

**CITY OF HARMONY
HARMONY, MINNESOTA**

**FINANCIAL STATEMENTS
WITH ACCOMPANYING INFORMATION**

FOR THE YEAR ENDED DECEMBER 31, 2005

CITY OF HARMONY, MINNESOTA

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CITY OF HARMONY, MINNESOTA

CITY OFFICIALS

For the Year Ended December 31, 2005

		<u>Term Expires</u>
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

For the Year Ending December 31, 2006

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

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, 2005, 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, 2005, 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.

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 March 8, 2006, 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

March 8, 2006
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, 2005. 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 \$5,207,163 (*net assets*). Of this amount, \$1,818,654 (*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 \$1,159,011, 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 \$406,687, or 91% of total general fund expenditures.
- The City of Harmony decreased the existing debt principal by \$885,429 during the current fiscal year. While the dollar amount of the decrease is significant, the City of Harmony had refinanced existing bonds in 2004 that were paid in 2005 in the form of refunding bonds in the amount of \$405,000.

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 17-19 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 18 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 15 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 20-26 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 27-36 of this report.

Fiduciary Fund. Fiduciary fund 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 38-55 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 56-69.

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 \$5,207,163 at the close of the fiscal year, with \$2,111,624 of these net assets from governmental activities and \$3,095,539 from proprietary funds.

A significant portion of the City of Harmony's net assets 1,155,880 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.

City of Harmony 's Net Assets

	Government Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 1,823,050	\$ 2,314,790	\$ 1,003,346	\$ 810,543	\$ 2,826,396	\$ 3,125,333
Capital assets	2,161,674	2,064,657	6,630,961	6,579,366	8,792,635	8,644,023
Total assets	<u>\$ 3,984,724</u>	<u>\$ 4,379,447</u>	<u>\$ 7,634,307</u>	<u>\$ 7,389,909</u>	<u>\$ 11,619,031</u>	<u>\$ 11,769,356</u>
Long-term liabilities outstanding	\$ 1,400,794	\$ 2,485,000	\$ 4,340,774	\$ 4,104,207	\$ 5,741,568	\$ 6,589,207
Other liabilities	472,306	483,342	197,994	214,837	670,300	698,179
Total liabilities	<u>1,873,100</u>	<u>2,968,342</u>	<u>4,538,768</u>	<u>4,319,044</u>	<u>6,411,868</u>	<u>7,287,386</u>
Net assets:						
Invested in capital assets, net of related debt	1,155,880	(420,343)	2,220,076	2,403,418	3,375,956	1,983,075
Restricted	12,553	35,112	-	-	12,553	35,112
Unrestricted	943,191	1,796,336	875,463	667,447	1,818,654	2,463,783
Total Net Assets	<u>2,111,624</u>	<u>1,411,105</u>	<u>3,095,539</u>	<u>3,070,865</u>	<u>5,207,163</u>	<u>4,481,970</u>
Total Liabilities & Net Assets	<u>\$ 3,984,724</u>	<u>\$ 4,379,447</u>	<u>\$ 7,634,307</u>	<u>\$ 7,389,909</u>	<u>\$ 11,619,031</u>	<u>\$ 11,769,356</u>

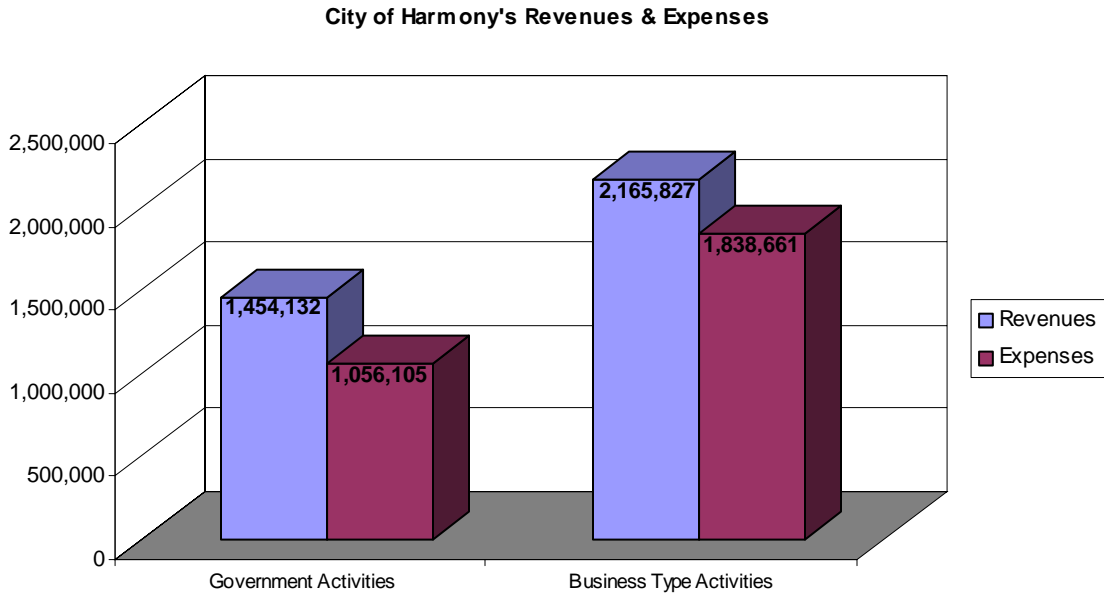
A portion of the City of Harmony's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the City's ongoing obligations to citizens.

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

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues						
Charges for services	\$ 194,486	\$ 163,979	\$ 1,831,571	\$ 1,720,031	\$ 2,026,057	\$ 1,884,010
Operating Grants & Contributions	22,125	24,239			22,125	24,239
Capital Grants & Contributions	200,649	132,638	231,917	600,877	432,566	733,515
General revenues:						
Taxes	432,418	460,322			432,418	460,322
Intergovernmental Revenue	524,461	369,965			524,461	369,965
Unrestricted investment earnings	28,336	31,608	15,611	6,351	43,947	37,959
Other	51,657	54,642	86,728	40,337	138,385	94,979
Total revenues	1,454,132	1,237,393	2,165,827	2,367,596	3,619,959	3,604,989
Expenses:						
General government	102,617	90,488			102,617	90,488
Public safety	259,475	226,160			259,475	226,160
Highway and Streets	170,176	146,942			170,176	146,942
Library	75,877	69,781			75,877	69,781
Bond Interest and Fiscal Charges	36,111	86,732			36,111	86,732
Capital Outlay	208,785	9,900			208,785	9,900
Other	30,276	121,858			30,276	121,858
Parks and Recreation	172,788	144,308			172,788	144,308
Water			94,700	80,715	94,700	80,715
Sewer			290,798	257,194	290,798	257,194
Garbage & Recycling			38,162	39,633	38,162	39,633
Electric			569,914	536,084	569,914	536,084
Economic Development Authority			90,537	72,360	90,537	72,360
Senior Living			754,550	724,593	754,550	724,593
Total expenses	1,056,105	896,169	1,838,661	1,710,579	2,894,766	2,606,748
Increase in net assets before transfers and other items	398,027	341,224	327,166	657,017	725,193	998,241
Transfers	(107,508)	(26,230)	107,508	26,686	-	456
Increase in net assets	290,519	314,994	434,674	683,703	725,193	998,697
Net Assets – January 1	1,411,105	1,096,111	3,070,865	1,366,876	4,481,970	2,462,987
Prior Period Adjustment	410,000		(410,000)	1,020,286	-	1,020,286
Net Assets – December 31	\$ 2,111,624	\$ 1,411,105	\$ 3,095,539	\$ 3,070,865	\$ 5,207,163	\$ 4,481,970

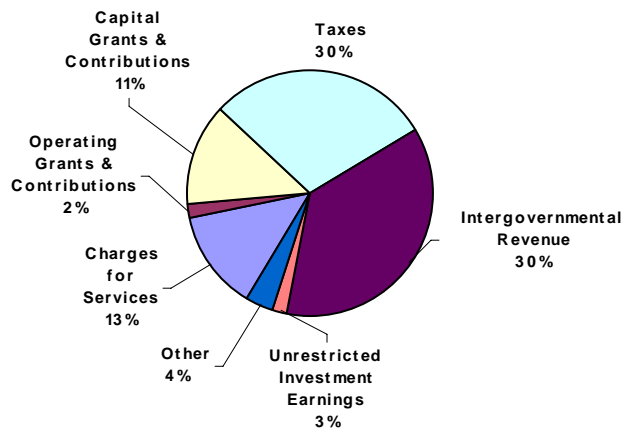
The following graph shows 2005 revenues and expenses for both government activities and business-type activities.



Government Activities. Government activities account for 41% of the City of Harmony's net assets.

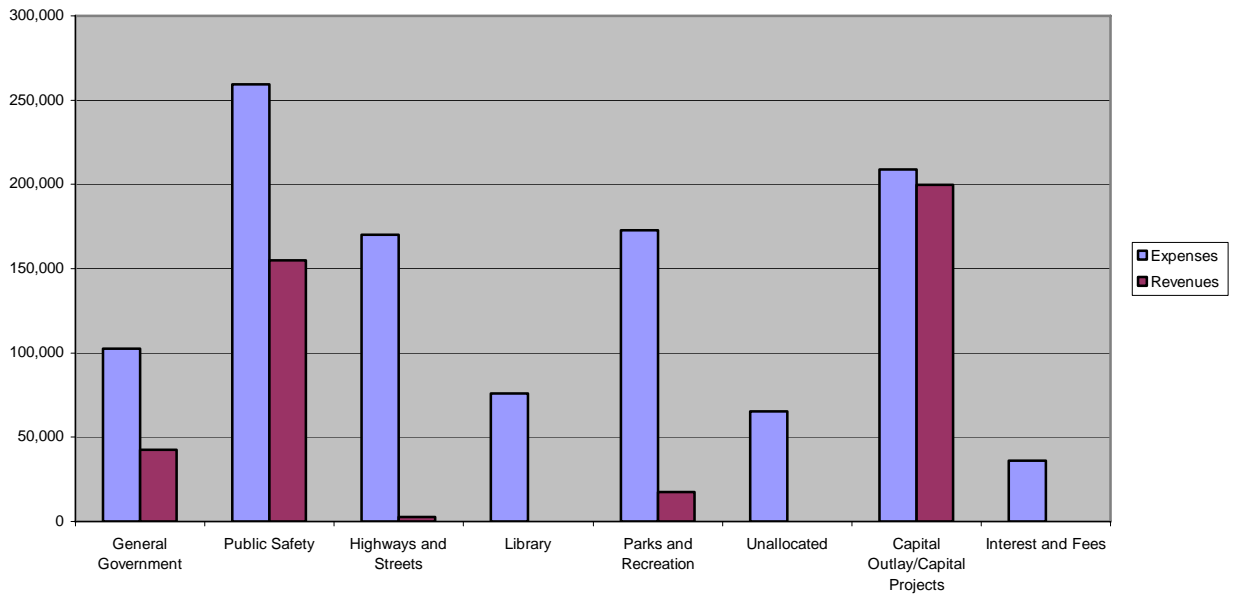
The total increase in net assets for governmental activities is \$290,519 for the year ended December 31, 2005. The total revenues for governmental activities amounted to \$1,454,132 while total expenses were \$1,056,105 and transfers out were \$107,508, which is illustrated in the chart above.

Government Activities Revenues

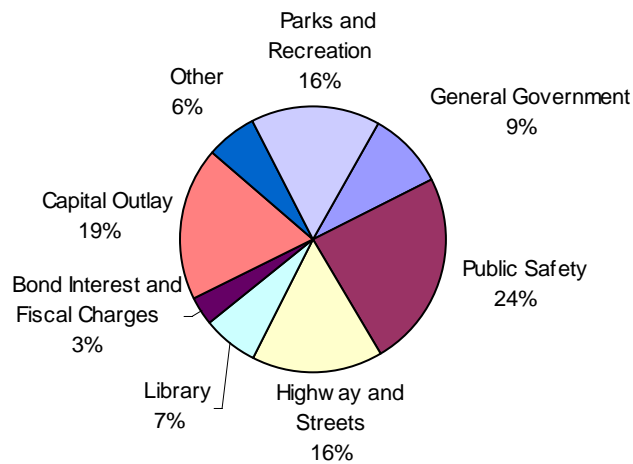


- Property taxes decreased during the year, due to taxes levied for debt that was refinanced. Also, two TIF (tax-increment financing) districts were decertified.
- Intergovernmental revenue increased by due to state increasing LGA (Local Government Aid)

Expenses and Program Revenues-Governmental Activities



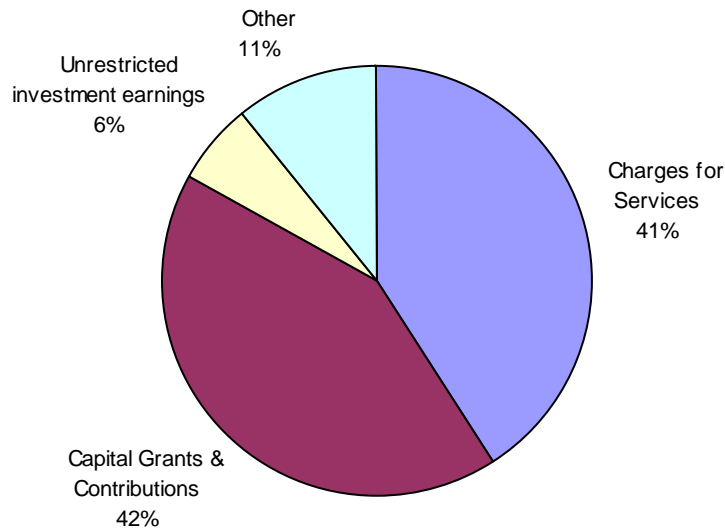
Government Activities Expenses



- Public safety increased, which was due to an increase in the number of emergency calls during the year.
- Highway and streets increased, which was due to the purchase of a salt storage building and repairs to municipal streets.

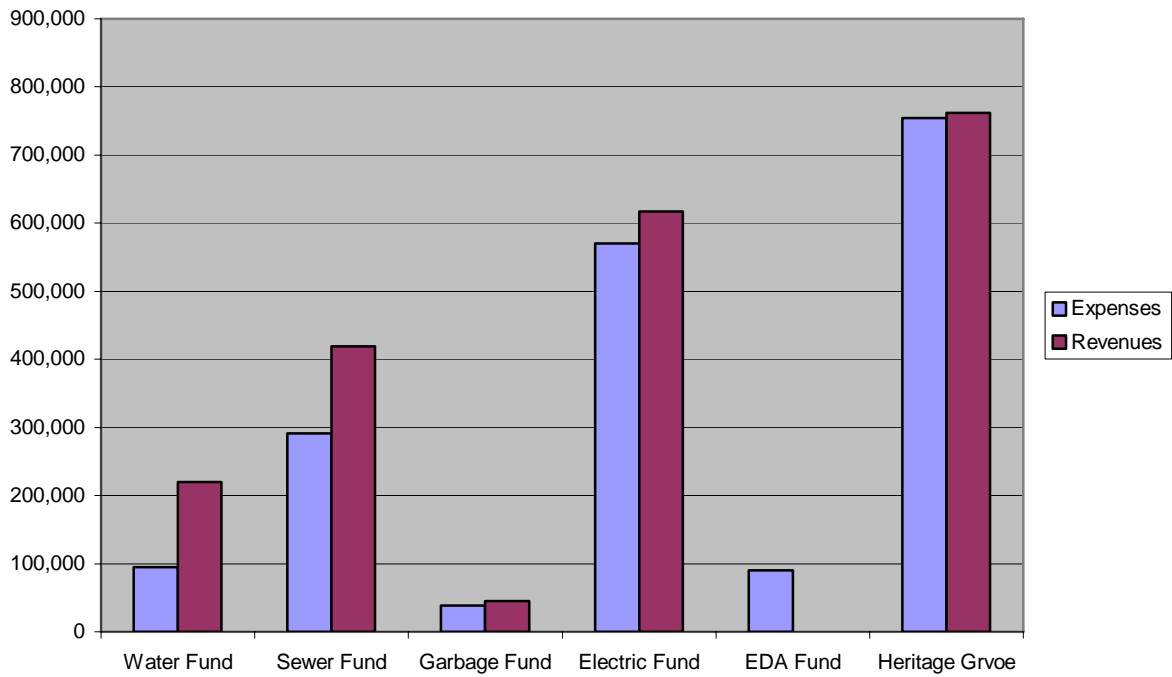
Business-type activities. Business-type activities increased the City of Harmony net assets \$434,674 for the year ended December 31, 2005. Business-type activities revenues and expenses are illustrated in the charts below.

Business-Type Activities Revenue

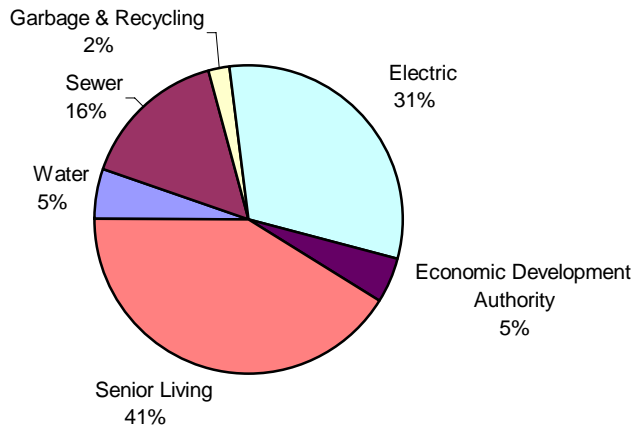


- Charges for services increased because of higher occupancy levels at senior living facility and warmer weather, which contributed higher electric usage.
- Capital contributions decreased due to a reduction in street and utility projects for the year.

Expenses and Program Revenues-Business Type-Activities



Business-Type Activities Expenses



- Expenses increased for the senior living facility because of higher occupancy levels
- Due to the warmer weather, there was a higher electric usage, which contributed higher electric wholesale costs.
- The economic development authority has marketed the city through television commercials, which has increased expenses.
- The sewer fund had increased expenses due to repayment of debt from a recent project that was completed last year.

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 \$1,159,011

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 \$406,687.

The fund balance of the City of Harmony's general fund increased by \$44,052 during the current year. Key factors in this change are as follows:

- Community Center rent increased by over \$10,000 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 \$20,000 due to not budgeting the market value homestead credit.
- Refunds and reimbursements for insurance dividends are not budgeted due to their uncertainty of receiving them, which amount to \$12,000 increase in revenue.
- Expenditures were over budget by \$10,000 in the highways and streets area, due repairs to municipal streets and higher snow removal costs.

The debt service funds have a total fund balance of \$160,216, all of which is reserved for the payment of debt service. The net decrease in fund balance during the current year in the debt service fund is related to paying off the three bond issues that were refinanced in 2005.

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	\$171,860
Sewer	(\$ 12,405)

Garbage & Recycling	(\$ 18,652)
Electric	\$571,881
Economic Development	\$ 18,271
Heritage Grove	\$144,508

General Fund Budgetary Highlights. After the 2005 budget was developed, the council approved building a salt storage structure amounting to \$20,000. Expenditures were over budget by \$10,000 in the highways and streets area, due repairs to municipal streets and higher snow removal costs.

Capital Asset Administration. The City of Harmony's investment in capital assets for its governmental and business type activities as of December 31, 2005 amounts to \$8,722,524 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, furniture, infrastructure.

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

- \$400,000 Industrial Park Project. Extension of infrastructure (utilities and streets in the city's industrial park. That was financed through a DEED (Minnesota Department of Employment and Economic Development) Grant and TIF (Tax Increment Financing) revenue.

City of Harmony's Capital Assets

	Government Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 170,268	\$ 120,268	\$ 275,111	\$ 279,686	\$ 445,379	\$ 399,954
Building Improvements and Vehicles	852,536	824,705	4,804,786	4,785,635	5,657,322	5,610,340
Machinery and Equipment	617,186	617,186	28,700	28,700	645,886	645,886
Production and Distribution	102,029	102,029			102,029	102,029
Other Equipment			509,726	499,127	509,726	499,127
Infrastructure	211,900	207,387			211,900	207,387
Total assets	2,238,517	2,060,074	2,597,030	2,327,550	4,835,547	4,387,624
Less: Accumulated Depreciation	4,192,436	3,931,649	8,215,353	7,920,698	12,407,789	11,852,347
	(2,030,762)	(1,866,992)	(1,654,503)	(1,398,194)	(3,685,265)	(3,265,186)
Net Capital Assets	\$ 2,161,674	\$ 2,064,657	\$ 6,560,850	\$ 6,522,504	\$ 8,722,524	\$ 8,587,161

More detailed information on the City of Harmony's capital assets is presented in the Notes to the Financial Statements on page 44.

Long-Term Debt. At the end of the fiscal year, the City of Harmony had long-term debt of \$5,741,568. Because a refunding was done at the end of 2004 on three bond issues, \$315,000 of debt was retired in February of 2005 to pay off the old bonds. General

obligation debt outstanding of \$2,765,000 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.

City of Harmony's Outstanding Debt

	Government Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
General Obligation Bonds	\$ 577,000	\$ 670,000			\$ 577,000	\$ 670,000
General Obligation Improvement	320,000	725,000			320,000	725,000
General Obligation Tax Increment	285,000	450,000			285,000	450,000
USDA Promissory Note	218,794	230,000			218,794	230,000
General Obligation Note			1,208,751	1,247,211	1,208,751	1,247,211
General Obligation Revenue			3,125,000	3,255,000	3,125,000	3,255,000
Capital Lease			7,023	11,996	7,023	11,996
Total assets	\$ 1,400,794	\$ 2,075,000	\$ 4,340,774	\$ 4,514,207	\$ 5,741,568	\$ 6,589,207

Additional information on the City of Harmony's long-term debt can be found in the Notes to the Financial Statements on pages 50-52.

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.

One business expanded their industrial and commercial operations with the building of 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 has extended 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 is expecting increases in its wholesale power costs. It is not known to what extent those costs will increase.

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, 2005

(With Partial Comparative Information as of December 31, 2004)

	Governmental Activities	Business-Type Activities	2005 Total	2004 Total
ASSETS				
Cash and Cash Equivalents	\$ 1,050,411	\$ 821,583	\$ 1,871,994	\$ 2,247,233
Receivables				
Accounts	52,195	144,695	196,890	175,145
Taxes	5,233	-	5,233	17,125
Special Assessments	315,708	5,841	321,549	213,810
Note	60,588	-	60,588	78,478
Due from Other Funds	21,995	4,790	26,785	29,727
Due from Other Governments	-	-	-	130,658
Inventory	-	19,220	19,220	20,270
Loans Receivable	246,244	-	246,244	204,429
Prepaid Insurance/Other	70,676	7,217	77,893	8,458
Capital Assets, Net of Accumulated Depreciation	2,161,674	6,560,850	8,722,524	8,572,282
Loan Costs and Financing Fees, Net of Amortization	-	70,111	70,111	71,741
TOTAL ASSETS	\$ 3,984,724	\$ 7,634,307	\$ 11,619,031	\$ 11,769,356
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts Payable	\$ 33,762	\$ 86,771	\$ 120,533	\$ 155,182
Retainage Payable	-	-	-	6,765
Accrued Salaries	2,944	7,173	10,117	8,404
Accrued Sales Tax	3	2,750	2,753	2,693
Accrued Interest Payable	16,195	27,443	43,638	52,836
Other Accrued Expenses	-	3,149	3,149	5,696
Due to Other Funds	4,790	21,995	26,785	29,727
Due to Other Governments	-	-	-	74,545
Meter Deposits/Lease Deposits	-	22,905	22,905	24,305
Deferred Revenue	376,296	-	376,296	279,963
Accrued Compensated Absences	38,316	25,808	64,124	58,063
Long-Term Liabilities				
Due Within One Year	214,692	484,998	699,690	416,636
Due in More than One Year	1,186,102	3,855,776	5,041,878	6,172,571
TOTAL LIABILITIES	1,873,100	4,538,768	6,411,868	7,287,386
Net Assets				
Invested in Capital Assets, Net of Related Debt	1,155,880	2,220,076	3,375,956	1,983,075
Restricted For Small City Grant	12,553	-	12,553	35,112
Unrestricted	943,191	875,463	1,818,654	2,463,783
TOTAL NET ASSETS	2,111,624	3,095,539	5,207,163	4,481,970
TOTAL LIABILITIES AND NET ASSETS	\$ 3,984,724	\$ 7,634,307	\$ 11,619,031	\$ 11,769,356

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, 2005

(With Partial Comparative Information 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	\$ 102,617	\$ 42,395	\$ -	\$ -
Public Safety	259,475	147,216	7,000	800
Highways and Streets	170,176	2,538	-	-
Library	75,877	-	-	-
Parks and Recreation	172,788	2,337	15,125	-
Unallocated	30,276	-	-	-
Capital Outlay/Capital Projects	208,785	-	-	199,849
Interest and Fees	36,111	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	1,056,105	194,486	22,125	200,649
<u>BUSINESS-TYPE ACTIVITIES:</u>				
Water Fund	94,700	128,842	-	90,921
Sewer Fund	290,798	278,183	-	140,996
Garbage Fund	38,162	44,663	-	-
Electric Fund	569,914	617,519	-	-
EDA Fund	90,537	43	-	-
Heritage Grove	754,550	762,321	-	-
TOTAL BUSINESS-TYPE ACTIVITIES	1,838,661	1,831,571	-	231,917
TOTAL PRIMARY GOVERNMENT	\$ 2,894,766	\$ 2,026,057	\$ 22,125	\$ 432,566

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	2005 Total	2004 Total
\$ (60,222)	\$ -	\$ (60,222)	\$ (65,527)
(104,459)	-	(104,459)	(90,474)
(167,638)	-	(167,638)	(140,753)
(75,877)	-	(75,877)	(69,781)
(155,326)	-	(155,326)	(120,947)
(30,276)	-	(30,276)	(121,858)
(8,936)	-	(8,936)	120,759
<u>(36,111)</u>	<u>-</u>	<u>(36,111)</u>	<u>(86,732)</u>
<u>(638,845)</u>	<u>-</u>	<u>(638,845)</u>	<u>(575,313)</u>
-	125,063	125,063	132,722
-	128,381	128,381	451,858
-	6,501	6,501	1,878
-	47,605	47,605	112,288
-	(90,494)	(90,494)	(68,652)
-	7,771	7,771	(19,765)
<u>-</u>	<u>224,827</u>	<u>224,827</u>	<u>610,329</u>
(638,845)	224,827	(414,018)	35,016
230,248	-	230,248	219,922
120,677	-	120,677	129,514
81,493	-	81,493	110,886
-	235	235	4,303
524,461	-	524,461	369,965
28,336	15,611	43,947	37,959
-	7,425	7,425	10,275
51,657	79,068	130,725	80,401
<u>(107,508)</u>	<u>107,508</u>	<u>-</u>	<u>456</u>
<u>929,364</u>	<u>209,847</u>	<u>1,139,211</u>	<u>963,681</u>
290,519	434,674	725,193	998,697
1,411,105	3,070,865	4,481,970	2,462,987
<u>410,000</u>	<u>(410,000)</u>	<u>-</u>	<u>1,020,286</u>
<u>\$ 2,111,624</u>	<u>\$ 3,095,539</u>	<u>\$ 5,207,163</u>	<u>\$ 4,481,970</u>

CITY OF HARMONY, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2005

(With Partial Comparative Information as of December 31, 2004)

	<u>General</u>	<u>Industrial Park Project</u>	<u>1998 G.O. Improvement Bond</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 428,283	\$ -	\$ -
Receivables			
Accounts	705	-	-
Taxes	2,946	-	-
Special Assessments	-	-	-
Contracts/Grants	-	-	-
Note	60,588	-	-
Due from Other Funds	-	-	-
Due from Other Governments	-	-	-
Prepaid Insurance/Other	3,939	-	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 496,461</u>	<u>\$ -</u>	<u>\$ -</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 27,202	\$ -	\$ -
Retainage Payable	-	-	-
Accrued Salaries	1,983	-	-
Accrued Sales Tax	1	-	-
Other Accrued Expenses	-	-	-
Due to Other Funds	-	-	-
Due to Other Governments	-	-	-
Deferred Revenue	60,588	-	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	89,774	-	-
 <u>Fund Balances</u>			
Reserved	-	-	-
Unreserved, Designated	300,000	-	-
Unreserved, Undesignated	106,687	-	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u>406,687</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 496,461</u>	<u>\$ -</u>	<u>\$ -</u>

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

2000 G.O. Improvement Bond	Other Governmental Funds	Total Governmental Funds	
		2005	2004
\$ -	\$ 622,128	\$ 1,050,411	\$ 1,615,906
-	51,490	52,195	37,904
-	2,287	5,233	16,828
-	315,708	315,708	201,485
-	-	-	-
-	-	60,588	78,478
-	21,995	21,995	24,086
-	-	-	130,658
-	66,737	70,676	5,016
<u>\$ -</u>	<u>\$ 1,080,345</u>	<u>\$ 1,576,806</u>	<u>\$ 2,110,361</u>
\$ -	\$ 6,560	\$ 33,762	\$ 53,162
-	-	-	-
-	962	2,945	2,543
-	2	3	3
-	-	-	404
-	4,789	4,789	5,641
-	-	-	74,545
-	315,708	376,296	279,963
-	328,021	417,795	416,261
-	12,553	12,553	35,112
-	309,476	609,476	1,262,860
-	430,295	536,982	396,128
-	752,324	1,159,011	1,694,100
<u>\$ -</u>	<u>\$ 1,080,345</u>	<u>\$ 1,576,806</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, 2005

(With Partial Comparative Information as of December 31, 2004)

	<u>2005</u>	<u>2004</u>
TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$1,159,011	\$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	4,192,436	3,931,649
Less: Accumulated Depreciation	(2,030,762)	(1,866,992)
Governmental Funds do not report a receivable for revolving loans.	246,244	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	(1,400,794)	(2,485,000)
Compensated Absences Payable	(38,316)	(36,531)
Governmental Funds do not report a liability for accrued interest until due and payable.	<u>(16,195)</u>	<u>(30,550)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	<u>\$2,111,624</u>	<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, 2005
(With Partial Comparative Information as of December 31, 2004)

	<u>General</u>	<u>Industrial Park Project</u>	<u>1998 G.O. Improvement Bond</u>
<u>REVENUES</u>			
Taxes	\$ 234,115	\$ -	\$ -
Special Assessments	-	-	-
Intergovernmental	404,220	191,768	-
Licenses and Permits	21,735	-	-
Charges for Service	23,436	-	-
Fines and Forfeits	1,069	-	-
Note - Nursing Home/Hospital	20,000	-	-
Interest Earnings	5,531	-	-
Refunds and Reimbursements	12,093	-	-
Miscellaneous	13,663	-	-
	735,862	191,768	-
<u>EXPENDITURES</u>			
General Government	101,845	-	-
Public Safety	86,382	-	-
Highways and Streets	83,865	-	-
Library	-	-	-
Parks and Recreation	130,903	-	-
Unallocated	23,134	-	-
Capital Outlay/Capital Projects	20,136	389,378	-
<u>Debt Service</u>			
Principal	-	-	215,000
Interest and Fees	-	-	4,884
	446,265	389,378	219,884
TOTAL EXPENDITURES	446,265	389,378	219,884
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	289,597	(197,610)	(219,884)
<u>OTHER FINANCING SOURCES (USES)</u>			
Proceeds from Bonds/Notes	-	-	-
Operating Transfers In	20,000	-	1,454
Operating Transfers Out	(265,545)	(64,125)	-
	(245,545)	(64,125)	1,454
TOTAL OTHER FINANCING SOURCES (USES)	(245,545)	(64,125)	1,454
NET CHANGE IN FUND BALANCES	44,052	(261,735)	(218,430)
FUND BALANCE - BEGINNING OF YEAR	362,635	261,735	218,430
FUND BALANCE - END OF YEAR	\$ 406,687	\$ -	\$ -

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

2000 G.O. Improvement Bond	Other Governmental Funds	Total Governmental Funds	
		2005	2004
\$ -	\$ 202,170	\$ 436,285	\$ 466,558
-	103,106	103,106	51,895
-	62,000	657,988	427,510
-	-	21,735	9,611
-	115,037	138,473	114,874
-	-	1,069	821
-	-	20,000	20,000
-	14,966	20,497	17,462
-	-	12,093	139,612
-	49,972	63,635	94,093
-	547,251	1,474,881	1,342,436
-	-	101,845	97,316
-	112,048	198,430	188,766
-	-	83,865	67,082
-	75,877	75,877	69,781
-	27,680	158,583	130,076
-	69,705	92,839	131,208
-	68,043	477,557	113,631
190,000	258,000	663,000	425,000
5,327	40,255	50,466	81,820
195,327	651,608	1,902,462	1,304,680
(195,327)	(104,357)	(427,581)	37,756
-	-	-	835,000
583	455,912	477,949	299,205
-	(255,787)	(585,457)	(325,435)
583	200,125	(107,508)	808,770
(194,744)	95,768	(535,089)	846,526
194,744	656,556	1,694,100	847,574
\$ -	\$ 752,324	\$ 1,159,011	\$ 1,694,100

CITY OF HARMONY, MINNESOTA

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES GOVERNMENTAL FUNDS December 31, 2005

(With Partial Comparative Information as of December 31, 2004)

Table with 3 columns: Description, 2005, and 2004. Rows include: NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS, Amounts reported for governmental activities in the statement of activities are different because: Bond/Note Proceeds, Revolving Loan Principal, Revolving Loans issued, Capital outlays, Repayment of bond and capital lease principal, Interest on long-term debt, Change in Compensated Absences, and CHANGES IN NET ASSETS - GOVERNMENTAL ACTIVITIES.

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, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
<u>REVENUES</u>				
Taxes	\$ 278,452	\$ 278,452	\$ 234,115	\$ (44,337)
Special Assessments	250	250	-	(250)
Intergovernmental	335,131	335,131	404,220	69,089
Licenses and Permits	8,075	8,075	21,735	13,660
Fines and Forfeits	1,000	1,000	1,069	69
Other Revenues	2,550	2,550	9,767	7,217
Rental Income	12,900	12,900	23,436	10,536
Donations	-	-	3,896	3,896
Note - Nursing Home/Hospital	20,000	20,000	20,000	-
Interest Earnings	6,000	6,000	5,531	(469)
Refunds and Reimbursements	-	-	12,093	12,093
TOTAL REVENUES	664,358	664,358	735,862	71,504
<u>EXPENDITURES</u>				
General Governmental	97,169	97,169	101,845	(4,676)
Public Safety	89,524	89,524	86,382	3,142
Highways and Streets	76,518	76,518	83,865	(7,347)
Parks and Recreation	129,281	129,281	130,903	(1,622)
Unallocated	8,366	8,366	23,134	(14,768)
Capital Outlay	-	-	20,136	(20,136)
TOTAL EXPENDITURES	400,858	400,858	446,265	(45,407)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	263,500	263,500	289,597	26,097
<u>OTHER FINANCING SOURCES (USES)</u>				
Proceeds from Bonds/Notes	-	-	-	-
Operating Transfers In	-	-	20,000	20,000
Operating Transfers Out	-	(263,500)	(265,545)	(2,045)
TOTAL OTHER FINANCING SOURCES (USES)	-	(263,500)	(245,545)	17,955
NET CHANGE IN FUND BALANCES	263,500	-	44,052	44,052
FUND BALANCE - BEGINNING OF YEAR	362,635	362,635	362,635	-
FUND BALANCE - END OF YEAR	\$ 626,135	\$ 362,635	\$ 406,687	\$ 44,052

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, 2005

(With Partial Comparative Information For the Year Ended December 31, 2004)

	Water Fund	Sewer Fund	Electric Fund
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 167,685	\$ (13,599)	\$ 544,312
Receivables			
Accounts	12,151	24,763	77,138
Taxes	-	-	-
Special Assessments	-	5,841	-
Due from Other Funds	-	-	-
Inventory	8,925	-	10,295
Prepaid Insurance/Other	507	179	1,049
Capital Assets, Net of Accumulated Depreciation	463,713	2,729,092	603,963
Loan Costs and Financing Fees, Net of Amortization	-	-	-
	<u>\$ 652,981</u>	<u>\$ 2,746,276</u>	<u>\$ 1,236,757</u>
 <u>LIABILITIES AND NET ASSETS</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 7,098	\$ 6,825	\$ 46,702
Retainage Payable	-	-	-
Accrued Salaries	758	551	332
Accrued Sales Tax	149	-	2,422
Accrued Interest Payable	-	15,311	-
Meter Deposits/Lease Deposits	-	-	5,205
Other Accrued Expenses	-	-	-
Due to Other Funds	-	-	-
Accrued Compensated Absences	9,403	6,902	6,252
Bonds/Notes Payable	-	1,568,751	-
Capital Lease Payable	-	-	-
	<u>17,408</u>	<u>1,598,340</u>	<u>60,913</u>
 <u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	463,713	1,160,341	603,963
Unrestricted	171,860	(12,405)	571,881
	<u>635,573</u>	<u>1,147,936</u>	<u>1,175,844</u>
 TOTAL NET ASSETS	<u>635,573</u>	<u>1,147,936</u>	<u>1,175,844</u>
 TOTAL LIABILITIES AND NET ASSETS	<u>\$ 652,981</u>	<u>\$ 2,746,276</u>	<u>\$ 1,236,757</u>

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

Heritage Grove	Other Proprietary Funds	2005 Total Proprietary Funds	2004 Total Proprietary Funds
\$ 133,401	\$ (10,216)	\$ 821,583	\$ 631,327
19,621	11,022	144,695	137,241
-	-	-	297
-	-	5,841	12,325
-	4,790	4,790	5,641
-	-	19,220	20,270
5,453	29	7,217	3,442
2,654,720	109,362	6,560,850	6,507,625
70,111	-	70,111	71,741
<u>\$ 2,883,306</u>	<u>\$ 114,987</u>	<u>\$ 7,634,307</u>	<u>\$ 7,389,909</u>
\$ 23,867	\$ 2,279	\$ 86,771	\$ 102,020
-	-	-	6,765
5,235	297	7,173	5,861
-	179	2,750	2,690
12,132	-	27,443	22,286
17,700	-	22,905	24,305
3,149	-	3,149	5,292
21,995	-	21,995	24,086
-	3,251	25,808	21,532
2,765,000	-	4,333,751	4,092,211
7,023	-	7,023	11,996
2,856,101	6,006	4,538,768	4,319,044
(117,303)	109,362	2,220,076	2,403,418
144,508	(381)	875,463	667,447
27,205	108,981	3,095,539	3,070,865
<u>\$ 2,883,306</u>	<u>\$ 114,987</u>	<u>\$ 7,634,307</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, 2005

(With Partial Comparative Information For the Year Ended December 31, 2004)

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Electric Fund</u>
<u>OPERATING REVENUE</u>			
Sales and Rentals	\$ 128,842	\$ 278,183	\$ 617,519
TOTAL OPERATING REVENUE	128,842	278,183	617,519
<u>OPERATING EXPENSES</u>			
<u>Operations</u>			
Salaries	20,337	13,674	11,122
PERA and FICA	2,628	1,754	1,517
Employee Benefits	5,356	5,393	3,902
Service Contracts	-	47,711	-
Purchased Power	-	-	447,356
Supplies	13,951	7,254	5,898
Utilities	7,779	43,928	8,035
Maintenance and Repairs	22,424	17,423	32,549
Travel and Training	125	480	-
Professional Services	-	1,710	-
Miscellaneous	952	-	161
<u>Administration</u>			
Salaries	5,052	4,983	7,011
PERA and FICA	665	656	921
Employee Benefits	1,200	1,179	1,593
Professional Services	-	-	-
Insurance	1,508	366	5,043
Office/Store Expense	1,715	858	1,920
Miscellaneous	379	1,522	1,520
Depreciation/Amortization	10,376	94,349	41,366
TOTAL OPERATING EXPENSES	94,447	243,240	569,914
OPERATING INCOME (LOSS)	34,395	34,943	47,605
<u>NON-OPERATING INCOME (EXPENSE)</u>			
Interest Income	3,281	(1,432)	10,850
Special Assessments	(253)	(2,410)	235
Capital Credits and Miscellaneous	-	6,123	17,301
Interest Expense	-	(45,148)	-
Gain (Loss) on Sale of Fixed Assets	-	-	-
Capital Contributions	90,921	140,996	-
TOTAL NON-OPERATING INCOME (EXPENSE)	93,949	98,129	28,386
INCOME (LOSS) BEFORE OPERATING TRANSFERS	\$ 128,344	\$ 133,072	\$ 75,991

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

Heritage Grove	Other Proprietary Funds	2005 Totals	2004 Totals
\$ 762,321	\$ 44,706	\$ 1,831,571	\$ 1,720,031
762,321	44,706	1,831,571	1,720,031
210,766	4,278	260,177	250,339
13,501	558	19,958	17,526
960	600	16,211	14,918
-	25,620	73,331	100,879
-	-	447,356	442,198
36,981	-	64,084	50,765
32,080	-	91,822	75,061
20,482	-	92,878	50,426
-	121	726	1,960
-	4,441	6,151	902
60,189	38,563	99,865	88,630
47,709	12,006	76,761	64,087
3,488	1,560	7,290	6,024
-	2,155	6,127	8,291
-	23,036	23,036	22,698
70,821	-	77,738	67,926
7,546	1,126	13,165	10,778
1,310	14,460	19,191	6,679
96,758	175	243,024	240,381
<u>602,591</u>	<u>128,699</u>	<u>1,638,891</u>	<u>1,520,468</u>
159,730	(83,993)	192,680	199,563
3,359	(447)	15,611	6,351
-	-	(2,428)	4,303
-	55,644	79,068	25,759
(151,959)	-	(197,107)	(190,111)
-	7,425	7,425	10,275
-	-	231,917	600,877
<u>(148,600)</u>	<u>62,622</u>	<u>134,486</u>	<u>457,454</u>
\$ 11,130	\$ (21,371)	\$ 327,166	\$ 657,017

CITY OF HARMONY, MINNESOTA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended December 31, 2005

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Electric Fund</u>
<u>OPERATING TRANSFERS</u>			
Operating Transfers In	\$ -	\$ 74,496	\$ -
Operating Transfers Out	<u>(32,496)</u>	<u>-</u>	<u>(22,500)</u>
NET INCOME (LOSS)	95,848	207,568	53,491
NET ASSETS - BEGINNING OF YEAR	539,725	1,350,368	1,122,353
Prior Period Adjustment	<u>-</u>	<u>(410,000)</u>	<u>-</u>
NET ASSETS - END OF YEAR	<u>\$ 635,573</u>	<u>\$ 1,147,936</u>	<u>\$ 1,175,844</u>

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

Heritage Grove	Other Proprietary Funds	2005 Totals	2004 Totals
\$ -	\$ 88,008	\$ 162,504	\$ 147,352
-	-	(54,996)	(120,666)
11,130	66,637	434,674	683,703
16,075	42,344	3,070,865	1,366,876
-	-	(410,000)	1,020,286
<u>\$ 27,205</u>	<u>\$ 108,981</u>	<u>\$ 3,095,539</u>	<u>\$ 3,070,865</u>

CITY OF HARMONY, MINNESOTA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Year Ended December 31, 2005

(With Partial Comparative Information For the Year Ended December 31, 2004)

	Water Fund	Sewer Fund
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash Received From Customers	\$ 127,948	\$ 283,826
Other Cash Receipts	-	-
Cash Paid to Suppliers for Goods and Services	(43,546)	(148,278)
Cash Paid to Employees	(34,101)	(24,506)
Other Cash Payments	-	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	50,301	111,042
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>		
Operating Transfers In (Out) to Other Funds	(32,496)	74,496
Other Income/Expense	(253)	3,713
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(32,749)	78,209
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Acquisition of Fixed Assets	(91,944)	(159,403)
Loan Costs and Financing Fees	-	-
Sale of Fixed Assets	-	-
Proceeds from Bonds/Notes Payable	-	48,996
Principal Payments on Bonds Payable	-	(137,456)
Interest Payments on Bonds Payable	-	(45,148)
Special Assessments Received	-	-
Capital Contributions	90,921	140,996
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,023)	(152,015)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest Received	3,281	(1,432)
NET CASH PROVIDED BY INVESTING ACTIVITIES	3,281	(1,432)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	19,810	35,804
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	147,875	(49,403)
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 167,685	\$ (13,599)

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

Electric Fund	Heritage Grove	Other Proprietary Funds	2005 Totals	2004 Totals
\$ 611,414	\$ 760,536	\$ 45,301	\$ 1,829,025	\$ 1,743,811
-	-	-	-	818
(502,942)	(225,801)	(108,082)	(1,028,649)	(931,455)
(25,277)	(275,102)	(21,531)	(380,517)	(356,667)
(800)	(11,243)	-	(12,043)	(15,914)
82,395	248,390	(84,312)	407,816	440,593
(22,500)	-	88,008	107,508	26,686
17,536	-	55,644	76,640	25,583
(4,964)	-	143,652	184,148	52,269
(43,864)	4,515	4,575	(286,121)	(1,148,685)
-	-	-	-	-
-	-	7,425	7,425	24,000
-	-	-	48,996	576,469
-	(84,973)	-	(222,429)	(161,222)
-	(151,959)	-	(197,107)	(190,111)
-	-	-	-	4,479
-	-	-	231,917	600,877
(43,864)	(232,417)	12,000	(417,319)	(294,193)
10,850	3,359	(447)	15,611	6,351
10,850	3,359	(447)	15,611	6,351
44,417	19,332	70,893	190,256	205,020
499,895	114,069	(81,109)	631,327	426,307
<u>\$ 544,312</u>	<u>\$ 133,401</u>	<u>\$ (10,216)</u>	<u>\$ 821,583</u>	<u>\$ 631,327</u>

CITY OF HARMONY, MINNESOTA

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the Year Ended December 31, 2005

(With Partial Comparative Information For the Year Ended December 31, 2004)

	Water Fund	Sewer Fund
<u>RECONCILIATION OF OPERATING GAIN (LOSS) TO NET CASH PROVIDED</u>		
<u>(USED) BY OPERATING ACTIVITIES:</u>		
Operating Gain (Loss)	\$ 34,395	\$ 34,943
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation Expense	10,376	94,349
Changes in assets and liabilities:		
Receivables	(934)	5,650
Inventory	127	-
Prepaid Insurance/Other	(87)	(7)
Due from Other Funds	-	-
Due to Other Funds	-	-
Accounts Payable	5,279	(25,845)
Retainage Payable	-	(6,765)
Accrued Interest Payable	-	5,584
Accrued Expenses	1,145	3,133
Customer Meter/Lease Deposits	-	-
	<u>\$ 50,301</u>	<u>\$ 111,042</u>
Net Cash Provided (Used) by Operating Activities		

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

Electric Fund	Heritage Grove	Other Proprietary Funds	2005 Totals	2004 Totals
\$ 47,605	\$ 159,730	\$ (83,993)	\$ 192,680	\$ 199,564
41,366	96,758	175	243,024	240,381
(7,027)	1,900	(262)	(673)	16,522
923	-	-	1,050	(318)
(1)	(3,685)	6	(3,774)	7,576
-	-	851	851	818
-	(2,091)	-	(2,091)	(15,914)
(460)	6,325	(499)	(15,200)	(18,284)
-	-	-	(6,765)	4,943
-	(426)	-	5,158	9,448
789	(9,521)	(590)	(5,044)	(6,688)
(800)	(600)	-	(1,400)	2,545
<u>\$ 82,395</u>	<u>\$ 248,390</u>	<u>\$ (84,312)</u>	<u>\$ 407,816</u>	<u>\$ 440,593</u>

CITY OF HARMONY, MINNESOTA

STATEMENT OF FIDUCIARY NET ASSETS

December 31, 2005

(With Partial Comparative Information For the Year Ended December 31, 2004)

	<u>2005</u> <u>Totals</u>	<u>2004</u> <u>Totals</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 12,308	\$ 10,490
Interest Receivable	-	-
TOTAL ASSETS	<u>\$ 12,308</u>	<u>\$ 10,490</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Liabilities</u>		
Accounts Payable	\$ -	\$ -
TOTAL LIABILITIES	-	-
<u>Net Assets</u>		
Restricted	-	-
Unrestricted	12,308	10,490
TOTAL NET ASSETS	<u>12,308</u>	<u>10,490</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,308</u>	<u>\$ 10,490</u>

STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETSFor the Fiscal Year Ended December 31, 2005

<u>REVENUES</u>		
Interest Earnings	\$ 2,225	\$ 479
TOTAL REVENUES	2,225	479
<u>EXPENDITURES</u>		
Office Expense	(407)	(456)
TOTAL EXPENSES	<u>(407)</u>	<u>(456)</u>
NET CHANGE IN FUND BALANCES	1,818	23
NET ASSETS - BEGINNING OF YEAR	<u>10,490</u>	<u>10,467</u>
NET ASSETS - END OF YEAR	<u>\$ 12,308</u>	<u>\$ 10,490</u>

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

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

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.

Industrial Park Project - Used to track the activity for the capital project of the industrial park.

1998 G.O. Improvement Bonds - Debt Service Fund used for the payment of principal and interest on bonds used to finance improvement projects throughout the city.

2000 G.O. Improvement Bond - Debt Service Fund used for the payment of principle and interest on bonds used to finance improvement projects throughout the city.

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, 2005.

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.

PRIOR PERIOD COMPARATIVE FINANCIAL INFORMATION

The basic financial statements include certain prior-year partial comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended December 31, 2004, from which the summarized information was derived.

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, 2005, the offsetting balances for prior tax levy years totaled \$8,581.

Note 3 CHANGES IN CAPITAL ASSETS

A summary of changes in general capital assets follows:

	<u>Balance</u> <u>1-1-05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12-31-05</u>
Land	\$ 120,268	\$ 50,000	\$ -	\$ 170,268
Buildings and Improvements	824,705	27,831	-	852,536
Vehicles	617,186	-	-	617,186
Machinery and Equipment	102,029	-	-	102,029
Other Equipment	207,387	12,498	(7,985)	211,900
Infrastructure	2,060,074	178,443	-	2,238,517
Work in Progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL	3,931,649	268,772	(7,985)	4,192,436
Less: Accumulated Depreciation	<u>(1,866,992)</u>	<u>(171,755)</u>	<u>7,985</u>	<u>(2,030,762)</u>
NET CAPITAL ASSETS	<u>\$2,064,657</u>	<u>\$ 97,017</u>	<u>\$ 0</u>	<u>\$2,161,674</u>

Depreciation Expense was charged to governmental activities as follows:

General Government	\$ 10,193
Public Safety	61,045
Highways and Streets	86,312
Parks and Recreation	<u>14,205</u>
Total Depreciation Expense	<u>\$ 171,755</u>

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

	<u>Balance</u> <u>1-1-05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12-31-05</u>
Land	\$ 279,686	\$ -	\$ (4,575)	\$ 275,111
Buildings and Improvements	4,785,635	19,151	-	4,804,786
Production and Distribution Systems	499,127	10,599	-	509,726
Vehicles	28,700	-	-	28,700
Infrastructure	2,327,550	269,480	-	2,597,030
Work in Progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL	7,920,698	299,230	(4,575)	8,215,353
Less: Accumulated Depreciation	<u>(1,398,194)</u>	<u>(256,309)</u>	<u>-</u>	<u>(1,654,503)</u>
NET CAPITAL ASSETS	<u>\$6,522,504</u>	<u>\$ 42,921</u>	<u>\$ (4,575)</u>	<u>\$6,560,850</u>

Note 4 DEFINED BENEFIT PENSION PLANS - STATEWIDE:

Plan Description:

All full-time and certain part-time employees of the City of Harmony are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF) 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, 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 in 2005. Contribution rates in the Coordinated Plan will increase in 2006 to 5.5%. 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. Employer contribution rates for the Coordinated Plan will increase to 6.0%, effective January 1, 2006. The City's contributions to the Public Employee's Retirement Fund for the years ending December 31, 2005, 2004, and 2003 were \$28,281, \$27,944, and \$21,434 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.

The City does not have a policy for custodial credit risk, but its practice is to follow state statutes. 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.

Custodial credit risk is the risk that in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

Balances at December 31, 2005:

	<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>\$1,635,574</u>	<u>\$1,637,803</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, 2005:

	<u>Category</u>			<u>Carrying</u>	<u>Market</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
Bonds & Money Market Funds	<u>\$ 246,499</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 246,499</u>	<u>\$ 246,499</u>
Total Deposits				<u>1,637,803</u>	
Total Cash and Cash Equivalents				<u>\$1,884,302</u>	

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

Note 6 RECONCILIATION OF OPERATING TRANSFERS IN AND OUT

The following is a reconciliation of transfers in and out at December 31, 2005:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General	\$ 20,000	\$ 265,545
Park	30,496	3,996
Library	56,004	-
Fire	90,000	20,004
Ambulance	-	20,004
Tax Increment Financing District #1	64,125	120,135
Capital Projects Fund	95,152	84,000
Community Center Roof	-	7,648
Other Financial Sources	-	64,125
1998 G.O. Improvement Bonds	1,454	-
1995A TIF Bonds	120,135	-
2000 G.O. Improvement Bonds	583	-
Water Fund	-	32,496
Sewer Fund	74,496	-
Electric Fund	-	22,500
EDA Fund	88,008	-
Sanderson Memorial Trust Fund	-	-
	<u>\$ 640,453</u>	<u>\$ 640,453</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, 2005:

2006	\$ 20,000
2007	20,000
2008	20,000
2009	<u>20,000</u>
Total Obligation	80,000
Less: Amount Representing Interest	<u>(19,412)</u>
Net Obligation	<u>\$ 60,588</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	\$ 78,881	\$ 98,117	\$ 176,998

In addition to the initial grant loan, the City of Harmony has the following revolving loan funds outstanding as of December 31, 2005:

	<u>Date of Loan</u>	<u>Initial Loan Amount</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Principal Balance Outstanding 12-31-05</u>
RLF #22	6-13-97	10,000	7.0%	60 Months	8,036
RLF #30	3-1-99	20,000	4.0%	120 Months	17,677
RLF #35	5-31-01	15,000	6.0%	120 Months	9,363
RLF #36	6-3-05	10,000	6.75%	60 Months	9,170
RLF #37	11-18-05	<u>25,000</u>	4.0%	84 Months	<u>25,000</u>
Totals		<u>\$ 80,000</u>			<u>\$ 69,246</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, 2005 is \$21,995.

Note 11 LONG-TERM DEBT

Bonds Payable at December 31, 2005, are comprised of the following individual issues:

GENERAL LONG-TERM DEBT:

\$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.	395,000
\$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.	182,000
\$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	147,471
\$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>71,323</u>
Total General Obligation Bonds and Notes	1,400,794

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.	2,765,000
\$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.	608,751
\$625,465 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 \$625,465. 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.	600,000

\$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. 360,000

Total Proprietary Bonds and Notes 4,333,751

Capital Lease:

Heritage Grove Van Lease. Annual payments of \$5,460 until May 2007, including interest at 5.00%. 7,023

TOTAL PROPRIETARY FUND LONG-TERM DEBT 4,340,774

TOTAL LONG-TERM DEBT \$5,741,568

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, 2005:

Minimum Lease		
Payments in 2006	\$	5,460
2007		<u>1,814</u>
Total Payments		7,274
Less Amount Representing Interest		<u>(251)</u>
Present Value of Minimum Lease Payments		<u>\$ 7,023</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, 2005:

	<u>Bonds and Notes</u>	<u>Capital Lease</u>	<u>Total</u>
Current Portion	\$ 434,770	\$ 5,228	\$ 439,998
Long-Term Portion	<u>5,299,775</u>	<u>1,795</u>	<u>5,301,570</u>
Total	<u>\$5,734,545</u>	<u>\$ 7,023</u>	<u>\$5,741,568</u>

Debt Service Requirements at December 31, 2005 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 439,998	\$ 231,765	\$ 671,763
2007	453,230	217,535	670,765
2008	452,195	202,595	654,790
2009	470,052	186,696	656,748
2010	447,011	170,531	617,542
2011 - 2015	1,322,857	666,851	1,989,708
2016 - 2020	938,225	451,465	1,389,690
2021 and thereafter	<u>1,218,000</u>	<u>234,050</u>	<u>1,452,050</u>
TOTAL	<u>\$5,741,568</u>	<u>\$2,361,488</u>	<u>\$8,103,056</u>

The following is a summary of the long-term liabilities transactions and balances for the year ended December 31, 2005:

	<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	\$6,577,211	\$ 48,995	\$ (891,661)	\$ -	\$5,734,545
Other Liabilities:					
Capital					
Lease	11,996	-	(4,973)	-	7,023
Compensated					
Absences	<u>36,531</u>	<u>-</u>	<u>-</u>	<u>1,785</u>	<u>38,316</u>
Governmental Activities					
Long-term					
liabilities	<u>\$6,625,738</u>	<u>\$ 48,995</u>	<u>\$ (896,634)</u>	<u>\$ 1,785</u>	<u>\$5,779,884</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, 2005, 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, 2005, the Housing Revenue Refunding Bonds outstanding aggregated \$8,310,000.

Note 13 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit Fund Balance

The following funds had deficit fund balances or net assets at December 31, 2005:

<u>Special Revenue Funds</u>	
Tax Increment #4	\$ (4,528)
<u>Enterprise Funds</u>	
Garbage Fund	(18,652)

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, 2005, consist of the following:

	<u>Due From Other Fund</u>	<u>Due To Other Fund</u>
<u>Special Revenue Funds</u>		
Revolving Loan Fund	\$ 21,995	\$ -
TIF #4	-	4,790
<u>Enterprise Funds</u>		
Heritage Grove	-	21,995
EDA	<u>4,790</u>	<u>-</u>
Total	<u>\$ 26,785</u>	<u>\$ 26,785</u>

Note 15 RESERVED AND DESIGNATED FUND BALANCES

Fund balances in various funds at December 31, 2005, has been designated for the following purposes:

General Fund:	
Designated for Working Capital	<u>\$ 300,000</u>
Special Revenue Funds:	
Small City Grant Repayments	<u>\$ 12,553</u>
Capital Projects Fund:	
Designated for future Capital Outlay	<u>\$ 149,260</u>
Debt Service Funds:	
Debt Service on Bonds	<u>\$ 160,216</u>

Note 16 GOVERNMENT AID AND GRANTS

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

<u>Local</u>	
Township Ambulance Contributions	\$ 6,342
Township Fire Contributions	27,083
County Ambulance Subsidy	4,500
County Library Funds	15,125
Park Subsidy	<u>-</u>
Total Local	53,050
<u>State</u>	
Local Government Aid	326,267
Market Value Credit	65,073
Fire State Aid	12,886
PERA Rate Increase	864
Public Infrastructure Grant	191,768
Library Access Grant	<u>8,080</u>
Total State	<u>604,938</u>
TOTAL INTERGOVERNMENTAL	<u>\$ 657,988</u>

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, 2005, is as follows:

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>
Operating Revenues	\$ 128,842	\$ 278,183	\$ 44,663
Depreciation Expense	10,376	94,349	-
Operating Income (Loss)	34,395	34,943	6,501
Fund Transfers			
In	-	74,496	-
Out	(32,496)	-	-
Tax Revenues	-	-	-
Net Income (Loss)	95,848	207,568	6,059
Plant, Property, and Equipment			
Additions	91,943	159,402	-
Deletions	-	-	-
Net Working Capital	171,860	(12,405)	(16,225)
Bonds and Other Long-Term Liabilities			
Payable From Operating Revenues	-	1,568,751	2,427
Payable From Other Sources	-	-	-
Total Net Assets	635,573	1,147,936	(18,652)
	<u>Electric Fund</u>	<u>EDA Fund</u>	<u>Heritage Grove</u>
Operating Revenues	\$ 617,519	\$ 43	\$ 762,321
Depreciation Expense	41,366	175	96,758
Operating Income (Loss)	47,605	(90,494)	157,439
Fund Transfers			
In	-	88,008	-
Out	(22,500)	-	-
Tax Revenues	-	-	-
Net Income (Loss)	53,491	60,578	8,866
Plant, Property, and Equipment			
Additions	43,864	-	4,021
Deletions	-	4,575	-
Net Working Capital	571,881	19,095	74,397
Bonds and Other Long-Term Liabilities			
Payable From Operating Revenues	-	824	2,772,023
Payable From Other Sources	-	-	-
Total Net Assets	1,175,844	127,633	27,205

Note 18 PRIOR PERIOD ADJUSTMENTS

In 2005, a Prior Period adjustment was made with regard to loan costs and accumulated depreciation in the Heritage Grove fund due to incorrect calculations on the accumulated amounts.

A Prior Period adjustment was also made with regard to bonds payable to correct classification of a bond.

The Heritage Grove Fund had a decrease of \$1,631 in accumulated amortization. There was also a decrease of \$14,879 in accumulated depreciation.

The Water Fund had an increase of \$410,000, which was the beginning balance of a Water and Sewer bond previously recorded in the General Governmental Fund.

In 2004, 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, 2005

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	\$ 27,586	\$ 2,895	\$ (43,495)	\$ 12,893
Receivables				
Accounts	-	-	14,587	-
Taxes	-	-	-	-
Special Assessments	-	-	-	-
Contracts/Grants	-	-	-	-
Due from Other Funds	-	-	-	-
Due from Other Governments	-	-	-	-
Prepaid Insurance/Other	423	86	65,752	-
	<u>\$ 28,009</u>	<u>\$ 2,981</u>	<u>\$ 36,844</u>	<u>\$ 12,893</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities</u>				
Accounts Payable	\$ 93	\$ 1,261	\$ 1,400	\$ 340
Retainage Payable	-	-	-	-
Accrued Salaries	21	809	-	-
Accrued Sales Tax	-	2	-	-
Other Accrued Expenses	-	-	-	-
Due to Other Funds	-	-	-	-
Due to Other Governments	-	-	-	-
Deferred Revenue	-	-	-	-
	<u>114</u>	<u>2,072</u>	<u>1,400</u>	<u>340</u>
<u>Fund Balances</u>				
Reserved	-	-	-	12,553
Unreserved, Designated	-	-	-	-
Unreserved, Undesignated	<u>27,895</u>	<u>909</u>	<u>35,444</u>	<u>-</u>
	<u>27,895</u>	<u>909</u>	<u>35,444</u>	<u>12,553</u>
	<u>\$ 28,009</u>	<u>\$ 2,981</u>	<u>\$ 36,844</u>	<u>\$ 12,893</u>

CAPITAL
PROJECT
FUNDS

SPECIAL REVENUE FUNDS

Ambulance Fund	Revolving Loan Fund	Tax Increment Financing District #1	Tax Increment Financing District #4	Total	Capital Projects Fund
\$ 54,828	\$ 139,723	\$ 120,215	\$ 261	\$ 314,906	\$ 149,260
36,471	-	-	-	51,058	-
-	-	465	-	465	-
-	-	194,297	-	194,297	-
-	-	-	-	-	-
-	21,995	-	-	21,995	-
-	-	-	-	-	-
476	-	-	-	66,737	-
<u>\$ 91,775</u>	<u>\$ 161,718</u>	<u>\$ 314,977</u>	<u>\$ 261</u>	<u>\$ 649,458</u>	<u>\$ 149,260</u>
\$ 1,948	\$ -	\$ 1,518	\$ -	\$ 6,560	\$ -
-	-	-	-	-	-
132	-	-	-	962	-
-	-	-	-	2	-
-	-	-	-	-	-
-	-	-	4,789	4,789	-
-	-	-	-	-	-
-	-	194,297	-	194,297	-
2,080	-	195,815	4,789	206,610	-
-	-	-	-	12,553	-
-	-	-	-	-	149,260
<u>89,695</u>	<u>161,718</u>	<u>119,162</u>	<u>(4,528)</u>	<u>430,295</u>	<u>-</u>
<u>89,695</u>	<u>161,718</u>	<u>119,162</u>	<u>(4,528)</u>	<u>442,848</u>	<u>149,260</u>
<u>\$ 91,775</u>	<u>\$ 161,718</u>	<u>\$ 314,977</u>	<u>\$ 261</u>	<u>\$ 649,458</u>	<u>\$ 149,260</u>

CITY OF HARMONY, MINNESOTA

COMBINED BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2005

	<u>CAPITAL PROJECT FUNDS</u>		<u>DEBT SERVI</u>
	Community Center Roof Project	Total	1994 G.O. Fire Station Bonds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ -	\$ 149,260	\$ 30,146
Receivables			
Accounts	-	-	432
Taxes	-	-	-
Special Assessments	-	-	-
Contracts/Grants	-	-	-
Due from Other Funds	-	-	-
Due from Other Governments	-	-	-
Prepaid Insurance/Other	-	-	-
	<u>\$ -</u>	<u>\$ 149,260</u>	<u>\$ 30,578</u>
 <u>LIABILITIES AND FUND EQUITY</u>			
<u>Liabilities</u>			
Accounts Payable	\$ -	\$ -	\$ -
Retainage Payable	-	-	-
Accrued Salaries	-	-	-
Accrued Sales Tax	-	-	-
Other Accrued Expenses	-	-	-
Due to Other Funds	-	-	-
Due to Other Governments	-	-	-
Deferred Revenue	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	-	-	-
 <u>Fund Balances</u>			
Reserved	-	-	-
Unreserved, Designated	-	149,260	30,578
Unreserved, Undesignated	-	-	-
	<u>-</u>	<u>149,260</u>	<u>30,578</u>
TOTAL FUND BALANCES	-	149,260	30,578
 <u>TOTAL LIABILITIES AND FUND BALANCES</u>			
	<u>\$ -</u>	<u>\$ 149,260</u>	<u>\$ 30,578</u>

CE FUNDS		DEBT SERVICE FUNDS				
1995 G.O. Increment Bonds	2002 G.O. Improvement Bonds	2004 G.O. Tax Increment & Improvement Refund	Total	Total	Total Other Governmental Funds	
\$ -	\$ 60,540	\$ 67,276	\$ 157,962	\$ 157,962	\$ 622,128	
-	-	-	432	432	51,490	
-	1,242	580	1,822	1,822	2,287	
-	69,804	51,607	121,411	121,411	315,708	
-	-	-	-	-	-	
-	-	-	-	-	21,995	
-	-	-	-	-	-	
-	-	-	-	-	66,737	
<u>\$ -</u>	<u>\$ 131,586</u>	<u>\$ 119,463</u>	<u>\$ 281,627</u>	<u>\$ 281,627</u>	<u>\$ 1,080,345</u>	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,560	
-	-	-	-	-	-	
-	-	-	-	-	962	
-	-	-	-	-	2	
-	-	-	-	-	-	
-	-	-	-	-	4,789	
-	-	-	-	-	-	
-	69,804	51,607	121,411	121,411	315,708	
-	69,804	51,607	121,411	121,411	328,021	
-	-	-	-	-	12,553	
-	61,782	67,856	160,216	160,216	309,476	
-	-	-	-	-	430,295	
-	61,782	67,856	160,216	160,216	752,324	
<u>\$ -</u>	<u>\$ 131,586</u>	<u>\$ 119,463</u>	<u>\$ 281,627</u>	<u>\$ 281,627</u>	<u>\$ 1,080,345</u>	

CITY OF HARMONY, MINNESOTA

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended December 31, 2005

SPECIAL REVENUE FUNDS

	<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	-	15,125	27,083	-
Licenses and Permits	-	-	-	-
Charges for Service	986	1,352	3,264	-
Fines and Forfeits	-	-	-	-
Note - Nursing Home/Hospital	-	-	-	-
Interest Earnings	597	53	(1,091)	556
Refunds and Reimbursements	-	-	-	-
Miscellaneous	3,367	2,017	15,043	6,932
TOTAL REVENUES	4,950	18,547	44,299	7,488
<u>EXPENDITURES</u>				
General Government	-	-	-	-
Public Safety	-	-	31,871	-
Highways and Streets	-	-	-	-
Library	-	75,877	-	-
Parks and Recreation	27,680	-	-	-
Unallocated	-	-	-	30,047
Capital Outlay/Capital Projects	3,994	-	3,346	-
<u>Debt Service</u>				
Principal	-	-	-	-
Interest and Fees	-	-	-	-
TOTAL EXPENDITURES	31,674	75,877	35,217	30,047
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(26,724)	(57,330)	9,082	(22,559)
<u>OTHER FINANCING SOURCES (USES)</u>				
Proceeds from Bonds/Notes	-	-	-	-
Operating Transfers In	30,496	56,004	90,000	-
Operating Transfers Out	(3,996)	-	(20,004)	-
TOTAL OTHER FINANCING SOURCES (USES)	26,500	56,004	69,996	-
NET CHANGE IN FUND BALANCES	(224)	(1,326)	79,078	(22,559)
FUND BALANCE - BEGINNING OF YEAR	28,119	2,235	(43,634)	35,112
FUND BALANCE - END OF YEAR	\$ 27,895	\$ 909	\$ 35,444	\$ 12,553

SPECIAL REVENUE FUNDS					CAPITAL PROJECT FUNDS
Ambulance Fund	Revolving Loan Fund	Tax Increment Financing District #1	Tax Increment Financing District #4	Total	Capital Projects Fund
\$ -	\$ -	\$ 77,383	\$ 4,110	\$ 81,493	\$ -
-	-	39,458	-	39,458	-
10,842	-	704	166	53,920	-
-	-	-	-	-	-
109,435	-	-	-	115,037	-
-	-	-	-	-	-
-	-	-	-	-	-
916	8,599	664	(25)	10,269	3,584
-	-	-	-	-	-
10,053	12,560	-	-	49,972	-
131,246	21,159	118,209	4,251	350,149	3,584
-	-	-	-	-	-
80,177	-	-	-	112,048	-
-	-	-	-	-	-
-	-	-	-	75,877	-
-	-	-	-	27,680	-
-	35,000	4,364	294	69,705	-
3,009	-	50,000	-	60,349	-
-	-	-	-	-	-
-	-	6,733	-	6,733	-
83,186	35,000	61,097	294	352,392	-
48,060	(13,841)	57,112	3,957	(2,243)	3,584
-	-	-	-	-	-
-	-	64,125	-	240,625	95,152
(20,004)	-	(120,135)	-	(164,139)	(84,000)
(20,004)	-	(56,010)	-	76,486	11,152
28,056	(13,841)	1,102	3,957	74,243	14,736
61,639	175,559	118,060	(8,485)	368,605	134,524
\$ 89,695	\$ 161,718	\$ 119,162	\$ (4,528)	\$ 442,848	\$ 149,260

CITY OF HARMONY, MINNESOTA

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALAN
NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended December 31, 2005

	<u>CAPITAL PROJECT FUNDS</u>		<u>DEBT SERVI</u>
	Community Center Roof Project	Total	1994 G.O. Fire Station Bonds
<u>REVENUES</u>			
Taxes	\$ -	\$ -	\$ 33,929
Special Assessments	-	-	-
Intergovernmental	8,080	8,080	-
Licenses and Permits	-	-	-
Charges for Service	-	-	-
Fines and Forfeits	-	-	-
Note - Nursing Home/Hospital	-	-	-
Interest Earnings	-	3,584	268
Refunds and Reimbursements	-	-	-
Miscellaneous	-	-	-
TOTAL REVENUES	<u>8,080</u>	<u>11,664</u>	<u>34,197</u>
<u>EXPENDITURES</u>			
General Government	-	-	-
Public Safety	-	-	-
Highways and Streets	-	-	-
Library	-	-	-
Parks and Recreation	-	-	-
Unallocated	-	-	-
Capital Outlay/Capital Projects	7,694	7,694	-
<u>Debt Service</u>			
Principal	-	-	33,000
Interest and Fees	-	-	5,433
TOTAL EXPENDITURES	<u>7,694</u>	<u>7,694</u>	<u>38,433</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	386	3,970	(4,236)
<u>OTHER FINANCING SOURCES (USES)</u>			
Proceeds from Bonds/Notes	-	-	-
Operating Transfers In	-	95,152	-
Operating Transfers Out	(7,648)	(91,648)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(7,648)</u>	<u>3,504</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(7,262)	7,474	(4,236)
FUND BALANCE - BEGINNING OF YEAR	<u>7,262</u>	<u>141,786</u>	<u>34,814</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ 149,260</u>	<u>\$ 30,578</u>

CES

CE FUNDS		DEBT SERVICE FUNDS		
1995 G.O. Increment Bonds	2002 G.O. Improvement Bonds	2004 G.O. Tax Increment & Improvement Refund	Total	Total Other Governmental Funds
\$ -	\$ 41,267	\$ 45,481	\$ 120,677	\$ 202,170
-	34,062	29,586	63,648	103,106
-	-	-	-	62,000
-	-	-	-	-
-	-	-	-	115,037
-	-	-	-	-
-	-	-	-	-
-	496	349	1,113	14,966
-	-	-	-	-
-	-	-	-	49,972
-	75,825	75,416	185,438	547,251
-	-	-	-	-
-	-	-	-	112,048
-	-	-	-	-
-	-	-	-	75,877
-	-	-	-	27,680
-	-	-	-	69,705
-	-	-	-	68,043
165,000	60,000	-	258,000	258,000
4,825	15,704	7,560	33,522	40,255
169,825	75,704	7,560	291,522	651,608
(169,825)	121	67,856	(106,084)	(104,357)
-	-	-	-	-
120,135	-	-	120,135	455,912
-	-	-	-	(255,787)
120,135	-	-	120,135	200,125
(49,690)	121	67,856	14,051	95,768
49,690	61,661	-	146,165	656,556
\$ -	\$ 61,782	\$ 67,856	\$ 160,216	\$ 752,324

CITY OF HARMONY, MINNESOTA

STATEMENT OF NET ASSETS
 NONMAJOR PROPRIETARY FUNDS
 December 31, 2005

	Garbage Fund	EDA Fund	Total Other Proprietary Funds
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash and Cash Equivalents	\$ (20,349)	\$ 10,133	\$ (10,216)
<u>Receivables</u>			
Accounts	4,422	6,600	11,022
Special Assessments	-	-	-
Inventory	-	-	-
Prepaid Insurance/Other	21	8	29
Due from Other Funds	-	4,790	4,790
TOTAL CURRENT ASSETS	(15,906)	21,531	5,625
Capital Assets, Net of Accumulated Depreciation	-	109,362	109,362
TOTAL CAPITAL ASSETS	-	109,362	109,362
<u>OTHER ASSETS</u>			
Loan Costs and Financing Fees	-	-	-
Less: Accumulated Amortization	-	-	-
Work in Progress - WWTP Improvements	-	-	-
TOTAL OTHER ASSETS	-	-	-
TOTAL ASSETS	\$ (15,906)	\$ 130,893	\$ 114,987

CITY OF HARMONY, MINNESOTA

STATEMENT OF NET ASSETS
NONMAJOR PROPRIETARY FUNDS
December 31, 2005

	<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	\$ -	\$ 2,279	\$ 2,279
Accrued Salaries	140	157	297
Accrued Management Fees	-	-	-
Accrued Interest	-	-	-
Accrued Property Insurance	-	-	-
Accrued Replacement Reserve	-	-	-
Accrued Sales Tax	179	-	179
Meter Deposits/Lease Deposits	-	-	-
Retainage Payable	-	-	-
Due to Other Funds	-	-	-
Current Portion of Long-Term Debt	-	-	-
	<u>319</u>	<u>2,436</u>	<u>2,755</u>
<u>LONG-TERM DEBT</u>			
Bonds/Notes Payable	-	-	-
Capital Lease Payable	-	-	-
Accrued Compensated Absences	2,427	824	3,251
Less: Current Portion	-	-	-
	<u>2,427</u>	<u>824</u>	<u>3,251</u>
TOTAL LONG-TERM DEBT	<u>2,427</u>	<u>824</u>	<u>3,251</u>
TOTAL LIABILITIES	2,746	3,260	6,006
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	-	109,362	109,362
Unrestricted	(18,652)	18,271	(381)
	<u>(18,652)</u>	<u>127,633</u>	<u>108,981</u>
TOTAL NET ASSETS	<u>(18,652)</u>	<u>127,633</u>	<u>108,981</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ (15,906)</u>	<u>\$ 130,893</u>	<u>\$ 114,987</u>

CITY OF HARMONY, MINNESOTA

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS
NONMAJOR PROPRIETARY FUNDS
For the Year Ended December 31, 2005

	<u>Garbage Fund</u>	<u>EDA Fund</u>	<u>Total Other Proprietary Funds</u>
<u>OPERATING REVENUE</u>			
Sales and Rentals	\$ 44,663	\$ 43	\$ 44,706
TOTAL OPERATING REVENUE	44,663	43	44,706
<u>OPERATING EXPENSES</u>			
<u>Operations</u>			
Salaries	4,278	-	4,278
PERA and FICA	558	-	558
Employee Benefits	600	-	600
Service Contracts	25,620	-	25,620
Purchased Power	-	-	-
Supplies	-	-	-
Utilities	-	-	-
Maintenance and Repairs	-	-	-
Travel and Training	-	121	121
Professional Services	-	4,441	4,441
Miscellaneous	1,618	36,945	38,563
<u>Administration</u>			
Salaries	3,411	8,595	12,006
PERA and FICA	452	1,108	1,560
Employee Benefits	779	1,376	2,155
Professional Services	-	23,036	23,036
Insurance	-	-	-
Office/Store Expense	846	280	1,126
Miscellaneous	-	14,460	14,460
Capital Outlay	-	-	-
Depreciation Expense	-	175	175
TOTAL OPERATING EXPENSES	38,162	90,537	128,699
OPERATING INCOME (LOSS)	6,501	(90,494)	(83,993)
<u>NON-OPERATING INCOME (EXPENSE)</u>			
Interest Income	(442)	(5)	(447)
Special Assessments	-	-	-
Capital Credits and Miscellaneous	-	55,644	55,644
Interest Expense	-	-	-
Gain (Loss) on Sale of Fixed Assets	-	7,425	7,425
Capital Contributions	-	-	-
TOTAL NON-OPERATING INCOME (EXPENSES)	(442)	63,064	62,622
INCOME (LOSS) BEFORE OPERATING TRANSFERS	\$ 6,059	\$ (27,430)	\$ (21,371)

CITY OF HARMONY, MINNESOTA

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS
NONMAJOR PROPRIETARY FUNDS
For the Year Ended December 31, 2005

	<u>Garbage Fund</u>	<u>EDA Fund</u>	<u>Total Other Proprietary Funds</u>
<u>OPERATING TRANSFERS</u>			
Operating Transfers In	\$ -	\$ 88,008	\$ 88,008
Operating Transfers Out	-	-	-
	<hr/>	<hr/>	<hr/>
NET INCOME (LOSS)	6,059	60,578	66,637
NET ASSETS - BEGINNING OF YEAR	(24,711)	67,055	42,344
Prior Period Adjustment	-	-	-
	<hr/>	<hr/>	<hr/>
NET ASSETS - END OF YEAR	<u>\$ (18,652)</u>	<u>\$ 127,633</u>	<u>\$ 108,981</u>

CITY OF HARMONY, MINNESOTA

STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
For the Year Ended December 31, 2005

	Garbage Fund	EDA Fund	Total Other Proprietary Funds
<u>CASH FLOWS FROM OPERATING</u>			
<u>ACTIVITIES</u>			
Cash Received From Customers	\$ 44,410	\$ 891	\$ 45,301
Other Cash Receipts	-	-	-
Cash Paid to Suppliers for Goods and Services	(28,049)	(80,033)	(108,082)
Cash Paid to Employees	(10,440)	(11,091)	(21,531)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	5,921	(90,233)	(84,312)
<u>CASH FLOWS FROM NONCAPITAL</u>			
<u>FINANCING ACTIVITIES</u>			
Operating Transfers In	-	88,008	88,008
Operating Transfers Out	-	-	-
Other Income	-	55,644	55,644
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	-	143,652	143,652
<u>CASH FLOWS FROM CAPITAL AND</u>			
<u>RELATED FINANCING ACTIVITIES</u>			
Acquisition of Fixed Assets	-	4,575	4,575
Loan Costs and Financing Fees	-	-	-
Sale of Fixed Assets	-	7,425	7,425
Proceeds from Bonds/Notes Payable	-	-	-
Principal Payments on Bonds/ Notes Payable	-	-	-
Interest Payments on Bonds/ Notes Payable	-	-	-
Special Assessments Received	-	-	-
Capital Contributions	-	-	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ -	\$ 12,000	\$ 12,000

CITY OF HARMONY, MINNESOTA

STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
For the Year Ended December 31, 2005

	<u>Garbage Fund</u>	<u>EDA Fund</u>	<u>Total Other Proprietary Funds</u>
<u>CASH FLOWS FROM INVESTING</u> <u>ACTIVITIES</u>			
Interest Received	<u>\$ (442)</u>	<u>\$ (5)</u>	<u>\$ (447)</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(442)</u>	<u>(5)</u>	<u>(447)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,479	65,414	70,893
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>(25,828)</u>	<u>(55,281)</u>	<u>(81,109)</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ (20,349)</u></u>	<u><u>\$ 10,133</u></u>	<u><u>\$ (10,216)</u></u>
<u>RECONCILIATION OF OPERATING GAIN</u> <u>(LOSS) TO NET CASH PROVIDED</u> <u>(USED) BY OPERATING ACTIVITIES</u>			
Operating Gain (Loss)	\$ 6,501	\$ (90,494)	\$ (83,993)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation Expense	-	175	175
Changes in assets and liabilities:			
Receivables	(262)	-	(262)
Inventory	-	-	-
Prepaid Insurance/Other	9	(3)	6
Due from Other Funds	-	851	851
Due to Other Funds	-	-	-
Accounts Payable	-	(499)	(499)
Accrued Expenses	(327)	(263)	(590)
Customer Meter/Lease Deposits	<u>-</u>	<u>-</u>	<u>-</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 5,921</u></u>	<u><u>\$ (90,233)</u></u>	<u><u>\$ (84,312)</u></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, 2005

(With Partial Comparative Information For the Year Ended December 31, 2004)

	2005 Budget	2005 Actual	Variance Favorable (Unfavorable)	2004 Actual
<u>REVENUES</u>				
General Property Taxes	\$ 278,452	\$ 234,115	\$ (44,337)	\$ 226,156
Special Assessments	250	-	(250)	110
<u>Intergovernmental Revenue</u>				
Federal Disaster Aid	-	-	-	-
Local Governmental Aid	326,267	326,267	-	294,256
Homestead/Ag Credit	-	64,203	64,203	59,773
Police State Aid	-	-	-	-
Fire State Aid	8,000	12,886	4,886	11,927
PERA Rate Increase Aid	864	864	-	864
Other State Aid	-	-	-	-
Licenses and Permits	8,075	21,735	13,660	9,611
Traffic Ordinances and Fines	1,000	1,069	69	821
Other Revenues	2,550	9,767	7,217	9,850
Rental Income	12,900	23,436	10,536	18,042
Donations	-	3,896	3,896	535
Interest Earnings	6,000	5,531	(469)	3,101
Refunds and Reimbursements	-	12,093	12,093	8,953
Note-Nursing Home/Hospital	20,000	20,000	-	20,000
Sale of Fixed Assets	-	-	-	-
	<u>664,358</u>	<u>735,862</u>	<u>71,504</u>	<u>663,999</u>
<u>EXPENDITURES</u>				
<u>General Government</u>				
<u>Mayor and Council</u>				
Salaries	6,800	6,800	-	6,800
FICA and PERA	520	520	-	520
Insurance	550	459	91	549
Dues	1,500	1,027	473	50
Travel and Training/Supplies	200	762	(562)	77
Printing and Publishing	89	183	(94)	130
	<u>9,659</u>	<u>9,751</u>	<u>(92)</u>	<u>8,126</u>
<u>Administration</u>				
Salaries	43,222	43,490	(268)	43,324
FICA and PERA	5,697	5,733	(36)	5,729
Employee Benefits	3,656	8,613	(4,957)	5,668
Office Supplies and Postage	3,025	2,942	83	2,089
General Supplies and Repair	3,800	2,195	1,605	3,546
Insurance	100	395	(295)	197
Printing and Publishing	1,350	924	426	1,146
Travel, Conferences and Conventions	650	588	62	1,473
Professional Fees	15,750	17,730	(1,980)	14,938
Miscellaneous	800	813	(13)	1,652
Capital Outlay	-	-	-	-
	<u>\$ 78,050</u>	<u>\$ 83,423</u>	<u>\$ (5,373)</u>	<u>\$ 79,762</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, 2005

(With Partial Comparative Information For the Year Ended December 31, 2004)

<u>EXPENDITURES</u> - (Continued)	2005 Budget	2005 Actual	Variance Favorable (Unfavorable)	2004 Actual
<u>Planning and Zoning</u>				
Salaries	\$ -	\$ -	\$ -	\$ -
FICA and PERA	-	-	-	-
Miscellaneous	100	201	(101)	70
Total Planning and Zoning	100	201	(101)	70
<u>Other General Government</u>				
Elections	-	53	(53)	1,867
Legal	7,500	6,839	661	5,905
Civil Defense	1,860	1,578	282	1,586
Total Other General Government	9,360	8,470	890	9,358
<u>Community Center</u>				
Salaries	21,215	22,989	(1,774)	22,886
FICA and PERA	2,796	3,045	(249)	3,000
Employee Benefits	9,635	7,642	1,993	8,900
Supplies	1,950	2,121	(171)	1,592
Maintenance and Repairs	4,250	3,923	327	10,884
Insurance	6,666	6,346	320	5,966
Telephone	2,500	2,211	289	2,532
Utilities	34,950	40,409	(5,459)	34,374
Miscellaneous	-	20	(20)	10
Capital Outlay	-	-	-	-
Debt Service Principal	21,175	21,175	-	-
Total Community Center	105,137	109,881	(4,744)	90,144
<u>Visitor Center</u>				
Salaries	8,725	6,753	1,972	7,640
FICA and PERA	1,150	878	272	1,009
Employee Benefits	3,680	2,149	1,531	2,903
Supplies	800	1,514	(714)	1,306
Maintenance and Repairs	150	352	(202)	63
Insurance	1,489	1,406	83	1,215
Utilities	8,150	7,970	180	7,845
Capital Outlay	-	-	-	2,500
Total Visitor Center	24,144	21,022	3,122	24,481
<u>Animal Control</u>				
Salary	1,981	2,972	(991)	2,764
FICA and PERA	152	151	1	146
Employee Benefits	51	50	1	35
Contracted Services	1,000	-	1,000	-
Miscellaneous	300	251	49	204
Total Animal Control	\$ 3,484	\$ 3,424	\$ 60	\$ 3,149

CITY OF HARMONY, MINNESOTA

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

For the Year Ended December 31, 2005

(With Partial Comparative Information For the Year Ended December 31, 2004)

<u>EXPENDITURES</u> - (Continued)	2005 <u>Budget</u>	2005 <u>Actual</u>	Variance Favorable (Unfavorable)	2004 <u>Actual</u>
<u>Police Protection</u>				
Contracted Services	\$ 66,394	\$ 59,348	\$ 7,046	\$ 60,331
Vehicle Expense	2,500	2,447	53	1,961
Insurance	546	490	56	466
Supplies	100	826	(726)	105
Maintenance and Repairs	500	1,202	(702)	373
Miscellaneous	1,000	759	241	963
Capital Outlay	-	-	-	-
Total Police Protection	71,040	65,072	5,968	64,199
<u>Highways, Streets and Alleys</u>				
Salaries	26,448	23,030	3,418	21,848
FICA and PERA	3,457	3,011	446	2,870
Employee Benefits	8,196	5,189	3,007	6,548
Asphalt, Road Oil, and Other Street Maintenance Supplies	13,550	16,728	(3,178)	13,979
Vehicle Expense	3,750	4,977	(1,227)	4,351
Repair and Maintenance	10,950	20,749	(9,799)	7,866
Insurance	4,517	4,242	275	5,052
Telephone	1,000	1,678	(678)	819
Utilities	4,650	4,261	389	3,749
Snow Removal	-	-	-	-
Capital Outlay	-	20,136	(20,136)	6,290
Total Highways, Streets and Alleys	76,518	104,001	(27,483)	73,372
<u>Unallocated</u>				
Employee Benefits	-	-	-	-
Insurance	5,866	5,236	630	6,128
Community Events/Tourism	-	5,207	(5,207)	10,253
Tourism Capital Outlay	-	-	-	-
Community Development	2,500	12,691	(10,191)	2,108
Fire Pension Contributions	15,000	17,886	(2,886)	16,927
Total Unallocated	23,366	41,020	(17,654)	35,416
TOTAL EXPENDITURES	400,858	446,265	(45,407)	388,077
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 263,500	\$ 289,597	\$ 26,097	\$ 275,922

CITY OF HARMONY, MINNESOTA

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

For the Year Ended December 31, 2005

(With Partial Comparative Information For the Year Ended December 31, 2004)

<u>OTHER FINANCING SOURCES (USES)</u>	<u>2005 Budget</u>	<u>2005 Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>2004 Actual</u>
<u>Operating Transfers In</u>				
Capital Projects Fund	\$ -	\$ 20,000	\$ 20,000	\$ -
Enterprise Fund	-	-	-	9,996
<u>Operating Transfers Out</u>				
Special Revenue Fund	(110,000)	(110,004)	(4)	(87,096)
Debt Service Fund	-	(2,037)	(2,037)	(6,788)
Capital Projects Fund	(43,500)	(43,500)	-	(67,701)
Enterprise Fund	(110,000)	(110,004)	(4)	(99,852)
 TOTAL OTHER FINANCING SOURCES (USES)	 <u>(263,500)</u>	 <u>(245,545)</u>	 <u>17,955</u>	 <u>(251,441)</u>
 NET CHANGE IN FUND BALANCES	 -	 44,052	 44,052	 24,481
 FUND BALANCE - BEGINNING OF YEAR	 <u>362,635</u>	 <u>362,635</u>	 <u>-</u>	 <u>338,154</u>
 FUND BALANCE - END OF YEAR	 <u><u>\$ 362,635</u></u>	 <u><u>\$ 406,687</u></u>	 <u><u>\$ 44,052</u></u>	 <u><u>\$ 362,635</u></u>

CITY OF HARMONY, MINNESOTA

STATEMENT OF CHANGES IN GENERAL LONG-TERM DEBT
For the Year Ended December 31, 2005

<u>BONDED INDEBTEDNESS</u>	<u>Interest</u>	<u>Authorized</u>	<u>Issued</u>
<u>General Obligations</u>	<u>Rates</u>		
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. 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
TOTAL BONDED INDEBTEDNESS		<u>\$ 2,515,000</u>	<u>\$ 2,515,000</u>

Balance January 1 2005	Issued	Retired	Balance December 31 2005	Principal Due in 2006	Interest Due in 2006
\$ 165,000	\$ -	\$ 165,000	\$ -	\$ -	\$ -
215,000	-	215,000	-	-	-
190,000	-	190,000	-	-	-
455,000	-	60,000	395,000	50,000	14,005
215,000	-	33,000	182,000	33,000	4,839
605,000	-	-	605,000	120,000	17,168
155,000	-	7,529	147,471	7,858	6,452
75,000	-	3,677	71,323	3,834	3,031
<u>\$ 2,075,000</u>	<u>\$ -</u>	<u>\$ 674,206</u>	<u>\$ 1,400,794</u>	<u>\$ 214,692</u>	<u>\$ 45,495</u>

COMPLIANCE AND INTERNAL CONTROL REPORT

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, 2005, which collectively comprise the City of Harmony, Minnesota's basic financial statements and have issued our report thereon dated March 8, 2006. 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 and Other Matters

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 it's 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 except as listed in the Schedule of Findings. 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

March 8, 2006
Spring Valley, Minnesota

CITY OF HARMONY
HARMONY, MINNESOTA

SCHEDULE OF FINDINGS

Finding: Internal Control

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

Response:

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

Finding: Depositories

The City was under-collateralized for June 30, 2005. This was corrected by December 31, 2005.

Response:

The City is aware of this problem; and will coordinate with the bank to ensure proper collateral coverage in the future.

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.

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

In planning and performing our audit of the financial statements of the City of Harmony, Minnesota, as of and for the year ended December 31, 2005, we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance 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 under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or functioning of the control structure that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is as follows:

Limited Segregation of Duties

A limited number of individuals have the primary responsibility for most of the accounting and financial duties relating to the revenues and receipts cycle and the payroll cycle.

We recognize that the City is not large enough to justify hiring additional employees solely for the purposes of segregating duties relating to revenues and receipts. We are required, however, by our professional standards, to call the situation to your attention.

Legal Compliance Finding

As noted in the Independent Auditor's Report on Compliance with Laws and Regulations, the City was not in compliance with the following legal requirement.

Depositories

The City was under-collateralized for June 30, 2005. This was corrected by December 31, 2005.

Minnesota Statute 336.4-108 incorporates a financial institution's cutoff hour, collateral at least 10% more than the uninsured amount on deposit at the close of the banking day.

We recommend the City comply with the depository provisions and make sure it is in accordance with the Minnesota Statutes.

* * * * *

This condition was considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the December 31, 2005 financial statements, and this report does not affect our report on the financial statements dated March 8, 2006.

This report is intended solely for the use of the City of Harmony, Minnesota, and management and should not be used for any other purpose.

We wish to express our appreciation for the many courtesies and fine cooperation extended to us during the course of our work. We would be pleased to furnish any additional information with respect to these suggestions and discuss this memorandum with you at your convenience.

LLOYD D. JOHNSON
Certified Public Accountant

March 8, 2006
Spring Valley, Minnesota