u>\$ 78,478</u>



Note 9 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 10 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	\$ 71,146	\$ 95,338	\$ 166,484

In addition to the initial grant loan, the City of Harmony has the following revolving loan funds outstanding as of December 31, 2004:

	<u>Date of Loan</u>	<u>Initial Loan Amount</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Principal Balance Outstanding 12-31-04</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	1,585
RLF #30	3-1-99	20,000	4.0%	120 Months	18,920
RLF #35	5-31-01	<u>15,000</u>	6.0%	120 Months	<u>10,531</u>
Totals		<u>\$ 60,000</u>			<u>\$ 39,072</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. The remaining balance at December 31, 2004 is \$24,086.



Note 11 LONG-TERM DEBT

Bonds Payable at December 31, 2004, are comprised of the following individual issues:

GENERAL LONG-TERM DEBT:

\$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.	\$ 165,000
\$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.	215,000
\$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.	190,000
\$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.	410,000
\$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.	455,000
\$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 used to refund the G. O. Fire Station Bonds, Series 1994A.	215,000
\$605,000 General Obligation Tax Increment and Improvement Refunding Bonds, Series 2004A. Due in annual installments of \$5,000 - \$130,000 through 2011; interest paid semi-annually at 3.15%. Proceeds will be used in 2005 for refunding the G.O. Tax Increment Bonds, Series 1995A, the G.O. Improvement Bonds, Series 1998A, and the G.O. Improvement Bonds, Series 2000A and to provide funding for improvements of the industrial park.	605,000
\$155,000 Promissory Note, due USDA in annual installments of \$14,310 including interest at 4.375%. Proceeds used for Community Center Roof Project	155,000
\$75,000 Promissory Note, due USDA in annual installments of \$6,865 including interest at 4.25%. Proceeds used for Community Center Roof Project	<u>75,000</u>
Total General Obligation Bonds and Notes	2,485,000





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.	2,845,000
\$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.	670,742
\$576,469 General Obligation Sewer Note, Series 2004. Issued by the Minnesota Public Facilities Authority (PFA) on a draw down basis. Loan proceeds received to December 31, 2004, are \$576,469. Due in semi-annual installments of \$25,465 - \$36,000 through 2023: interest paid semi-annually at 1.00%. Proceeds used to finance construction of the wastewater treatment facility.	<u>576,469</u>
Total Proprietary Bonds and Notes	4,092,211

Capital Lease:

Heritage Grove Van Lease. Annual payments of \$5,460 until May 2007, including interest at 5.00%.	<u>11,996</u>
TOTAL PROPRIETARY FUND LONG-TERM DEBT	<u>4,104,207</u>
TOTAL LONG-TERM DEBT	<u>\$6,589,207</u>

The City has entered into a capital lease agreement for a van. The following is a schedule of the minimum lease payments under the capital lease together with the present value of the minimum lease payments as of December 31, 2004:

Minimum Lease	
Payments in 2005	\$ 5,460
2006	5,460
2007	<u>1,814</u>
Total Payments	12,734
Less Amount Representing Interest	<u>(738)</u>
Present Value of Minimum Lease Payments	<u>\$ 11,996</u>

The following is a summary of the current (due in one year or less) and the long-term (due in more than one year) portions of long-term liabilities as of December 31, 2004:

	Bonds and Notes	Capital Lease	Total
Current Portion	\$ 411,662	\$ 4,973	\$ 416,635
Long-Term Portion	<u>6,165,549</u>	<u>7,023</u>	<u>6,172,572</u>
Total	<u>\$6,577,211</u>	<u>\$ 11,996</u>	<u>\$6,589,207</u>



Debt Service Requirements at December 31, 2004 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 416,636	\$ 259,938	\$ 676,574
2006	529,997	251,539	781,536
2007	548,230	235,845	784,075
2008	552,195	215,980	768,175
2009	575,052	194,828	769,880
2010 - 2014	1,694,739	729,881	2,424,620
2015 - 2019	913,354	493,724	1,407,078
2020 - 2024	949,004	272,115	1,221,119
2025 and thereafter	<u>410,000</u>	<u>35,650</u>	<u>445,650</u>
TOTAL	<u>\$6,589,207</u>	<u>\$2,689,500</u>	<u>\$9,278,707</u>

The following is a summary of the long-term liabilities transactions and balances for the year ended December 31, 2004:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Compensated Absences</u>	<u>Ending Balance</u>
Governmental Activities					
Bonds payable:					
General Long-Term					
Debt	\$5,747,232	\$1,411,469	\$ (581,490)	\$ -	\$6,577,211
Other Liabilities:					
Capital					
Lease	45,815	-	(33,819)	-	11,996
Compensated					
Absences	<u>28,886</u>	<u>-</u>	<u>-</u>	<u>7,645</u>	<u>36,531</u>
Governmental Activities					
Long-term					
liabilities	<u>\$5,821,933</u>	<u>\$1,411,469</u>	<u>\$ (615,309)</u>	<u>\$ 7,645</u>	<u>\$6,625,738</u>

Payments on the bonds payable that pertain to the governmental activities are made by the debt service funds. All bonds outstanding at December 31, 2004, are general obligation bonds.

Note 12 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, 2004, the Housing Revenue Refunding Bonds outstanding aggregated \$8,685,000.



Note 13 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit Fund Balance

The following funds had deficit fund balances or net assets at December 31, 2004:

<u>Special Revenue Funds</u>	
Fire Fund	\$ (43,634)
Tax Increment #4	(8,485)
 <u>Enterprise Funds</u>	
Garbage Fund	(21,638)

These deficits will be offset with future revenues and permanent fund transfers from the General Fund.

Note 14 INTERFUND PAYABLES/RECEIVABLES

Interfund Payables/Receivables as of December 31, 2004, consist of the following:

	<u>Due From Other Fund</u>	<u>Due To Other Fund</u>
<u>Special Revenue Funds</u>		
Revolving Loan Fund	\$ 24,086	\$ -
TIF #4	-	5,641
 <u>Enterprise Funds</u>		
Heritage Grove	-	24,086
EDA	<u>5,641</u>	<u>-</u>
Total	<u>\$ 29,727</u>	<u>\$ 29,727</u>

Note 15 RESERVED AND DESIGNATED FUND BALANCES

Fund balances in various funds at December 31, 2004, has been designated for the following purposes:

<u>General Fund:</u>	
Designated for Working Capital	<u>\$ 300,000</u>
<u>Special Revenue Funds:</u>	
Small City Grant Repayments	<u>\$ 35,112</u>
<u>Capital Projects Fund:</u>	
Designated for future Capital Outlay	<u>\$ 403,521</u>
<u>Debt Service Funds:</u>	
Debt Service on Bonds	<u>\$ 559,339</u>



Note 16 GOVERNMENT AID AND GRANTS

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

Local

Township Ambulance Contributions	\$ 6,342
Township Fire Contributions	28,939
County Ambulance Subsidy	3,600
County Library Funds	17,064
Park Subsidy	<u>1,600</u>

Total Local 57,545

State

Local Government Aid	294,256
Market Value Credit	62,918
Fire State Aid	11,927
PERA Rate Increase	<u>864</u>

Total State 369,965

TOTAL INTERGOVERNMENTAL \$ 427,510

Note 17 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, 2004, is as follows:

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>
Operating Revenues	\$ 117,231	\$ 269,483	\$ 41,511
Depreciation Expense	8,052	78,216	-
Operating Income (Loss)	36,516	45,925	1,878
Fund Transfers			
In	-	74,440	-
Out	(32,500)	(60,674)	-
Tax Revenues	-	-	-
Net Income (Loss)	103,925	467,403	1,633
Plant, Property, and Equipment			
Additions	107,065	923,606	-
Deletions	-	-	-
Net Working Capital	166,253	(62,321)	(21,922)
Bonds and Other Long-Term Liabilities			
Payable From Operating Revenues	8,673	1,247,211	2,789
Payable From Other Sources	-	-	-
Total Net Assets	539,725	1,350,368	(24,711)





	<u>Electric Fund</u>	<u>EDA Fund</u>	<u>Heritage Grove</u>
Operating Revenues	\$ 583,270	\$ 3,708	\$ 704,828
Depreciation Expense	38,559	87	115,467
Operating Income (Loss)	47,186	(68,018)	136,077
Fund Transfers			
In	-	72,912	-
Out	(27,492)	-	-
Tax Revenues	-	-	-
Net Income (Loss)	99,091	27,839	(16,188)
Plant, Property, and Equipment			
Additions	113,645	2,627	(1,742)
Deletions	-	(24,000)	-
Net Working Capital	525,983	(46,221)	55,466
Bonds and Other Long-Term Liabilities			
Payable From Operating Revenues	5,096	836	2,856,996
Payable From Other Sources	-	-	-
Total Net Assets	1,122,353	67,055	16,075

Note 18 PRIOR PERIOD ADJUSTMENT

A Prior Period adjustment was made with regard to Fixed Assets and Accumulated Depreciation in the proprietary funds due to GASB Statement No. 34 requirements for a complete fixed asset listing.

A Prior Period adjustment was also made with regard to accrued compensated absences due to GASB Statement No. 34 requirements to include this as a long-term liability.

The Water Fund had an increase of \$372,657 for Fixed Assets, an increase of accumulated depreciation of \$89,525 and an adjustment to add \$7,779 in accrued compensated absences. This created a net prior period adjustment of \$275,353.

The Sewer Fund had an increase of \$529,072 for Fixed Assets, an accumulated depreciation adjustment of \$141,998 and an adjustment to add \$3,638 in accrued compensated absences. This created a net prior period adjustment of \$667,432.

The Garbage Fund had a prior period adjustment to add \$2,455 in accrued compensated absences.

The Electric Fund had an increase of \$103,368 for Fixed Assets, an increase in accumulated depreciation of \$18,492 and an adjustment to add \$4,462 in accrued compensated absences. This created a net prior period adjustment of \$80,414.

The EDA Fund had a prior period adjustment to add \$458 in accrued compensated absences.

The net prior period adjustment for the Proprietary Funds is \$1,020,286.



FINANCIAL STATEMENTS OF NONMAJOR, COMBINING AND INDIVIDUAL FUNDS

CITY OF HARMONY, MINNESOTA

COMBINED BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
December 31, 2004

SPECIAL REVENUE FUNDS

	<u>Park Fund</u>	<u>Library Fund</u>	<u>Fire Fund</u>	<u>Small Cities Grant Fund</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 28,024	\$ 3,993	\$ (57,867)	\$ 35,160
Receivables				
Accounts	-	-	13,883	-
Taxes	-	-	-	-
Special Assessments	-	-	-	-
Contracts/Grants	-	-	-	-
Due from Other Funds	-	-	-	-
Due from Other Governments	-	-	-	-
Prepaid Insurance/Other	159	76	900	-
<b>TOTAL ASSETS</b>	<b>\$ 28,183</b>	<b>\$ 4,069</b>	<b>\$ (43,084)</b>	<b>\$ 35,160</b>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities</u>				
Accounts Payable	\$ 64	\$ 1,148	\$ 550	\$ 48
Retainage Payable	-	-	-	-
Accrued Salaries	-	683	-	-
Accrued Sales Tax	-	3	-	-
Other Accrued Expenses	-	-	-	-
Due to Other Funds	-	-	-	-
Due to Other Governments	-	-	-	-
Deferred Revenue	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>64</b>	<b>1,834</b>	<b>550</b>	<b>48</b>
<u>Fund Balances</u>				
Reserved	-	-	-	35,112
Unreserved, Designated	-	-	-	-
Unreserved, Undesignated	28,119	2,235	(43,634)	-
<b>TOTAL FUND BALANCES</b>	<b>28,119</b>	<b>2,235</b>	<b>(43,634)</b>	<b>35,112</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 28,183</b>	<b>\$ 4,069</b>	<b>\$ (43,084)</b>	<b>\$ 35,160</b>

## SPECIAL REVENUE FUNDS

Ambulance Fund	Revolving Loan Fund	Tax Increment Financing District #1	Tax Increment Financing District #2	Tax Increment Financing District #3	Tax Increment Financing District #4
\$ 40,011	\$ 151,473	\$ 114,983	\$ 69,886	\$ 4,245	\$ (2,844)
22,701	-	-	-	-	-
-	-	5,407	414	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	24,086	-	-	-	-
-	-	-	-	-	-
446	-	-	-	-	-
<u>\$ 63,158</u>	<u>\$ 175,559</u>	<u>\$ 120,390</u>	<u>\$ 70,300</u>	<u>\$ 4,245</u>	<u>\$ (2,844)</u>
\$ 1,488	\$ -	\$ 2,330	\$ -	\$ -	\$ -
-	-	-	-	-	-
31	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	5,641
-	-	-	70,300	4,245	-
-	-	-	-	-	-
1,519	-	2,330	70,300	4,245	5,641
-	-	-	-	-	-
-	-	-	-	-	-
<u>61,639</u>	<u>175,559</u>	<u>118,060</u>	<u>-</u>	<u>-</u>	<u>(8,485)</u>
<u>61,639</u>	<u>175,559</u>	<u>118,060</u>	<u>-</u>	<u>-</u>	<u>(8,485)</u>
<u>\$ 63,158</u>	<u>\$ 175,559</u>	<u>\$ 120,390</u>	<u>\$ 70,300</u>	<u>\$ 4,245</u>	<u>\$ (2,844)</u>

CITY OF HARMONY, MINNESOTA

COMBINED BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
December 31, 2004

	<u>CAPITAL PROJECTS FUNDS</u>			
	<u>Total</u>	<u>Capital Projects Fund</u>	<u>TH 139 Main Imp. Avenue Project</u>	<u>Southview Addition Imp. Project</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 387,064	\$ 134,524	\$ (127,375)	\$ -
Receivables				
Accounts	36,584	-	-	-
Taxes	5,821	-	-	-
Special Assessments	-	-	-	-
Contracts/Grants	-	-	-	-
Due from Other Funds	24,086	-	-	-
Due from Other Governments	-	-	130,658	-
Prepaid Insurance/Other	1,581	-	-	-
	<u>1,581</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 455,136</u>	<u>\$ 134,524</u>	<u>\$ 3,283</u>	<u>\$ -</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities</u>				
Accounts Payable	\$ 5,628	\$ -	\$ 3,283	\$ -
Retainage Payable	-	-	-	-
Accrued Salaries	714	-	-	-
Accrued Sales Tax	3	-	-	-
Other Accrued Expenses	-	-	-	-
Due to Other Funds	5,641	-	-	-
Due to Other Governments	74,545	-	-	-
Deferred Revenue	-	-	-	-
	<u>86,531</u>	<u>-</u>	<u>3,283</u>	<u>-</u>
TOTAL LIABILITIES	<u>86,531</u>	<u>-</u>	<u>3,283</u>	<u>-</u>
<u>Fund Balances</u>				
Reserved	35,112	-	-	-
Unreserved, Designated	-	134,524	-	-
Unreserved, Undesignated	333,493	-	-	-
	<u>368,605</u>	<u>134,524</u>	<u>-</u>	<u>-</u>
TOTAL FUND BALANCES	<u>368,605</u>	<u>134,524</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 455,136</u>	<u>\$ 134,524</u>	<u>\$ 3,283</u>	<u>\$ -</u>

CAPITAL PROJECT FUNDS		DEBT SERVICE FUNDS			
Industrial Park Project	Total	1994 G.O. Improvement Bonds	1995 G.O. Increment Bonds	1998 G.O. Improvement Bonds	2000 G.O. Improvement Bonds
\$ 276,700	\$ 283,849	\$ -	\$ 49,690	\$ 218,775	\$ 195,264
-	-	-	-	-	-
-	-	-	-	780	605
-	-	-	-	64,683	31,418
-	-	-	-	-	-
-	130,658	-	-	-	-
-	-	-	-	-	-
<u>\$ 276,700</u>	<u>\$ 414,507</u>	<u>\$ -</u>	<u>\$ 49,690</u>	<u>\$ 284,238</u>	<u>\$ 227,287</u>
\$ 14,965	\$ 18,248	\$ -	\$ -	\$ 1,125	\$ 1,125
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	64,683	31,418
14,965	18,248	-	-	65,808	32,543
-	-	-	-	-	-
261,735	396,259	-	49,690	218,430	194,744
-	-	-	-	-	-
<u>261,735</u>	<u>396,259</u>	<u>-</u>	<u>49,690</u>	<u>218,430</u>	<u>194,744</u>
<u>\$ 276,700</u>	<u>\$ 414,507</u>	<u>\$ -</u>	<u>\$ 49,690</u>	<u>\$ 284,238</u>	<u>\$ 227,287</u>





CITY OF HARMONY, MINNESOTA

COMBINED BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
December 31, 2004

	<u>DEBT SERVICE FUNDS</u>		<u>Total Other Governmental Funds</u>
	<u>2002 G.O. Improvement Bonds</u>	<u>Total</u>	
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 59,841	\$ 523,570	\$ 1,194,483
Receivables			
Accounts	-	-	36,584
Taxes	1,820	3,205	9,026
Special Assessments	105,384	201,485	201,485
Contracts/Grants	-	-	-
Due from Other Funds	-	-	24,086
Due from Other Governments	-	-	130,658
Prepaid Insurance/Other	-	-	1,581
<b>TOTAL ASSETS</b>	<b>\$ 167,045</b>	<b>\$ 728,260</b>	<b>\$ 1,597,903</b>
<u>LIABILITIES AND FUND EQUITY</u>			
<u>Liabilities</u>			
Accounts Payable	\$ -	\$ 2,250	\$ 26,126
Retainage Payable	-	-	-
Accrued Salaries	-	-	714
Accrued Sales Tax	-	-	3
Other Accrued Expenses	-	-	-
Due to Other Funds	-	-	5,641
Due to Other Governments	-	-	74,545
Deferred Revenue	105,384	201,485	201,485
<b>TOTAL LIABILITIES</b>	<b>105,384</b>	<b>203,735</b>	<b>308,514</b>
<u>Fund Balances</u>			
Reserved	-	-	35,112
Unreserved, Designated	61,661	524,525	920,784
Unreserved, Undesignated	-	-	333,493
<b>TOTAL FUND BALANCES</b>	<b>61,661</b>	<b>524,525</b>	<b>1,289,389</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 167,045</b>	<b>\$ 728,260</b>	<b>\$ 1,597,903</b>

CITY OF HARMONY, MINNESOTA

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2004

	<u>SPECIAL REVENUE FUNDS</u>			
	<u>Park Fund</u>	<u>Library Fund</u>	<u>Fire Fund</u>	<u>Small Cities Grant Fund</u>
<u>REVENUES</u>				
Taxes	\$ -	\$ -	\$ -	\$ -
Special Assessments	-	-	-	-
Intergovernmental	1,600	17,064	28,939	-
Licenses and Permits	-	-	-	-
Charges for Service	1,590	1,127	5,740	-
Fines and Forfeits	-	-	-	-
Note - Nursing Home/Hospital	-	-	-	-
Interest Earnings	241	16	(511)	329
Refunds and Reimbursements	-	-	-	-
Miscellaneous	3,790	295	9,107	17,743
<b>TOTAL REVENUES</b>	<b>7,221</b>	<b>18,502</b>	<b>43,275</b>	<b>18,072</b>
<u>EXPENDITURES</u>				
General Government	-	-	-	-
Public Safety	-	-	31,784	-
Highways and Streets	-	-	-	-
Library	-	69,781	-	-
Parks and Recreation	17,951	-	-	-
Unallocated	-	-	-	11,220
Capital Outlay/Capital Projects	4,580	-	28,209	-
<u>Debt Service</u>				
Principal	-	-	-	-
Interest and Fees	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>22,531</b>	<b>69,781</b>	<b>59,993</b>	<b>11,220</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(15,310)</b>	<b>(51,279)</b>	<b>(16,718)</b>	<b>6,852</b>
<u>OTHER FINANCING SOURCES (USES)</u>				
Proceeds from Bonds/Notes	-	-	-	-
Operating Transfers In	22,800	50,808	20,940	-
Operating Transfers Out	(504)	-	(4,982)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>22,296</b>	<b>50,808</b>	<b>15,958</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>6,986</b>	<b>(471)</b>	<b>(760)</b>	<b>6,852</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b>21,133</b>	<b>2,706</b>	<b>(42,874)</b>	<b>28,260</b>
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ 28,119</b>	<b>\$ 2,235</b>	<b>\$ (43,634)</b>	<b>\$ 35,112</b>

## SPECIAL REVENUE FUNDS

Ambulance Fund	Revolving Loan Fund	Tax Increment Financing District #1	Tax Increment Financing District #2	Tax Increment Financing District #3	Tax Increment Financing District #4
\$ -	\$ -	\$ 85,685	\$ 18,180	\$ 4,362	\$ 2,660
-	-	-	-	-	-
9,942	-	622	2,003	354	166
-	-	-	-	-	-
88,375	-	-	-	-	-
-	-	-	-	-	-
309	10,527	544	681	11	(35)
-	-	-	-	-	-
5,776	29,548	-	1,000	-	-
104,402	40,075	86,851	21,864	4,727	2,791
-	-	-	-	-	-
72,707	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	5,311	91,484	4,345	359
2,195	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
74,902	-	5,311	91,484	4,345	359
29,500	40,075	81,540	(69,620)	382	2,432
-	-	-	-	-	-
-	-	-	-	-	-
(20,004)	-	(30,000)	(4,008)	-	-
(20,004)	-	(30,000)	(4,008)	-	-
9,496	40,075	51,540	(73,628)	382	2,432
52,143	135,484	66,520	73,628	(382)	(10,917)
\$ 61,639	\$ 175,559	\$ 118,060	\$ -	\$ -	\$ (8,485)

CITY OF HARMONY, MINNESOTA

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2004

	<u>CAPITAL PROJECTS FUNDS</u>			
	<u>Total</u>	<u>Capital Projects Fund</u>	<u>TH 139 Main Imp. Avenue Project</u>	<u>Southview Addition Imp. Project</u>
<u>REVENUES</u>				
Taxes	\$ 110,887	\$ -	\$ -	\$ -
Special Assessments	-	-	-	-
Intergovernmental	60,690	-	-	-
Licenses and Permits	-	-	-	-
Charges for Service	96,832	-	-	-
Fines and Forfeits	-	-	-	-
Note - Nursing Home/Hospital	-	-	-	-
Interest Earnings	12,112	941	(1,196)	-
Refunds and Reimbursements	-	-	130,659	-
Miscellaneous	67,259	16,449	-	-
	<u>347,780</u>	<u>17,390</u>	<u>129,463</u>	<u>-</u>
<u>TOTAL REVENUES</u>				
	347,780	17,390	129,463	-
<u>EXPENDITURES</u>				
General Government	-	-	-	-
Public Safety	104,491	-	-	-
Highways and Streets	-	-	-	-
Library	69,781	-	-	-
Parks and Recreation	17,951	-	-	-
Unallocated	112,719	-	-	-
Capital Outlay/Capital Projects	34,984	-	17,756	-
<u>Debt Service</u>				
Principal	-	-	-	-
Interest and Fees	-	-	-	-
	<u>339,926</u>	<u>-</u>	<u>17,756</u>	<u>-</u>
<u>TOTAL EXPENDITURES</u>				
	339,926	-	17,756	-
<u>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</u>	7,854	17,390	111,707	-
<u>OTHER FINANCING SOURCES (USES)</u>				
Proceeds from Bonds/Notes	-	-	-	-
Operating Transfers In	94,548	50,486	32,482	10,223
Operating Transfers Out	(59,498)	(4,500)	-	-
	<u>35,050</u>	<u>45,986</u>	<u>32,482</u>	<u>10,223</u>
<u>TOTAL OTHER FINANCING SOURCES (USES)</u>				
	35,050	45,986	32,482	10,223
<u>NET CHANGE IN FUND BALANCES</u>	42,904	63,376	144,189	10,223
<u>FUND BALANCE - BEGINNING OF YEAR</u>	325,701	71,148	(144,189)	(10,223)
<u>FUND BALANCE - END OF YEAR</u>	<u>\$ 368,605</u>	<u>\$ 134,524</u>	<u>\$ -</u>	<u>\$ -</u>

CAPITAL PROJECT FUNDS		DEBT SERVICE FUNDS			
Industrial Park Project	Total	1994 G.O. Improvement Bonds	1995 G.O. Increment Bonds	1998 G.O. Improvement Bonds	2000 G.O. Improvement Bonds
\$ -	\$ -	\$ 283	\$ 5	\$ 26,813	\$ 20,794
-	-	1,380	-	21,022	6,385
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
438	183	(73)	245	754	491
-	130,659	-	-	-	-
-	16,449	-	-	-	-
<u>438</u>	<u>147,291</u>	<u>1,590</u>	<u>250</u>	<u>48,589</u>	<u>27,670</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
23,703	41,459	-	-	-	-
-	-	-	20,000	40,000	20,000
-	-	-	10,100	13,648	14,195
<u>23,703</u>	<u>41,459</u>	<u>-</u>	<u>30,100</u>	<u>53,648</u>	<u>34,195</u>
(23,265)	105,832	1,590	(29,850)	(5,059)	(6,525)
285,000	285,000	-	20,000	139,000	161,000
-	93,191	6,788	34,008	-	-
-	(4,500)	-	-	-	-
<u>285,000</u>	<u>373,691</u>	<u>6,788</u>	<u>54,008</u>	<u>139,000</u>	<u>161,000</u>
261,735	479,523	8,378	24,158	133,941	154,475
-	(83,264)	(8,378)	25,532	84,489	40,269
<u>\$ 261,735</u>	<u>\$ 396,259</u>	<u>\$ -</u>	<u>\$ 49,690</u>	<u>\$ 218,430</u>	<u>\$ 194,744</u>



CITY OF HARMONY, MINNESOTA

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2004

	DEBT SERVICE FUNDS			Total Other Governmental Funds
	2002 G.O. Improvement Bonds	Total		
<u>REVENUES</u>				
Taxes	\$ 42,546	\$ 90,441	\$	201,328
Special Assessments	22,998	51,785		51,785
Intergovernmental	-	-		60,690
Licenses and Permits	-	-		-
Charges for Service	-	-		96,832
Fines and Forfeits	-	-		-
Note - Nursing Home/Hospital	-	-		-
Interest Earnings	205	1,622		13,917
Refunds and Reimbursements	-	-		130,659
Miscellaneous	-	-		83,708
	65,749	143,848		638,919
<u>EXPENDITURES</u>				
General Government	-	-		-
Public Safety	-	-		104,491
Highways and Streets	-	-		-
Library	-	-		69,781
Parks and Recreation	-	-		17,951
Unallocated	-	-		112,719
Capital Outlay/Capital Projects	-	-		76,443
<u>Debt Service</u>				
Principal	105,000	185,000		185,000
Interest and Fees	32,653	70,596		70,596
	137,653	255,596		636,981
TOTAL EXPENDITURES				
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(71,904)	(111,748)		1,938
<u>OTHER FINANCING SOURCES (USES)</u>				
Proceeds from Bonds/Notes	-	320,000		605,000
Operating Transfers In	60,674	101,470		289,209
Operating Transfers Out	-	-		(63,998)
	60,674	421,470		830,211
TOTAL OTHER FINANCING SOURCES (USES)				
NET CHANGE IN FUND BALANCES	(11,230)	309,722		832,149
FUND BALANCE - BEGINNING OF YEAR	72,891	214,803		457,240
FUND BALANCE - END OF YEAR	\$ 61,661	\$ 524,525		\$ 1,289,389





## CITY OF HARMONY, MINNESOTA

STATEMENT OF NET ASSETS  
 NONMAJOR PROPRIETARY FUNDS  
 December 31, 2004

	<u>Water Fund</u>	<u>Garbage Fund</u>	<u>EDA Fund</u>	<u>Total Other Proprietary Funds</u>
<u>ASSETS</u>				
<u>CURRENT ASSETS</u>				
Cash and Cash Equivalents	\$ 147,875	\$ (25,828)	\$ (55,281)	\$ 66,766
<u>Receivables</u>				
Accounts	10,624	4,160	6,600	21,384
Special Assessments	593	-	-	593
Inventory	9,052	-	-	9,052
Prepaid Insurance/Other	420	30	5	455
Due from Other Funds	-	-	5,641	5,641
	<u>168,564</u>	<u>(21,638)</u>	<u>(43,035)</u>	<u>103,891</u>
TOTAL CURRENT ASSETS				
Capital Assets, Net of Accumulated Depreciation	<u>382,145</u>	<u>-</u>	<u>114,112</u>	<u>496,257</u>
	<u>382,145</u>	<u>-</u>	<u>114,112</u>	<u>496,257</u>
TOTAL CAPITAL ASSETS				
<u>OTHER ASSETS</u>				
Loan Costs and Financing Fees	-	-	-	-
Less: Accumulated Amortization	-	-	-	-
Work in Progress - WWTP Improvements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER ASSETS				
TOTAL ASSETS	<u>\$ 550,709</u>	<u>\$ (21,638)</u>	<u>\$ 71,077</u>	<u>\$ 600,148</u>



CITY OF HARMONY, MINNESOTA

STATEMENT OF NET ASSETS  
NONMAJOR PROPRIETARY FUNDS  
December 31, 2004

	<u>Water Fund</u>	<u>Garbage Fund</u>	<u>EDA Fund</u>	<u>Total Other Proprietary Funds</u>
<u>LIABILITIES AND NET ASSETS</u>				
<u>CURRENT LIABILITIES</u>				
Accounts Payable	\$ 1,819	\$ -	\$ 2,778	\$ 4,597
Accrued Salaries	351	108	408	867
Accrued Management Fees	-	-	-	-
Accrued Interest	-	-	-	-
Accrued Property Insurance	-	-	-	-
Accrued Replacement Reserve	-	-	-	-
Accrued Sales Tax	141	176	-	317
Meter Deposits/Lease Deposits	-	-	-	-
Retainage Payable	-	-	-	-
Due to Other Funds	-	-	-	-
Current Portion of Long-Term Debt	-	-	-	-
	<u>2,311</u>	<u>284</u>	<u>3,186</u>	<u>5,781</u>
<u>LONG-TERM DEBT</u>				
Bonds/Notes Payable	-	-	-	-
Capital Lease Payable	-	-	-	-
Accrued Compensated Absences	8,673	2,789	836	12,298
Less: Current Portion	-	-	-	-
	<u>8,673</u>	<u>2,789</u>	<u>836</u>	<u>12,298</u>
TOTAL LIABILITIES	10,984	3,073	4,022	18,079
<u>NET ASSETS</u>				
Invested in Capital Assets, Net of Related Debt	382,145	-	114,112	496,257
Unrestricted	157,580	(24,711)	(47,057)	85,812
	<u>539,725</u>	<u>(24,711)</u>	<u>67,055</u>	<u>582,069</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 550,709</u>	<u>\$ (21,638)</u>	<u>\$ 71,077</u>	<u>\$ 600,148</u>



## CITY OF HARMONY, MINNESOTA

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS  
NONMAJOR PROPRIETARY FUNDS  
For the Year Ended December 31, 2004

	<u>Water Fund</u>	<u>Garbage Fund</u>	<u>EDA Fund</u>	<u>Total Other Proprietary Funds</u>
<u>OPERATING REVENUE</u>				
Sales and Rentals	\$ 117,231	\$ 41,511	\$ 3,708	\$ 162,450
TOTAL OPERATING REVENUE	117,231	41,511	3,708	162,450
<u>OPERATING EXPENSES</u>				
<u>Operations</u>				
Salaries	18,292	4,318	-	22,610
PERA and FICA	2,414	584	-	2,998
Employee Benefits	6,017	1,422	-	7,439
Service Contracts	-	25,493	-	25,493
Purchased Power	-	-	-	-
Supplies	9,439	-	105	9,544
Utilities	8,940	-	153	9,093
Maintenance and Repairs	15,917	-	600	16,517
Travel and Training	158	-	114	272
Professional Services	-	-	569	569
Miscellaneous	864	-	37,311	38,175
<u>Administration</u>				
Salaries	4,957	4,837	8,378	18,172
PERA and FICA	648	636	1,007	2,291
Employee Benefits	1,580	1,453	1,941	4,974
Professional Services	-	-	19,593	19,593
Insurance	1,363	-	18	1,381
Office/Store Expense	1,707	890	120	2,717
Miscellaneous	367	-	1,730	2,097
Capital Outlay	-	-	-	-
Depreciation Expense	8,052	-	87	8,139
TOTAL OPERATING EXPENSES	80,715	39,633	71,726	192,074
OPERATING INCOME (LOSS)	36,516	1,878	(68,018)	(29,624)
<u>NON-OPERATING INCOME (EXPENSE)</u>				
Interest Income	1,509	(245)	390	1,654
Special Assessments	(176)	-	-	(176)
Capital Credits and Miscellaneous	2,370	-	12,914	15,284
Interest Expense	-	-	(634)	(634)
Gain (Loss) on Sale of Fixed Assets	-	-	10,275	10,275
Capital Contributions	96,206	-	-	96,206
TOTAL NON-OPERATING INCOME (EXPENSES)	99,909	(245)	22,945	122,609
INCOME (LOSS) BEFORE OPERATING TRANSFERS	136,425	1,633	(45,073)	92,985



CITY OF HARMONY, MINNESOTA

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS  
NONMAJOR PROPRIETARY FUNDS  
For the Year Ended December 31, 2004

	<u>Water Fund</u>	<u>Garbage Fund</u>	<u>EDA Fund</u>	<u>Total Other Proprietary Funds</u>
<u>OPERATING TRANSFERS</u>				
Operating Transfers In	-	-	72,912	72,912
Operating Transfers Out	<u>(32,500)</u>	<u>-</u>	<u>-</u>	<u>(32,500)</u>
NET INCOME (LOSS)	103,925	1,633	27,839	133,397
NET ASSETS - BEGINNING OF YEAR	160,447	(23,889)	39,674	176,232
Prior Period Adjustment	<u>275,353</u>	<u>(2,455)</u>	<u>(458)</u>	<u>272,440</u>
NET ASSETS - END OF YEAR	<u>\$ 539,725</u>	<u>\$ (24,711)</u>	<u>\$ 67,055</u>	<u>\$ 582,069</u>





## CITY OF HARMONY, MINNESOTA

STATEMENT OF CASH FLOWS  
NONMAJOR PROPRIETARY FUNDS  
For the Year Ended December 31, 2004

	<u>Water Fund</u>	<u>Garbage Fund</u>	<u>EDA Fund</u>	<u>Total Other Proprietary Funds</u>
<u>CASH FLOWS FROM OPERATING</u>				
<u>ACTIVITIES</u>				
Cash Received From Customers	\$ 117,296	\$ 41,393	\$ 4,399	\$ 163,088
Other Cash Receipts	-	-	818	818
Cash Paid to Suppliers for Goods and Services	(38,536)	(26,355)	(58,066)	(122,957)
Cash Paid to Employees	(33,013)	(13,023)	(10,652)	(56,688)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	45,747	2,015	(63,501)	(15,739)
<u>CASH FLOWS FROM NONCAPITAL</u>				
<u>FINANCING ACTIVITIES</u>				
Operating Transfers In	-	-	72,912	72,912
Operating Transfers Out	(32,500)	-	-	(32,500)
Other Income	2,194	-	12,914	15,108
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(30,306)	-	85,826	55,520
<u>CASH FLOWS FROM CAPITAL AND</u>				
<u>RELATED FINANCING ACTIVITIES</u>				
Acquisition of Fixed Assets	(107,065)	-	(2,627)	(109,692)
Loan Costs and Financing Fees	-	-	-	-
Sale of Fixed Assets	-	-	24,000	24,000
Proceeds from Bonds/Notes Payable	-	-	-	-
Principal Payments on Bonds/ Notes Payable	-	-	(16,519)	(16,519)
Interest Payments on Bonds/ Notes Payable	-	-	(634)	(634)
Special Assessments Received	-	-	-	-
Capital Contributions	96,206	-	-	96,206
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (10,859)	\$ -	\$ 4,220	\$ (6,639)



CITY OF HARMONY, MINNESOTA

STATEMENT OF CASH FLOWS  
NONMAJOR PROPRIETARY FUNDS  
For the Year Ended December 31, 2004

	<u>Water Fund</u>	<u>Garbage Fund</u>	<u>EDA Fund</u>	<u>Total Other Proprietary Funds</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>				
Interest Received	\$ 1,509	\$ (245)	\$ 390	\$ 1,654
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>1,509</u>	<u>(245)</u>	<u>390</u>	<u>1,654</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,091	1,770	26,935	34,796
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>141,784</u>	<u>(27,598)</u>	<u>(82,216)</u>	<u>31,970</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 147,875</u>	<u>\$ (25,828)</u>	<u>\$ (55,281)</u>	<u>\$ 66,766</u>
<u>RECONCILIATION OF OPERATING GAIN (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u>				
Operating Gain (Loss)	\$ 36,516	\$ 1,878	\$ (68,018)	\$ (29,624)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation Expense	8,052	-	87	8,139
Changes in assets and liabilities:				
Receivables	403	(127)	675	951
Inventory	(302)	-	-	(302)
Prepaid Insurance/Other	(36)	9	16	(11)
Due from Other Funds	-	-	818	818
Due to Other Funds	-	-	-	-
Accounts Payable	206	-	2,321	2,527
Accrued Expenses	908	255	675	1,838
Customer Meter/Lease Deposits	-	-	(75)	(75)
Net Cash Provided (Used) by Operating Activities	<u>\$ 45,747</u>	<u>\$ 2,015</u>	<u>\$ (63,501)</u>	<u>\$ (15,739)</u>



## CITY OF HARMONY, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND  
For the Year Ended December 31, 2004

	2004 Budget	2004 Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
General Property Taxes	\$ 251,443	\$ 226,156	\$ (25,287)
Special Assessments	1,500	110	(1,390)
<u>Intergovernmental Revenue</u>			
Federal Disaster Aid	-	-	-
Local Governmental Aid	294,256	294,256	-
Homestead/Ag Credit	-	59,773	59,773
Police State Aid	-	-	-
Fire State Aid	8,000	11,927	3,927
PERA Rate Increase Aid	864	864	-
Other State Aid	-	-	-
Licenses and Permits	7,350	9,611	2,261
Traffic Ordinances and Fines	2,000	821	(1,179)
Other Revenues	4,100	9,850	5,750
Rental Income	8,000	18,042	10,042
Donations	-	535	535
Interest Earnings	7,500	3,101	(4,399)
Refunds and Reimbursements	-	8,953	8,953
Note-Nursing Home/Hospital	20,000	20,000	-
Sale of Fixed Assets	-	-	-
<b>TOTAL REVENUES</b>	<b>605,013</b>	<b>663,999</b>	<b>58,986</b>
<u>EXPENDITURES</u>			
<u>General Government</u>			
<u>Mayor and Council</u>			
Salaries	6,800	6,800	-
FICA and PERA	520	520	-
Insurance	550	549	1
Dues	1,500	50	1,450
Travel and Training/Supplies	300	77	223
Printing and Publishing	-	130	(130)
<b>Total Mayor and Council</b>	<b>9,670</b>	<b>8,126</b>	<b>1,544</b>
<u>Administration</u>			
Salaries	41,632	43,324	(1,692)
FICA and PERA	5,487	5,729	(242)
Employee Benefits	10,510	5,668	4,842
Office Supplies and Postage	2,650	2,089	561
General Supplies and Repair	1,900	3,546	(1,646)
Insurance	-	197	(197)
Printing and Publishing	1,350	1,146	204
Travel, Conferences and Conventions	550	1,473	(923)
Professional Fees	15,500	14,938	562
Miscellaneous	225	1,652	(1,427)
Capital Outlay	-	-	-
<b>Total Administration</b>	<b>\$ 79,804</b>	<b>\$ 79,762</b>	<b>\$ 42</b>



CITY OF HARMONY, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND

For the Year Ended December 31, 2004

<u>EXPENDITURES</u> - (Continued)	2004 Budget	2004 Actual	Variance Favorable (Unfavorable)
<u>Planning and Zoning</u>			
Salaries	\$ -	\$ -	\$ -
FICA and PERA	-	-	-
Miscellaneous	100	70	30
Total Planning and Zoning	100	70	30
<u>Other General Government</u>			
Elections	2,006	1,867	139
Legal	8,250	5,905	2,345
Civil Defense	1,395	1,586	(191)
Total Other General Government	11,651	9,358	2,293
<u>Community Center</u>			
Salaries	20,523	22,886	(2,363)
FICA and PERA	2,705	3,000	(295)
Employee Benefits	8,446	8,900	(454)
Supplies	2,500	1,592	908
Maintenance and Repairs	6,000	10,884	(4,884)
Insurance	6,051	5,966	85
Telephone	-	2,532	(2,532)
Utilities	32,550	34,374	(1,824)
Miscellaneous	2,250	10	2,240
Capital Outlay	-	-	-
Debt Service Principal	19,000	-	19,000
Total Community Center	100,025	90,144	9,881
<u>Visitor Center</u>			
Salaries	8,428	7,640	788
FICA and PERA	1,111	1,009	102
Employee Benefits	3,294	2,903	391
Supplies	900	1,306	(406)
Maintenance and Repairs	-	63	(63)
Insurance	575	1,215	(640)
Utilities	7,500	7,845	(345)
Capital Outlay	-	2,500	(2,500)
Total Visitor Center	21,808	24,481	(2,673)
<u>Animal Control</u>			
Salary	1,918	2,764	(846)
FICA and PERA	147	146	1
Employee Benefits	41	35	6
Contracted Services	750	-	750
Miscellaneous	150	204	(54)
Total Animal Control	\$ 3,006	\$ 3,149	\$ (143)





CITY OF HARMONY, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL

GENERAL FUND

For the Year Ended December 31, 2004

<u>EXPENDITURES</u> - (Continued)	2004 Budget	2004 Actual	Variance Favorable (Unfavorable)
<u>Police Protection</u>			
Contracted Services	\$ 62,717	\$ 60,331	\$ 2,386
Vehicle Expense	2,500	1,961	539
Insurance	350	466	(116)
Supplies	100	105	(5)
Maintenance and Repairs	500	373	127
Miscellaneous	1,000	963	37
Capital Outlay	-	-	-
Total Police Protection	67,167	64,199	2,968
<u>Highways, Streets and Alleys</u>			
Salaries	25,450	21,848	3,602
FICA and PERA	3,324	2,870	454
Employee Benefits	4,181	6,548	(2,367)
Asphalt, Road Oil, and Other Street Maintenance Supplies	14,000	13,979	21
Vehicle Expense	3,500	4,351	(851)
Repair and Maintenance	12,950	7,866	5,084
Insurance	4,168	5,052	(884)
Telephone	1,250	819	431
Utilities	11,900	3,749	8,151
Snow Removal	-	-	-
Capital Outlay	7,300	6,290	1,010
Total Highways, Streets and Alleys	88,023	73,372	14,651
<u>Unallocated</u>			
Employee Benefits	-	-	-
Insurance	6,302	6,128	174
Community Events/Tourism	-	10,253	(10,253)
Tourism Capital Outlay	-	-	-
Community Development	2,500	2,108	392
Fire Pension Contributions	13,000	16,927	(3,927)
Total Unallocated	21,802	35,416	(13,614)
TOTAL EXPENDITURES	403,056	388,077	14,979
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 201,957	\$ 275,922	\$ 73,965



CITY OF HARMONY, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND

For the Year Ended December 31, 2004

	<u>2004</u> <u>Budget</u>	<u>2004</u> <u>Actual</u>	Variance Favorable (Unfavorable)
<u>OTHER FINANCING SOURCES (USES)</u>			
<u>Operating Transfers In</u>			
Capital Projects Fund	-	-	-
Enterprise Fund	10,000	9,996	(4)
<u>Operating Transfers Out</u>			
Special Revenue Fund	(87,093)	(87,096)	(3)
Debt Service Fund	-	(6,788)	(6,788)
Capital Projects Fund	(25,000)	(67,701)	(42,701)
Enterprise Fund	(99,848)	(99,852)	(4)
	<u>(201,941)</u>	<u>(251,441)</u>	<u>(49,500)</u>
 TOTAL OTHER FINANCING SOURCES (USES)			
	16	24,481	24,465
 NET CHANGE IN FUND BALANCES			
	16	24,481	24,465
 FUND BALANCE - BEGINNING OF YEAR	<u>338,154</u>	<u>338,154</u>	<u>-</u>
 FUND BALANCE - END OF YEAR	<u>\$ 338,170</u>	<u>\$ 362,635</u>	<u>\$ 24,465</u>

CITY OF HARMONY, MINNESOTA

STATEMENT OF CHANGES IN GENERAL LONG-TERM DEBT  
For the Year Ended December 31, 2004

<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. 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
G.O. Tax Increment and Improvement Refunding Bond - 2004A	3.15%	605,000	605,000
USDA Promissory Note - 2004	4.375%	155,000	155,000
USDA Promissory Note - 2004	4.25%	75,000	75,000
<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>\$ 3,508,959</u>	<u>\$ 3,508,959</u>

Balance January 1 2004	Issued	Retired	Balance December 31 2004	Principal Due in 2005	Interest Due in 2005
\$ 240,000	\$ -	\$ (240,000)	\$ -	\$ -	\$ -
185,000	-	(20,000)	165,000	25,000	8,213
255,000	-	(40,000)	215,000	40,000	8,878
210,000	-	(20,000)	190,000	25,000	9,974
455,000	-	(45,000)	410,000	50,000	14,287
515,000	-	(60,000)	455,000	60,000	15,330
215,000	-	-	215,000	33,000	5,433
-	605,000	-	605,000	-	14,293
-	155,000	-	155,000	7,529	6,781
-	75,000	-	75,000	3,678	3,187
23,162	-	(23,162)	-	-	-
5,925	-	(5,925)	-	-	-
<u>\$ 2,104,087</u>	<u>\$ 835,000</u>	<u>\$ (454,087)</u>	<u>\$ 2,485,000</u>	<u>\$ 244,207</u>	<u>\$ 86,376</u>



**COMPLIANCE AND INTERNAL CONTROL REPORT**





# LLOYD D. JOHNSON

*Certified Public Accountant*



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## MEMBERS

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

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE 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 financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Harmony, Minnesota, as of and for the year ended December 31, 2004, which collectively comprise the City of Harmony, Minnesota's basic financial statements and have issued our report thereon dated April 6, 2005. 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.

### 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 opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting 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 financial statements. The matter that we consider to be a reportable condition is 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.



A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the 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. However, we believe the reportable condition described above is not a material weakness.

### Compliance

As part of obtaining reasonable assurance about whether the City of Harmony, Minnesota's 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.

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

April 6, 2005  
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.



CITY OF HARMONY  
HARMONY, MINNESOTA

FOLLOW-UP ON PRIOR AUDIT FINDINGS

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, the City did not maintain detailed property and fixed asset records.

Response:

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







