

**CITY OF HARMONY
HARMONY, MINNESOTA**

**FINANCIAL STATEMENTS
WITH ACCOMPANYING INFORMATION**

FOR THE YEAR ENDED DECEMBER 31, 2006

CITY OF HARMONY, MINNESOTA

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CITY OF HARMONY, MINNESOTA

CITY OFFICIALS

For the Year Ended December 31, 2006

		<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, 2007

David Kingsley	Mayor	12-31-08
Mark McKay	Council Member	12-31-08
Gerald Shuck	Council Member	12-31-10
Sherry Hines	Council Member	12-31-10
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, 2006, 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 of Harmony, Minnesota's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the City's 2005 financial statements and, in our report dated March 8, 2006; we expressed unqualified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information.

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, 2006, and the respective changes in financial position, and, where applicable, cash flows there of 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.

In accordance with Government Auditing Standards, we have also issued a report dated May 14, 2007, on our consideration of the City of Harmony, Minnesota'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.

The financial statements include partial prior year comparative information. Such information does not include all of the information required in 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, 2005, from which such partial information was derived.

To the Mayor and City Council
Page 2

The management's discussion and analysis on pages 4 through 17 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 inquiries 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. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

LLOYD D. JOHNSON
Certified Public Accountant

May 14, 2007
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, 2006. 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 \$5,756,236 (*net assets*). Of this amount, \$1,747,566 (*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 \$1,143,002, 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 \$483,844, or 64% of total general fund expenditures.
- The City of Harmony decreased the existing debt principal by \$440,048 during the current fiscal year.

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, streets, community development, library, arts, 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 18-20 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 14 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 13 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, debt, 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 21-25 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, sewer, garbage and recycling, electric, economic development authority, and senior living are reported as major funds.

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 26-35 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 37-52 of this report.

Other Information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented herewith. Combining and individual financial statements and schedules can be found on pages 53-60.

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 \$5,756,236 at the close of the fiscal year, with \$2,495,515 of these net assets from governmental activities and \$3,260,721 from proprietary funds.

A significant portion of the City of Harmony's net assets \$1,635,113 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

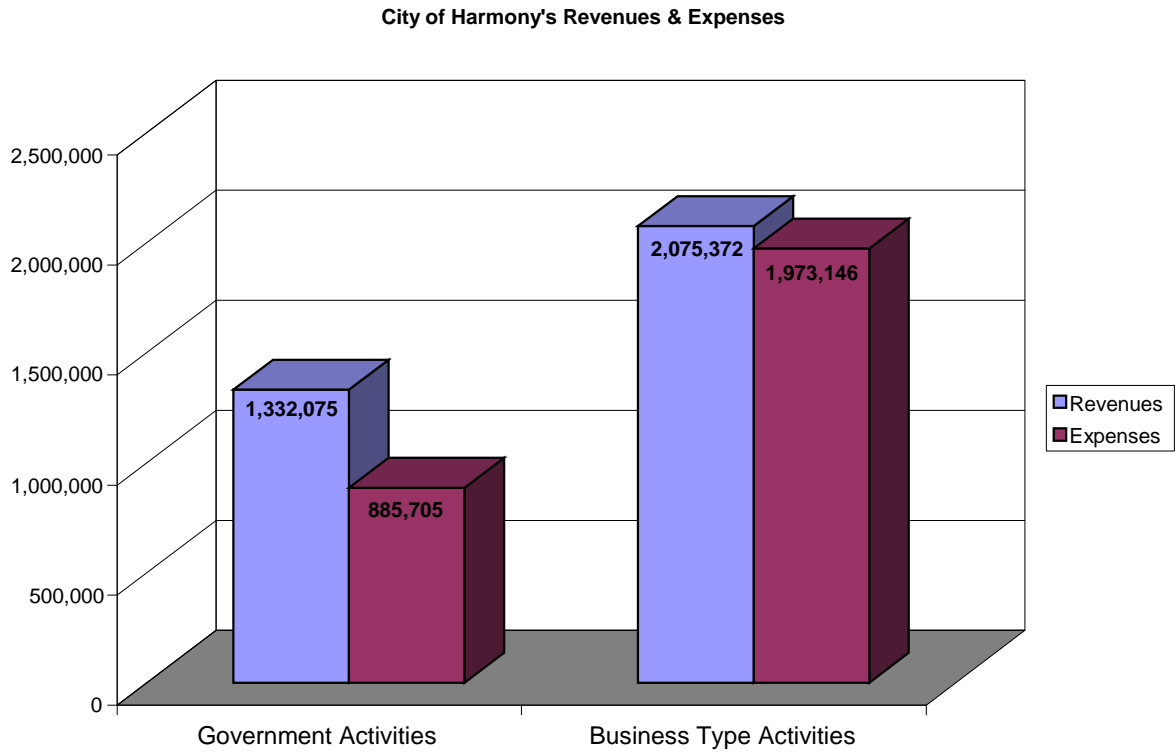
	Government Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 1,758,948	\$ 1,823,050	\$ 1,031,020	\$ 1,003,346	\$ 2,789,968	\$ 2,826,396
Capital assets	2,476,215	2,161,674	6,559,446	6,630,961	9,035,661	8,792,635
Total assets	<u>\$ 4,235,163</u>	<u>\$ 3,984,724</u>	<u>\$ 7,590,466</u>	<u>\$ 7,634,307</u>	<u>\$ 11,825,629</u>	<u>\$ 11,619,031</u>
Long-term liabilities outstanding	\$ 1,186,102	\$ 1,400,794	\$ 4,115,468	\$ 4,340,774	\$ 5,301,570	\$ 5,741,568
Other liabilities	553,546	472,306	214,277	197,994	767,823	670,300
Total liabilities	<u>1,739,648</u>	<u>1,873,100</u>	<u>4,329,745</u>	<u>4,538,768</u>	<u>6,069,393</u>	<u>6,411,868</u>
Net assets:						
Invested in capital assets, net of related debt	1,635,113	1,155,880	2,377,128	2,220,076	4,012,241	3,375,956
Restricted	(3,571)	12,553	-	-	(3,571)	12,553
Unrestricted	863,973	943,191	883,593	875,463	1,747,566	1,818,654
Total Net Assets	<u>2,495,515</u>	<u>2,111,624</u>	<u>3,260,721</u>	<u>3,095,539</u>	<u>5,756,236</u>	<u>5,207,163</u>
Total Liabilities & Net Assets	<u>\$ 4,235,163</u>	<u>\$ 3,984,724</u>	<u>\$ 7,590,466</u>	<u>\$ 7,634,307</u>	<u>\$ 11,825,629</u>	<u>\$ 11,619,031</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.

City of Harmony's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues						
Charges for services	\$ 202,858	\$ 194,486	\$ 1,938,874	\$ 1,831,571	\$ 2,141,732	\$ 2,026,057
Operating Grants & Contributions	33,164	22,125			33,164	22,125
Capital Grants & Contributions		200,649	90,047	231,917	90,047	432,566
General revenues:						
Taxes	443,101	432,418			443,101	432,418
Intergovernmental Revenue	521,457	524,461			521,457	524,461
Unrestricted investment earnings	44,116	28,336	23,533	15,611	67,649	43,947
Other	87,379	51,657	22,918	86,728	110,297	138,385
Total revenues	1,332,075	1,454,132	2,075,372	2,165,827	3,407,447	3,619,959
Expenses:						
General government	108,433	102,617			108,433	102,617
Public safety	274,837	259,475			274,837	259,475
Highway and Streets	152,316	170,176			152,316	170,176
Library	80,610	75,877			80,610	75,877
Bond Interest and Fiscal Charges	34,044	36,111			34,044	36,111
Capital Outlay		208,785			-	208,785
Other	46,039	30,276			46,039	30,276
Parks and Recreation	189,426	172,788			189,426	172,788
Water			81,467	94,700	81,467	94,700
Sewer			266,976	290,798	266,976	290,798
Garbage & Recycling			37,986	38,162	37,986	38,162
Electric			697,420	569,914	697,420	569,914
Economic Development Authority			89,913	90,537	89,913	90,537
Senior Living			799,384	754,550	799,384	754,550
Total expenses	885,705	1,056,105	1,973,146	1,838,661	2,858,851	2,894,766
Increase in net assets before transfers and other items	446,370	398,027	102,226	327,166	548,596	725,193
Transfers	(62,479)	(107,508)	62,956	107,508	477	-
Increase in net assets	383,891	290,519	165,182	434,674	549,073	725,193
Net Assets – January 1	2,111,624	1,411,105	3,095,539	3,070,865	5,207,163	4,481,970
Prior Period Adjustment		410,000		(410,000)	-	-
Net Assets – December 31	\$ 2,495,515	\$ 2,111,624	\$ 3,260,721	\$ 3,095,539	\$ 5,756,236	\$ 5,207,163

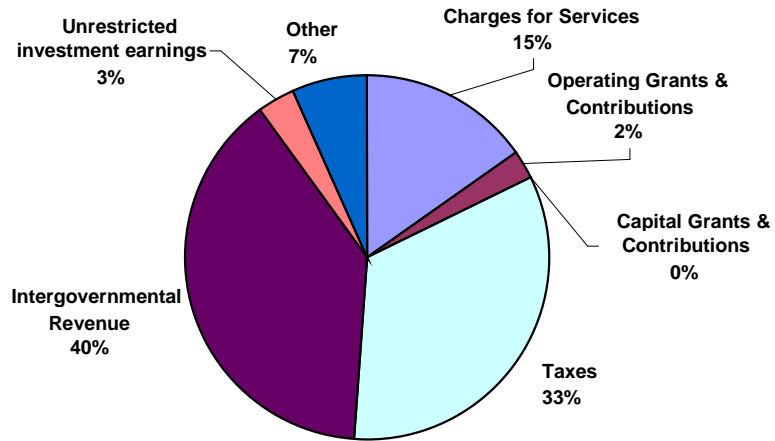
The following graph shows 2006 revenues and expenses for both government activities and business-type activities.



Government Activities. Government activities account for 43% of the City of Harmony's net assets.

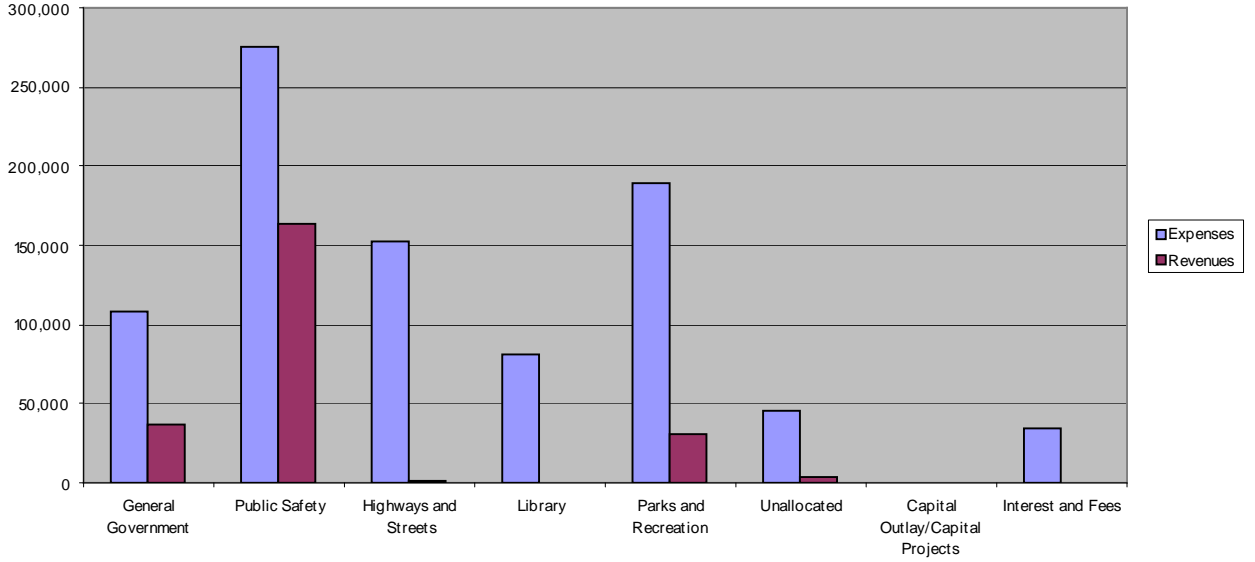
The total increase in net assets for governmental activities is \$383,891 for the year ended December 31, 2006. The total revenues for governmental activities amounted to \$1,332,075 while total expenses were \$885,705 and transfers out were \$62,479, which is illustrated in the chart above.

Government Activities Revenues

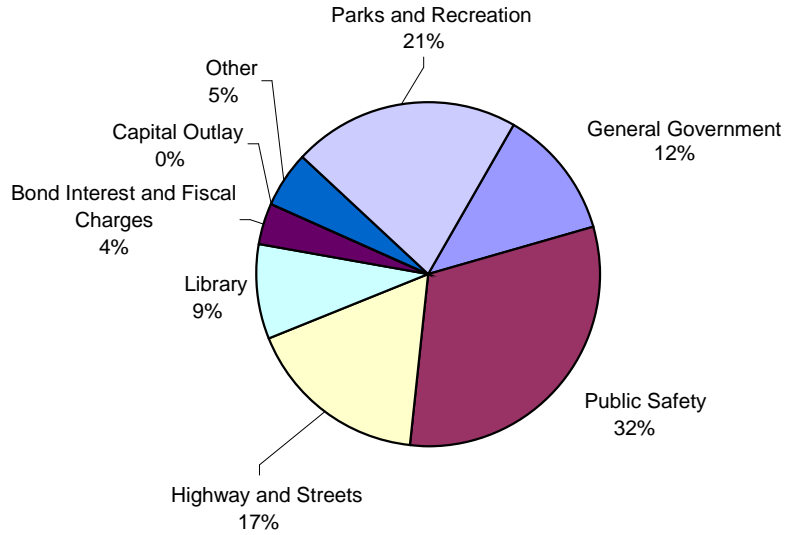


- Capital Grants and Contributions decreased during the year, resulting from the industrial park project being completed in 2005.
- Interest Earnings increased due to increase in interest rate earnings.
- Intergovernmental revenue increased due to state increasing LGA (Local Government Aid)
- Community Center rent increased due to costs being recovered for building improvements.

Expenses and Program Revenues-Governmental Activities



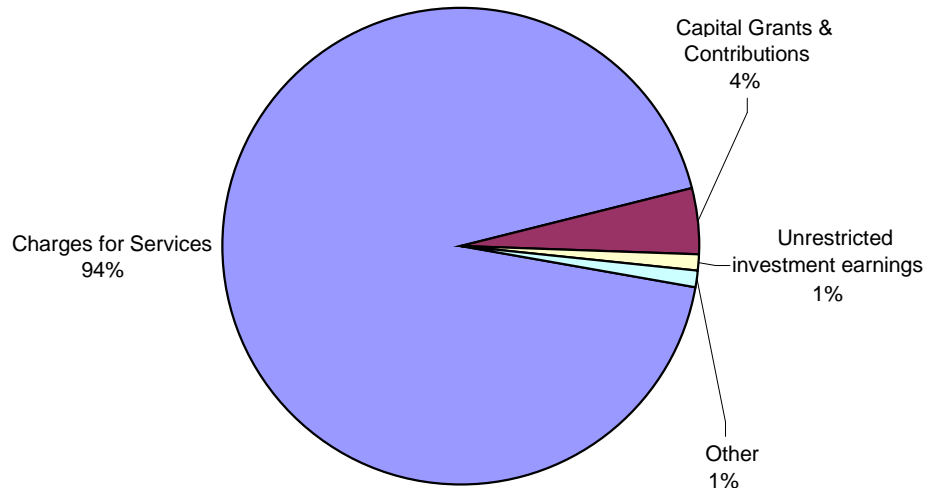
Government Activities Expenses



- Public safety increased, which was due to an increase in the number of emergency calls during the year. Also, a new fire truck was ordered in 2005 that was paid and delivered in 2006.
- Highway and streets increased which was due to seal coating municipal streets and purchase of maintenance vehicle.

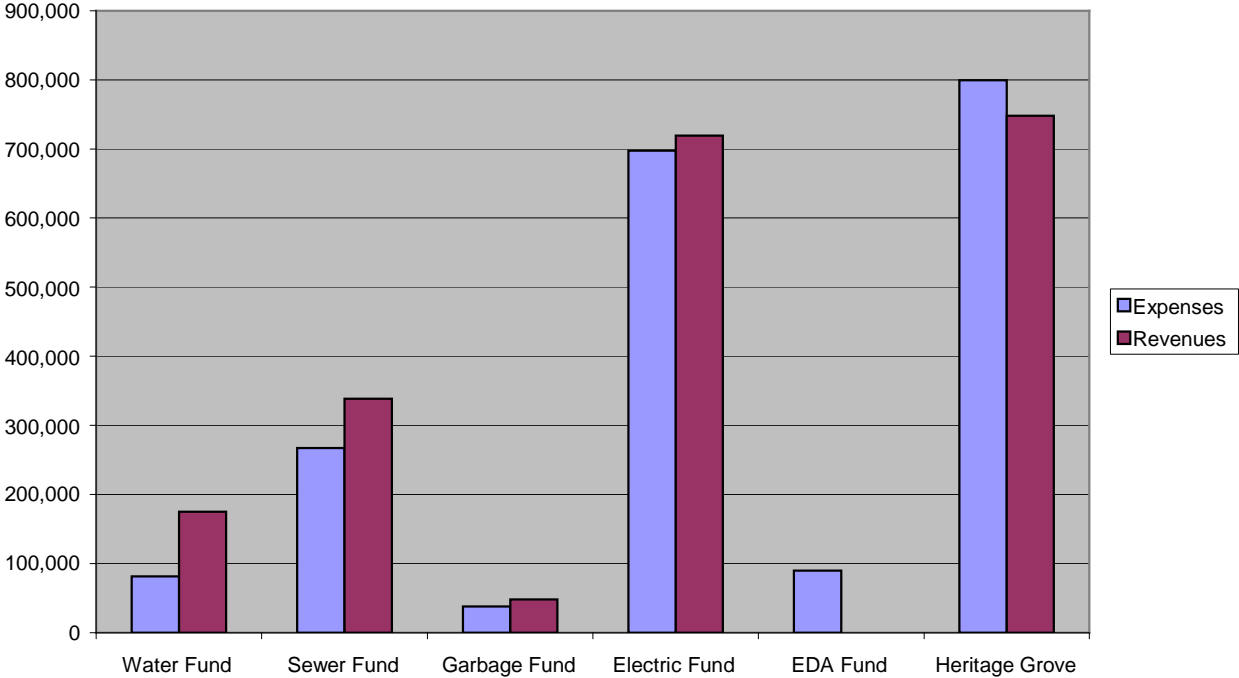
Business-type activities. Business-type activities increased the City of Harmony net assets \$165,182 for the year ended December 31, 2006. Business-type activities revenues and expenses are illustrated in the charts below.

Business-Type Activities Revenue

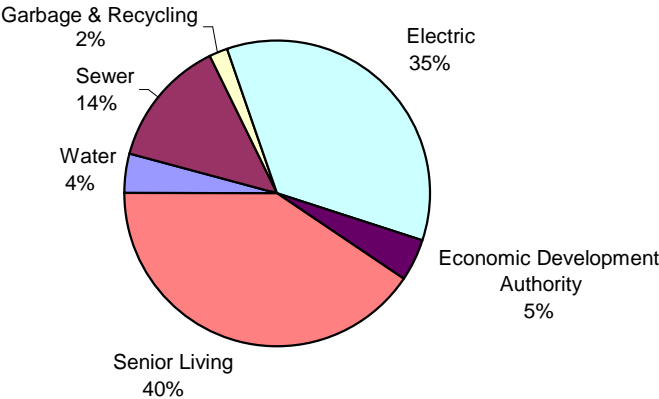


- Charges for services increased because electric rates increased to recover from wholesale power costs increasing.
- Capital contributions decreased due to a reduction in street and utility projects for the year.

Expenses and Program Revenues-Business Type-Activities



Business-Type Activities Expenses



- Expenses increased for the senior living facility because of higher occupancy levels.
- The wholesale electric power costs increased coupled with warmer weather.
- The sewer fund had decreased expenses due to our maintenance personnel being trained and licensed to operate the sewer facility thus contractual services were eliminated.

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 \$1,143,002.

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 \$483,844.

The fund balance of the City of Harmony's general fund increased by \$77,157 during the current year. Key factors in this change are as follows:

- Natural gas expenditures were budgeted \$10,000 higher but due to a mild winter were less than budgeted.
- 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 \$8,000 increase in revenue.
- Expenditures were over budget by \$10,000 in the highways and streets area, due to repairs to municipal streets and lower snow removal costs.

The debt service funds have a total fund balance of \$157,748, 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 bond issues.

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	\$153,648
Sewer	\$ 12,864
Garbage & Recycling	(\$ 8,855)
Electric	\$588,701

Economic Development	\$ 18,085
Heritage Grove	\$119,150

General Fund Budgetary Highlights. After the 2006 budget was developed, the council approved the purchase of a maintenance vehicle amounting to \$16,500. Expenditures were under budget for natural gas costs due to a mild winter and less 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, 2006 amounts to \$8,968,811 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, furniture, and infrastructure.

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

- \$300,000 Residential Housing Development. Extension of infrastructure (utilities and streets) in the city for the development of 14 residential lots through a cooperative city/county tax abatement.
- \$200,000 Fire Truck. The City of Harmony purchased a pumper/tanker fire truck for the Harmony Fire Department along with equipment.
- \$25,000 Residential Housing Development. Extension of infrastructure (water and electric) for a private residential development of 4 lots.
- \$17,500 Sewer Plant Improvements. Load controls and dialers were updated along with the wet well float.
- \$55,000 Land. EDA purchased land for redevelopment in downtown.
- \$16,500 Maintenance Vehicle. The City of Harmony purchased a used maintenance vehicle.
- \$27,000 Community Center Improvements. Electrical improvements to the community center in preparation for energy-efficient building improvements.

City of Harmony's Capital Assets

	Government Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 225,268	\$ 170,268	\$ 275,111	\$ 275,111	\$ 500,379	\$ 445,379
Building and Improvements	852,536	852,536	4,806,936	4,804,786	5,659,472	5,657,322
Vehicles	808,330	617,186	28,700	28,700	837,030	645,886
Machinery and Equipment	102,029	102,029			102,029	102,029
Production and Distribution			522,039	509,726	522,039	509,726
Other Equipment	225,075	211,900			225,075	211,900
Infrastructure	2,446,297	2,238,517	2,751,442	2,597,030	5,197,739	4,835,547
Work-In-Progress			27,285		27,285	-
Total assets	4,659,535	4,192,436	8,411,513	8,215,353	13,071,048	12,407,789
Less: Accumulated Depreciation	(2,183,320)	(2,030,762)	(1,918,917)	(1,654,503)	(4,102,237)	(3,685,265)
Net Capital Assets	\$ 2,476,215	\$ 2,161,674	\$ 6,492,596	\$ 6,560,850	\$ 8,968,811	\$ 8,722,524

More detailed information on the City of Harmony's capital assets is presented in the Notes to the Financial Statements on page 42.

Long-Term Debt. At the end of the fiscal year, the City of Harmony had long-term debt of \$5,301,520. General obligation debt outstanding of \$2,685,000 was used to finance construction of a senior living facility that is backed by the full faith and credit of the city. General obligation note outstanding of \$1,113,673 was used to finance improvements to the sewer treatment plant in 1993 and 2004. 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	
	2006	2005	2006	2005	2006	2005
General Obligation Bonds	\$ 494,000	\$ 577,000			\$ 494,000	\$ 577,000
General Obligation Improvement	255,000	320,000			255,000	320,000
General Obligation Tax Increment	230,000	285,000			230,000	285,000
USDA Promissory Note	207,102	218,794			207,102	218,794
General Obligation Note			1,113,673	1,208,751	1,113,673	1,208,751
General Obligation Revenue			3,000,000	3,125,000	3,000,000	3,125,000
Capital Lease			1,745	7,023	1,745	7,023
Total assets	\$ 1,186,102	\$ 1,400,794	\$ 4,115,418	\$ 4,340,774	\$ 5,301,520	\$ 5,741,568

Additional information on the City of Harmony's long-term debt can be found in the Notes to the Financial Statements on pages 47-48.

Factors on the City of Harmony's Future

The City of Harmony had 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.

The City of Harmony Economic Development Authority has purchased deteriorated parcels in the downtown area for redevelopment. The City of Harmony is discussing with a developer to redevelop the property for a commercial business.

The City of Harmony Economic Development Authority continues to recruit businesses into the industrial park.

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 saw

significant increases in its wholesale power costs. There has been significant rate increases in electric rates to offset the higher wholesale power costs. With rate changes in the garbage and recycling rates, the fund recently has improved financially.

The City of Harmony's senior living facility continues to operate well, however, with similar facilities opening in the area, 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, 2006

(With Partial Comparative Information as of December 31, 2005)

	Governmental Activities	Business-Type Activities	2006 Total	2005 Total
ASSETS				
Cash and Cash Equivalents	\$ 1,218,869	\$ 738,994	\$ 1,957,863	\$ 1,871,994
Receivables				
Accounts	34,591	155,809	190,400	196,890
Taxes	7,176	-	7,176	5,233
Special Assessments	311,589	5,841	317,430	321,549
Note	42,154	-	42,154	60,588
Due from Other Funds	19,761	95,300	115,061	26,785
Due from Other Governments	-	-	-	-
Inventory	-	26,676	26,676	19,220
Loans Receivable	118,526	-	118,526	246,244
Prepaid Insurance/Other	6,282	8,400	14,682	77,893
Capital Assets, Net of Accumulated Depreciation	2,476,215	6,492,596	8,968,811	8,722,524
Loan Costs and Financing Fees, Net of Amortization	-	66,850	66,850	70,111
TOTAL ASSETS	\$ 4,235,163	\$ 7,590,466	\$ 11,825,629	\$ 11,619,031
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts Payable	\$ 38,814	\$ 104,665	\$ 143,479	\$ 120,533
Retainage Payable	-	-	-	-
Accrued Salaries	2,793	7,586	10,379	10,117
Accrued Sales Tax	5	3,688	3,693	2,753
Accrued Interest Payable	13,798	25,797	39,595	43,638
Other Accrued Expenses	1,366	3,096	4,462	3,149
Due to Other Funds	95,300	19,761	115,061	26,785
Due to Other Governments	1,838	-	1,838	-
Meter Deposits/Lease Deposits	-	22,225	22,225	22,905
Deferred Revenue	357,304	-	357,304	376,296
Accrued Compensated Absences	42,328	27,459	69,787	64,124
Long-Term Liabilities				
Due Within One Year	224,199	228,981	453,180	699,690
Due in More than One Year	961,903	3,886,487	4,848,390	5,041,878
TOTAL LIABILITIES	1,739,648	4,329,745	6,069,393	6,411,868
Net Assets				
Invested in Capital Assets, Net of Related Debt	1,635,113	2,377,128	4,012,241	3,375,956
Restricted For Small City Grant	(3,571)	-	(3,571)	12,553
Unrestricted	863,973	883,593	1,747,566	1,818,654
TOTAL NET ASSETS	2,495,515	3,260,721	5,756,236	5,207,163
TOTAL LIABILITIES AND NET ASSETS	\$ 4,235,163	\$ 7,590,466	\$ 11,825,629	\$ 11,619,031

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, 2006

(With Partial Comparative Information For the Year Ended December 31, 2005)

		<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contri- butions</u>	<u>Capital Grants and Contri- butions</u>
<u>GOVERNMENTAL ACTIVITIES:</u>				
General Government	\$ 108,433	\$ 36,692	\$ -	\$ -
Public Safety	274,837	157,252	6,075	-
Highways and Streets	152,316	1,774	-	-
Library	80,610	-	-	-
Parks and Recreation	189,426	3,290	27,089	-
Unallocated	46,039	3,850	-	-
Capital Outlay/Capital Projects	-	-	-	-
Interest and Fees	34,044	-	-	-
	<u>885,705</u>	<u>202,858</u>	<u>33,164</u>	<u>-</u>
<u>TOTAL GOVERNMENTAL ACTIVITIES</u>				
<u>BUSINESS-TYPE ACTIVITIES:</u>				
Water Fund	81,467	140,270	-	34,692
Sewer Fund	266,976	283,192	-	55,355
Garbage Fund	37,986	48,258	-	-
Electric Fund	697,420	719,268	-	-
EDA Fund	89,913	-	-	-
Heritage Grove	799,384	747,886	-	-
	<u>1,973,146</u>	<u>1,938,874</u>	<u>-</u>	<u>90,047</u>
<u>TOTAL BUSINESS-TYPE ACTIVITIES</u>				
<u>TOTAL PRIMARY GOVERNMENT</u>				
	<u>\$ 2,858,851</u>	<u>\$ 2,141,732</u>	<u>\$ 33,164</u>	<u>\$ 90,047</u>

General Revenues:

Taxes

Property Taxes, Levied for General
Purposes

Property Taxes, Levied for Debt

Tax Increments

Special Assessments

Intergovernmental Revenue, Unrestricted

Interest and Investment Earnings

Gain (Loss) on Sale of Fixed Assets

Miscellaneous

Transfers, Net

TOTAL GENERAL REVENUES

CHANGE IN NET ASSETS

NET ASSETS - BEGINNING OF YEAR

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	2006 Total	2005 Total
\$ (71,741)	\$ -	\$ (71,741)	\$ (60,222)
(111,510)	-	(111,510)	(104,459)
(150,542)	-	(150,542)	(167,638)
(80,610)	-	(80,610)	(75,877)
(159,047)	-	(159,047)	(155,326)
(42,189)	-	(42,189)	(30,276)
-	-	-	(8,936)
<u>(34,044)</u>	<u>-</u>	<u>(34,044)</u>	<u>(36,111)</u>
<u>(649,683)</u>	<u>-</u>	<u>(649,683)</u>	<u>(638,845)</u>
-	93,495	93,495	125,063
-	71,571	71,571	128,381
-	10,272	10,272	6,501
-	21,848	21,848	47,605
-	(89,913)	(89,913)	(90,494)
<u>-</u>	<u>(51,498)</u>	<u>(51,498)</u>	<u>7,771</u>
<u>-</u>	<u>55,775</u>	<u>55,775</u>	<u>224,827</u>
(649,683)	55,775	(593,908)	(414,018)
233,403	-	233,403	230,248
125,279	-	125,279	120,677
84,419	-	84,419	81,493
-	3,679	3,679	235
521,457	-	521,457	524,461
44,116	23,533	67,649	43,947
1,086	-	1,086	7,425
86,293	19,239	105,532	130,725
<u>(62,479)</u>	<u>62,956</u>	<u>477</u>	<u>-</u>
<u>1,033,574</u>	<u>109,407</u>	<u>1,142,981</u>	<u>1,139,211</u>
383,891	165,182	549,073	725,193
<u>2,111,624</u>	<u>3,095,539</u>	<u>5,207,163</u>	<u>4,481,970</u>
<u>\$ 2,495,515</u>	<u>\$ 3,260,721</u>	<u>\$ 5,756,236</u>	<u>\$ 5,207,163</u>

CITY OF HARMONY, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2006

(With Partial Comparative Information as of December 31, 2005)

	General	Other Governmental Funds	Total Governmental Funds	
			2006	2005
ASSETS				
Cash and Cash Equivalents	\$ 513,309	\$ 705,560	\$ 1,218,869	\$ 1,050,411
Receivables				
Accounts	974	33,617	34,591	52,195
Taxes	5,486	1,690	7,176	5,233
Special Assessments	-	311,589	311,589	315,708
Note	42,154	-	42,154	60,588
Due from Other Funds	-	19,761	19,761	21,995
Due from Other Governments	-	-	-	-
Prepaid Insurance/Other	4,177	2,105	6,282	70,676
TOTAL ASSETS	\$ 566,100	\$ 1,074,322	\$ 1,640,422	\$ 1,576,806
LIABILITIES AND FUND BALANCES				
<u>Liabilities</u>				
Accounts Payable	\$ 33,328	\$ 5,486	\$ 38,814	\$ 33,762
Retainage Payable	-	-	-	-
Accrued Salaries	1,845	948	2,793	2,945
Accrued Sales Tax	2	3	5	3
Other Accrued Expenses	1,366	-	1,366	-
Due to Other Funds	-	95,300	95,300	4,789
Due to Other Governments	-	1,838	1,838	-
Deferred Revenue	45,715	311,589	357,304	376,296
TOTAL LIABILITIES	82,256	415,164	497,420	417,795
<u>Fund Balances</u>				
Reserved	-	(3,571)	(3,571)	12,553
Unreserved, Designated	319,220	412,524	731,744	609,476
Unreserved, Undesignated	164,624	250,205	414,829	536,982
TOTAL FUND BALANCES	483,844	659,158	1,143,002	1,159,011
TOTAL LIABILITIES AND FUND BALANCES	\$ 566,100	\$ 1,074,322	\$ 1,640,422	\$ 1,576,806

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

CITY OF HARMONY, MINNESOTA

RECONCILIATION OF THE BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
December 31, 2006

(With Partial Comparative Information as of December 31, 2005)

	<u>2006</u>	<u>2005</u>
TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	\$1,143,002	\$1,159,011
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	4,659,535	4,192,436
Less: Accumulated Depreciation	(2,183,320)	(2,030,762)
Governmental Funds do not report a receivable for revolving loans.	118,526	246,244
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	(1,186,102)	(1,400,794)
Compensated Absences Payable	(42,328)	(38,316)
Governmental Funds do not report a liability for accrued interest until due and payable.	<u>(13,798)</u>	<u>(16,195)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>\$2,495,515</u>	<u>\$2,111,624</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, 2006

(With Partial Comparative Information as of December 31, 2005)

	General	Other Governmental Funds	Total Governmental Funds	
			2006	2005
<u>REVENUES</u>				
Taxes	\$ 240,430	\$ 209,698	\$ 450,128	\$ 436,285
Special Assessments	7	47,851	47,858	103,106
Intergovernmental	453,631	67,826	521,457	657,988
Licenses and Permits	9,887	-	9,887	21,735
Charges for Service	29,056	118,713	147,769	138,473
Fines and Forfeits	2,791	-	2,791	1,069
Note - Nursing Home/Hospital	20,000	-	20,000	20,000
Interest Earnings	10,442	17,306	27,748	20,497
Refunds and Reimbursements	4,130	-	4,130	12,093
Miscellaneous	14,858	69,981	84,839	63,635
TOTAL REVENUES	785,232	531,375	1,316,607	1,474,881
<u>EXPENDITURES</u>				
General Government	105,543	-	105,543	101,845
Public Safety	91,413	119,684	211,097	198,430
Highways and Streets	111,468	-	111,468	83,865
Library	-	80,610	80,610	75,877
Parks and Recreation	128,414	46,494	174,908	158,583
Unallocated	15,180	60,259	75,439	92,839
Capital Outlay/Capital Projects	16,557	255,074	271,631	477,557
<u>Debt Service</u>				
Principal	-	203,000	203,000	663,000
Interest and Fees	-	36,441	36,441	50,466
TOTAL EXPENDITURES	468,575	801,562	1,270,137	1,902,462
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	316,657	(270,187)	46,470	(427,581)
<u>OTHER FINANCING SOURCES (USES)</u>				
Proceeds from Bonds/Notes	-	-	-	-
Operating Transfers In	51,500	283,325	334,825	477,949
Operating Transfers Out	(291,000)	(106,304)	(397,304)	(585,457)
TOTAL OTHER FINANCING SOURCES (USES)	(239,500)	177,021	(62,479)	(107,508)
NET CHANGE IN FUND BALANCES	77,157	(93,166)	(16,009)	(535,089)
FUND BALANCE - BEGINNING OF YEAR	406,687	752,324	1,159,011	1,694,100
FUND BALANCE - END OF YEAR	\$ 483,844	\$ 659,158	\$ 1,143,002	\$ 1,159,011

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

CITY OF HARMONY, MINNESOTA

RECONCILIATION OF THE STATEMENT OF
 REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES
 TO STATEMENT OF ACTIVITIES
 GOVERNMENTAL FUNDS
 December 31, 2006

(With Partial Comparative Information as of December 31, 2005)

	<u>2006</u>	<u>2005</u>
NET CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS	\$ (16,009)	\$ (535,089)
Amounts reported for governmental activities in the statement of activities are different because:		
Revolving Loan Principal is recorded as a revenue in the governmental funds, but reduces a receivable in the statement of net assets.	(157,118)	(20,748)
Revolving Loans issued adds to the receivable on the Statement of Net Assets.	29,400	62,563
Capital outlays are reported in governmental funds as expenditures. However in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.		
Capital Outlays	479,412	268,772
Depreciation Expense	(164,871)	(171,755)
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	214,692	674,206
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	2,397	14,355
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in Compensated Absences	<u>(4,012)</u>	<u>(1,785)</u>
CHANGES IN NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>\$ 383,891</u>	<u>\$ 290,519</u>

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

CITY OF HARMONY, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended December 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
<u>REVENUES</u>				
Taxes	\$ 281,702	\$ 281,702	\$ 240,430	\$ (41,272)
Special Assessments	-	-	7	7
Intergovernmental	387,430	387,430	453,631	66,201
Licenses and Permits	9,450	9,450	9,887	437
Fines and Forfeits	810	810	2,791	1,981
Other Revenues	75	75	11,558	11,483
Rental Income	26,250	26,250	29,056	2,806
Donations	3,000	3,000	3,300	300
Note - Nursing Home/Hospital	20,000	20,000	20,000	-
Interest Earnings	4,000	4,000	10,442	6,442
Refunds and Reimbursements	9,100	9,100	4,130	(4,970)
TOTAL REVENUES	741,817	741,817	785,232	43,415
<u>EXPENDITURES</u>				
General Governmental	106,205	106,205	105,543	662
Public Safety	91,762	91,762	91,413	349
Highways and Streets	120,482	120,482	111,468	9,014
Parks and Recreation	149,036	149,036	128,414	20,622
Unallocated	13,355	13,355	15,180	(1,825)
Capital Outlay	5,000	5,000	16,557	(11,557)
TOTAL EXPENDITURES	485,840	485,840	468,575	17,265
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	255,977	255,977	316,657	60,680
<u>OTHER FINANCING SOURCES (USES)</u>				
Proceeds from Bonds/Notes	-	-	-	-
Operating Transfers In	35,000	35,000	51,500	16,500
Operating Transfers Out	(290,990)	(290,990)	(291,000)	(10)
TOTAL OTHER FINANCING SOURCES (USES)	(255,990)	(255,990)	(239,500)	16,490
NET CHANGE IN FUND BALANCES	(13)	(13)	77,157	77,170
FUND BALANCE - BEGINNING OF YEAR	406,687	406,687	406,687	-
FUND BALANCE - END OF YEAR	\$ 406,674	\$ 406,674	\$ 483,844	\$ 77,170

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, 2006

(With Partial Comparative Information For the Year Ended December 31, 2005)

	Water Fund	Sewer Fund	Electric Fund
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 142,976	\$ 8,555	\$ 464,694
Receivables			
Accounts	13,965	27,120	89,753
Special Assessments	-	5,841	-
Due from Other Funds	-	-	95,300
Inventory	8,423	-	18,253
Prepaid Insurance/Other	547	266	1,121
Capital Assets, Net of Accumulated Depreciation	518,322	2,709,395	607,798
Loan Costs and Financing Fees, Net of Amortization	-	-	-
TOTAL ASSETS	\$ 684,233	\$ 2,751,177	\$ 1,276,919
 <u>LIABILITIES AND NET ASSETS</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 2,838	\$ 5,530	\$ 65,547
Retainage Payable	-	-	-
Accrued Salaries	413	556	279
Accrued Sales Tax	141	-	3,349
Accrued Interest Payable	-	13,818	-
Meter Deposits/Lease Deposits	-	-	5,125
Other Accrued Expenses	-	-	-
Due to Other Funds	-	-	-
Accrued Compensated Absences	8,871	9,014	6,120
Bonds/Notes Payable	-	1,428,673	-
Capital Lease Payable	-	-	-
TOTAL LIABILITIES	12,263	1,457,591	80,420
 <u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	518,322	1,280,722	607,798
Unrestricted	153,648	12,864	588,701
TOTAL NET ASSETS	671,970	1,293,586	1,196,499
TOTAL LIABILITIES AND NET ASSETS	\$ 684,233	\$ 2,751,177	\$ 1,276,919

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

<u>Heritage Grove</u>	<u>Garbage Fund</u>	<u>EDA Fund</u>	<u>2006 Total Proprietary Funds</u>	<u>2005 Total Proprietary Funds</u>
\$ 114,364	\$ (10,937)	\$ 19,342	\$ 738,994	\$ 821,583
17,915	4,956	2,100	155,809	144,695
-	-	-	5,841	5,841
-	-	-	95,300	4,790
-	-	-	26,676	19,220
6,270	20	176	8,400	7,217
2,547,894	-	109,187	6,492,596	6,560,850
66,850	-	-	66,850	70,111
<u>\$ 2,753,293</u>	<u>\$ (5,961)</u>	<u>\$ 130,805</u>	<u>\$ 7,590,466</u>	<u>\$ 7,634,307</u>
\$ 28,283	\$ -	\$ 2,467	\$ 104,665	\$ 86,771
-	-	-	-	-
6,030	178	130	7,586	7,173
-	198	-	3,688	2,750
11,979	-	-	25,797	27,443
17,100	-	-	22,225	22,905
3,096	-	-	3,096	3,149
19,761	-	-	19,761	21,995
-	2,518	936	27,459	25,808
2,685,000	-	-	4,113,673	4,333,751
1,795	-	-	1,795	7,023
2,773,044	2,894	3,533	4,329,745	4,538,768
(138,901)	-	109,187	2,377,128	2,220,076
119,150	(8,855)	18,085	883,593	875,463
<u>(19,751)</u>	<u>(8,855)</u>	<u>127,272</u>	<u>3,260,721</u>	<u>3,095,539</u>
<u>\$ 2,753,293</u>	<u>\$ (5,961)</u>	<u>\$ 130,805</u>	<u>\$ 7,590,466</u>	<u>\$ 7,634,307</u>

CITY OF HARMONY, MINNESOTA

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

For the Year Ended December 31, 2006

(With Partial Comparative Information For the Year Ended December 31, 2005)

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Electric Fund</u>
<u>OPERATING REVENUE</u>			
Sales and Rentals	\$ 140,270	\$ 283,192	\$ 719,268
TOTAL OPERATING REVENUE	140,270	283,192	719,268
<u>OPERATING EXPENSES</u>			
<u>Operations</u>			
Salaries	21,938	23,730	11,755
PERA and FICA	3,020	3,219	1,599
Employee Benefits	4,752	7,127	2,672
Service Contracts	1,890	5,738	-
Purchased Power	-	-	575,561
Supplies	12,100	5,056	2,194
Utilities	11,269	41,751	11,722
Maintenance and Repairs	3,001	25,885	25,009
Travel and Training	75	1,126	-
Professional Services	-	7,728	-
Miscellaneous	339	-	20
<u>Administration</u>			
Salaries	5,357	5,279	8,935
PERA and FICA	722	712	1,202
Employee Benefits	1,167	1,140	1,881
Professional Services	-	-	-
Insurance	1,624	380	5,191
Office/Store Expense	995	910	2,149
Miscellaneous	1,000	2,030	5,738
Depreciation/Amortization	12,218	97,448	41,792
TOTAL OPERATING EXPENSES	81,467	229,259	697,420
OPERATING INCOME (LOSS)	58,803	53,933	21,848
<u>NON-OPERATING INCOME (EXPENSE)</u>			
Interest Income	5,039	(1,231)	15,123
Special Assessments	321	3,170	188
Capital Credits and Miscellaneous	46	200	15,992
Interest Expense	-	(37,717)	-
Gain (Loss) on Sale of Fixed Assets	-	-	-
Capital Contributions	34,692	55,355	-
TOTAL NON-OPERATING INCOME (EXPENSE)	40,098	19,777	31,303
INCOME (LOSS) BEFORE OPERATING TRANSFERS	\$ 98,901	\$ 73,710	\$ 53,151

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

<u>Heritage Grove</u>	<u>Garbage Fund</u>	<u>EDA Fund</u>	<u>2006 Totals</u>	<u>2005 Totals</u>
<u>\$ 747,886</u>	<u>\$ 48,258</u>	<u>\$ -</u>	<u>\$ 1,938,874</u>	<u>\$ 1,831,571</u>
747,886	48,258	-	1,938,874	1,831,571
220,199	4,793	-	282,415	260,177
14,130	644	-	22,612	19,958
2,518	1,046	-	18,115	16,211
-	27,523	-	35,151	73,331
-	-	-	575,561	447,356
33,995	193	-	53,538	64,084
33,306	-	-	98,048	91,822
18,185	-	-	72,080	92,878
-	-	227	1,428	726
-	-	2,208	9,936	6,151
64,346	-	30,884	95,589	99,865
53,808	2,052	9,292	84,723	76,761
4,060	279	1,112	8,087	7,290
-	472	1,327	5,987	6,127
-	-	24,048	24,048	23,036
81,001	-	733	88,929	77,738
8,016	984	157	13,211	13,165
1,592	-	19,750	30,110	19,191
<u>116,079</u>	<u>-</u>	<u>175</u>	<u>267,712</u>	<u>243,024</u>
<u>651,235</u>	<u>37,986</u>	<u>89,913</u>	<u>1,787,280</u>	<u>1,638,891</u>
96,651	10,272	(89,913)	151,594	192,680
4,542	(475)	535	23,533	15,611
-	-	-	3,679	(2,428)
-	-	3,001	19,239	79,068
(148,149)	-	-	(185,866)	(197,107)
-	-	-	-	7,425
<u>-</u>	<u>-</u>	<u>-</u>	<u>90,047</u>	<u>231,917</u>
<u>(143,607)</u>	<u>(475)</u>	<u>3,536</u>	<u>(49,368)</u>	<u>134,486</u>
\$ (46,956)	\$ 9,797	\$ (86,377)	\$ 102,226	\$ 327,166

CITY OF HARMONY, MINNESOTA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended December 31, 2006

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Electric Fund</u>
<u>OPERATING TRANSFERS</u>			
Operating Transfers In	\$ 2,500	\$ 74,436	\$ -
Operating Transfers Out	(65,004)	(2,496)	(32,496)
NET INCOME (LOSS)	36,397	145,650	20,655
NET ASSETS - BEGINNING OF YEAR	635,573	1,147,936	1,175,844
Prior Period Adjustment	-	-	-
NET ASSETS - END OF YEAR	<u>\$ 671,970</u>	<u>\$ 1,293,586</u>	<u>\$ 1,196,499</u>

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

<u>Heritage Grove</u>	<u>Garbage Fund</u>	<u>EDA Fund</u>	<u>2006 Totals</u>	<u>2005 Totals</u>
\$ -	\$ -	\$ 86,016	\$ 162,952	\$ 162,504
-	-	-	(99,996)	(54,996)
(46,956)	9,797	(361)	165,182	434,674
27,205	(18,652)	127,633	3,095,539	3,070,865
-	-	-	-	(410,000)
<u>\$ (19,751)</u>	<u>\$ (8,855)</u>	<u>\$ 127,272</u>	<u>\$ 3,260,721</u>	<u>\$ 3,095,539</u>

CITY OF HARMONY, MINNESOTA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Year Ended December 31, 2006

(With Partial Comparative Information For the Year Ended December 31, 2005)

	Water Fund	Sewer Fund
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash Received From Customers	\$ 138,918	\$ 280,748
Other Cash Receipts	-	-
Cash Paid to Suppliers for Goods and Services	(36,561)	(93,392)
Cash Paid to Employees	(37,833)	(39,090)
Other Cash Payments	-	-
	64,524	148,266
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>		
Operating Transfers In (Out) to Other Funds	(62,504)	71,940
Other Income/Expense	46	200
	(62,458)	72,140
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Acquisition of Fixed Assets	(66,827)	(77,751)
Loan Costs and Financing Fees	-	-
Sale of Fixed Assets	-	-
Proceeds from Bonds/Notes Payable	-	-
Principal Payments on Bonds Payable	-	(140,078)
Interest Payments on Bonds Payable	-	(37,717)
Special Assessments Received	321	3,170
Capital Contributions	34,692	55,355
	(31,814)	(197,021)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest Received	5,039	(1,231)
	5,039	(1,231)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(24,709)	22,154
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	167,685	(13,599)
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 142,976	\$ 8,555

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

Electric Fund	Heritage Grove	Garbage Fund	EDA Fund	2006 Totals	2005 Totals
\$ 603,323	\$ 748,775	\$ 47,725	\$ 9,122	\$ 1,828,611	\$ 1,829,025
-	-	-	-	-	-
(607,812)	(236,025)	(28,681)	(77,819)	(1,080,290)	(1,028,649)
(28,229)	(293,920)	(9,157)	(11,646)	(419,875)	(380,517)
(80)	(3,040)	-	-	(3,120)	(12,043)
(32,798)	215,790	9,887	(80,343)	325,326	407,816
(32,496)	-	-	86,016	62,956	107,508
15,992	-	-	3,001	19,239	76,640
(16,504)	-	-	89,017	82,195	184,148
(45,627)	(5,992)	-	-	(196,197)	(286,121)
-	-	-	-	-	-
-	-	-	-	-	7,425
-	-	-	-	-	48,996
-	(85,228)	-	-	(225,306)	(222,429)
-	(148,149)	-	-	(185,866)	(197,107)
188	-	-	-	3,679	-
-	-	-	-	90,047	231,917
(45,439)	(239,369)	-	-	(513,643)	(417,319)
15,123	4,542	(475)	535	23,533	15,611
15,123	4,542	(475)	535	23,533	15,611
(79,618)	(19,037)	9,412	9,209	(82,589)	190,256
544,312	133,401	(20,349)	10,133	821,583	631,327
<u>\$ 464,694</u>	<u>\$ 114,364</u>	<u>\$ (10,937)</u>	<u>\$ 19,342</u>	<u>\$ 738,994</u>	<u>\$ 821,583</u>

CITY OF HARMONY, MINNESOTA

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the Year Ended December 31, 2006

(With Partial Comparative Information For the Year Ended December 31, 2005)

	<u>Water Fund</u>	<u>Sewer Fund</u>
<u>RECONCILIATION OF OPERATING GAIN (LOSS) TO NET CASH PROVIDED</u>		
<u>(USED) BY OPERATING ACTIVITIES:</u>		
Operating Gain (Loss)	\$ 58,803	\$ 53,933
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation Expense	12,218	97,448
Changes in assets and liabilities:		
Receivables	(1,814)	(2,357)
Inventory	502	-
Prepaid Insurance/Other	(40)	(87)
Due from Other Funds	-	-
Due to Other Funds	-	-
Accounts Payable	(4,260)	(1,295)
Retainage Payable	-	-
Accrued Interest Payable	-	(1,493)
Accrued Expenses	(885)	2,117
Customer Meter/Lease Deposits	-	-
	<u>\$ 64,524</u>	<u>\$ 148,266</u>
Net Cash Provided (Used) by Operating Activities		

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

<u>Electric Fund</u>	<u>Heritage Grove</u>	<u>Garbage Fund</u>	<u>EDA Fund</u>	<u>2006 Totals</u>	<u>2005 Totals</u>
\$ 21,848	\$ 96,651	\$ 10,272	\$ (89,913)	\$ 151,594	\$ 192,680
41,792	116,079	-	175	267,712	243,024
(12,615)	1,706	(534)	4,500	(11,114)	(673)
(7,958)	-	-	-	(7,456)	1,050
(72)	(817)	1	(168)	(1,183)	(3,774)
(95,300)	-	-	4,790	(90,510)	851
-	(2,234)	-	-	(2,234)	(2,091)
18,845	4,416	-	188	17,894	(15,200)
-	-	-	-	-	(6,765)
-	(153)	-	-	(1,646)	5,158
742	742	148	85	2,949	(5,044)
(80)	(600)	-	-	(680)	(1,400)
<u>\$ (32,798)</u>	<u>\$ 215,790</u>	<u>\$ 9,887</u>	<u>\$ (80,343)</u>	<u>\$ 325,326</u>	<u>\$ 407,816</u>

CITY OF HARMONY, MINNESOTA

STATEMENT OF FIDUCIARY NET ASSETS

December 31, 2006

(With Partial Comparative Information For the Year Ended December 31, 2005)

	<u>2006</u> <u>Totals</u>	<u>2005</u> <u>Totals</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 12,241	\$ 12,308
Interest Receivable	-	-
TOTAL ASSETS	<u>\$ 12,241</u>	<u>\$ 12,308</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Liabilities</u>		
Accounts Payable	\$ -	\$ -
TOTAL LIABILITIES	-	-
<u>Net Assets</u>		
Restricted	-	-
Unrestricted	<u>12,241</u>	<u>12,308</u>
TOTAL NET ASSETS	<u>12,241</u>	<u>12,308</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,241</u>	<u>\$ 12,308</u>

STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS

For the Fiscal Year Ended December 31, 2006

<u>REVENUES</u>		
Interest Earnings	\$ 410	\$ 2,225
TOTAL REVENUES	410	2,225
<u>EXPENDITURES</u>		
Office Expense	-	(407)
TOTAL EXPENSES	-	(407)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	410	1,818
<u>OTHER FINANCING SOURCES (USES)</u>		
Transfer Out	(477)	-
TOTAL OTHER FINANCING SOURCES (USES)	(477)	-
NET CHANGE IN FUND BALANCES	(67)	1,818
NET ASSETS - BEGINNING OF YEAR	<u>12,308</u>	<u>10,490</u>
NET ASSETS - END OF YEAR	<u>\$ 12,241</u>	<u>\$ 12,308</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, 2006

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.

Proprietary Funds

Water Fund - Used to account for the provisions of water services to the residents of the City.

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.

The City also designated the following proprietary funds as major funds:

Garbage Fund - Used to account for the provisions of garbage service to the residents of the City.

EDA Fund - Used to account for the operating of the Harmony Economic Development Authority.

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, 2006.

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, 2005, 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, 2006, the offsetting balances for prior tax levy years totaled \$8,992.

Note 3 CHANGES IN CAPITAL ASSETS

A summary of changes in general capital assets follows:

	<u>Balance</u> <u>1-1-06</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12-31-06</u>
Land	\$ 170,268	\$ 55,000	\$ -	\$ 225,268
Buildings and Improvements	852,536	-	-	852,536
Vehicles	617,186	203,457	(12,313)	808,330
Machinery and Equipment	102,029	-	-	102,029
Other Equipment	211,900	13,175	-	225,075
Infrastructure	2,238,517	207,780	-	2,446,297
Work in Progress	-	-	-	-
TOTAL	4,192,436	479,412	(12,313)	4,659,535
Less: Accumulated Depreciation	<u>(2,030,762)</u>	<u>(164,871)</u>	<u>12,313</u>	<u>(2,183,320)</u>
NET CAPITAL ASSETS	<u>\$2,161,674</u>	<u>\$ 314,541</u>	<u>\$ 0</u>	<u>\$2,476,215</u>

Depreciation Expense was charged to governmental activities as follows:

General Government	\$ 10,570
Public Safety	63,740
Highways and Streets	76,043
Parks and Recreation	<u>14,518</u>
Total Depreciation Expense	<u>\$ 164,871</u>

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

	<u>Balance</u> <u>1-1-06</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12-31-06</u>
Land	\$ 275,111	\$ -	\$ -	\$ 275,111
Buildings and Improvements	4,804,786	2,150	-	4,806,936
Production and Distribution Systems	509,726	12,313	-	522,039
Vehicles	28,700	-	-	28,700
Infrastructure	2,597,030	154,412	-	2,751,442
Work in Progress	-	<u>27,285</u>	-	<u>27,285</u>
TOTAL	8,215,353	196,160	-	8,411,513
Less: Accumulated Depreciation	<u>(1,654,503)</u>	<u>(264,414)</u>	<u>-</u>	<u>(1,918,917)</u>
NET CAPITAL ASSETS	<u>\$6,560,850</u>	<u>\$ (68,254)</u>	<u>\$ -</u>	<u>\$6,492,596</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 5.50%, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan will increase in 2007 to 5.75%. The City of Harmony is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 6.0% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan will increase to 6.25%, effective January 1, 2007. The City's contributions to the Public Employee's Retirement Fund for the years ending December 31, 2006, 2005, and 2004 were \$33,106, \$28,281, and \$27,944 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, 2006:

	<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>\$1,713,585</u>	<u>\$1,711,975</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, 2006:

	Category			Carrying Amount	Market Value
	1	2	3		
Bonds & Money Market Funds	\$ 258,129	\$ -	\$ -	\$ 258,129	\$ 258,129
Total Deposits				<u>1,711,975</u>	
Total Cash and Cash Equivalents				<u>\$1,970,104</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, 2006:

Fund	Transfer	Transfer
	In	Out
General	\$ 51,500	\$ 291,000
Park	33,504	5,004
Library	58,473	-
Fire	33,296	20,004
Ambulance	-	24,996
Art	3,048	-
Capital Projects Fund	155,004	56,300
Water Fund	2,500	65,004
Sewer Fund	74,436	2,496
Electric Fund	-	32,496
EDA Fund	86,016	-
Sanderson Memorial Trust Fund	-	477
	<u>\$ 497,777</u>	<u>\$ 497,777</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, 2006:

2007	\$ 20,000
2008	20,000
2009	<u>3,601</u>
Total Obligation	43,601
Less: Amount Representing Interest	<u>(1,447)</u>
Net Obligation	<u>\$ 42,154</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. As of December 31, 2006, Redevelopment District's #2,3, and 4 have been decertified.

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	\$ 87,240	\$ 100,273	\$ 187,513

In addition to the initial grant loan, the City of Harmony has the following revolving loan funds outstanding as of December 31, 2006:

	<u>Date of Loan</u>	<u>Initial Loan Amount</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Principal Balance Outstanding 12-31-06</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	16,388
RLF #35	5-31-01	15,000	6.0%	120 Months	7,661
RLF #36	6-3-05	10,000	6.75%	60 Months	7,929
RLF #37	11-18-05	25,000	4.0%	84 Months	24,000
RLF #38	5-1-06	5,000	6.75%	36 Months	5,000
RLF #39	9-1-06	<u>24,400</u>	5.00%	120 Months	<u>23,752</u>
Totals		<u>\$ 80,000</u>			<u>\$ 92,766</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, 2006 is \$19,761.

Note 11 LONG-TERM DEBT

Bonds Payable at December 31, 2006, 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.	\$ 345,000
\$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.	149,000
\$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.	485,000
\$155,000 Promissory Note, due USDA in annual installments of \$14,310 including interest at 4.375%. Proceeds used for Community Center Roof Project	139,613
\$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>67,489</u>
Total General Obligation Bonds and Notes	1,186,102

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.	\$2,685,000
\$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.	544,673
\$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.	569,000
\$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.	<u>315,000</u>
Total Proprietary Bonds and Notes	4,113,673
Capital Lease:	
Heritage Grove Van Lease. Annual payments of \$5,460 until May 2007, including interest at 5.00%.	<u>1,745</u>
TOTAL PROPRIETARY FUND LONG-TERM DEBT	<u>4,115,418</u>
TOTAL LONG-TERM DEBT	<u>\$5,301,520</u>

The City has entered into a capital lease agreement for a van. The following is a schedule of the minimum lease payments under the capital lease together with the present value of the minimum lease payments as of December 31, 2006:

Minimum Lease	
Payments in 2007	\$ <u>1,764</u>
Total Payments	1,764
Less Amount Representing Interest	<u>19</u>
Present Value of Minimum Lease Payments	<u>\$ 1,745</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, 2006:

	<u>Bonds and Notes</u>	<u>Capital Lease</u>	<u>Total</u>
Current Portion	\$ 451,435	\$ 1,745	\$ 453,180
Long-Term Portion	<u>4,848,340</u>	<u>-</u>	<u>4,848,340</u>
Total	<u>\$5,299,775</u>	<u>\$ 1,745</u>	<u>\$5,301,520</u>

Debt Service Requirements at December 31, 2006 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 453,180	\$ 217,535	\$ 670,715
2008	452,195	202,595	654,790
2009	470,052	186,696	656,748
2010	447,011	170,531	617,542
2011	317,076	156,468	473,544
2012 - 2016	1,182,652	616,925	1,799,577
2017 - 2021	957,354	409,063	1,366,417
2022 - 2026	<u>1,022,000</u>	<u>169,910</u>	<u>1,191,910</u>
TOTAL	<u>\$5,301,520</u>	<u>\$2,129,723</u>	<u>\$7,431,243</u>

The following is a summary of the long-term liabilities transactions and balances for the year ended December 31, 2006:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Compensated Absences</u>	<u>Ending Balance</u>
Governmental Activities					
Bonds payable:					
General Long-Term Debt	\$5,734,545	\$ -	\$ (434,770)	\$ -	\$5,299,775
Other Liabilities:					
Capital Lease	7,023	-	(5,278)	-	1,745
Compensated Absences	<u>38,316</u>	<u>-</u>	<u>-</u>	<u>4,012</u>	<u>42,328</u>
Governmental Activities					
Long-term liabilities	<u>\$5,779,884</u>	<u>\$ -</u>	<u>\$ (440,048)</u>	<u>\$ 4,012</u>	<u>\$5,343,848</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, 2006, 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, 2006, the Housing Revenue Refunding Bonds outstanding aggregated \$7,270,000.

Note 13 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit Fund Balance

The following funds had deficit fund balances or net assets at December 31, 2006:

<u>Special Revenue Funds</u>	
Fire Fund	\$ (133,665)
Small Cities Grant	(3,571)
<u>Enterprise Funds</u>	
Heritage Grove Fund	(19,751)
Garbage Fund	(8,855)

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, 2006, consist of the following:

	<u>Due From Other Fund</u>	<u>Due To Other Fund</u>
<u>Special Revenue Funds</u>		
Fire Fund	\$ -	\$ 95,300
Revolving Loan Fund	19,761	-
<u>Enterprise Funds</u>		
Heritage Grove	-	19,761
Electric	<u>95,300</u>	<u>-</u>
Total	<u>\$ 115,061</u>	<u>\$ 115,061</u>

Note 15 RESERVED AND DESIGNATED FUND BALANCES

Fund balances in various funds at December 31, 2006, has been designated for the following purposes:

General Fund:	
Designated for Current Principal	\$ 19,220
Designated for Working Capital	<u>300,000</u>
Total General Fund	<u>\$ 319,220</u>
Special Revenue Funds:	
Small City Grant Repayments	<u>\$ (3,571)</u>
Capital Projects Fund:	
Designated for future Capital Outlay	<u>\$ 254,776</u>
Debt Service Funds:	
Debt Service on Bonds	<u>\$ 157,748</u>

Note 16 GOVERNMENT AID AND GRANTS

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

Local

Township Ambulance Contributions	\$ 10,570
Township Fire Contributions	24,530
County Ambulance Subsidy	4,500
County Library Funds	27,089
Park Subsidy	<u> -</u>
Total Local	66,689

State

Local Government Aid	374,998
Market Value Credit	65,980
Fire State Aid	12,926
PERA Rate Increase	<u> 864</u>
Total State	<u>454,768</u>

TOTAL INTERGOVERNMENTAL \$ 521,457

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, 2006, is as follows:

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>
Operating Revenues	\$ 140,270	\$ 283,192	\$ 48,258
Depreciation Expense	12,218	97,448	-
Operating Income (Loss)	58,803	53,933	10,272
Fund Transfers			
In	2,500	74,436	-
Out	(65,004)	(2,496)	-
Tax Revenues	-	-	-
Net Income (Loss)	36,397	145,650	9,797
Plant, Property, and Equipment			
Additions	66,827	77,751	-
Deletions	-	-	-
Net Working Capital	153,648	12,864	(8,855)
Bonds and Other Long-Term Liabilities			
Payable From Operating Revenues	-	1,428,673	-
Payable From Other Sources	-	-	-
Total Net Assets	671,970	1,293,586	(8,855)
	<u>Electric Fund</u>	<u>EDA Fund</u>	<u>Heritage Grove</u>
Operating Revenues	\$ 719,268	\$ -	\$ 747,886
Depreciation Expense	41,792	175	116,079
Operating Income (Loss)	21,848	(89,913)	96,651
Fund Transfers			
In	-	86,016	-
Out	(32,496)	-	-
Tax Revenues	-	-	-
Net Income (Loss)	20,655	(361)	(46,956)
Plant, Property, and Equipment			
Additions	45,627	-	5,992
Deletions	-	-	-
Net Working Capital	588,701	18,085	52,300
Bonds and Other Long-Term Liabilities			
Payable From Operating Revenues	-	-	2,686,795
Payable From Other Sources	-	-	-
Total Net Assets	1,196,499	127,272	(19,751)

Note 18 PRIOR PERIOD ADJUSTMENTS

In 2005, a Prior Period adjustment was made with regard to bonds payable to correct the classification of a bond.

A bond was moved from the Governmental Funds to the Sewer Fund. The adjustment to the Sewer Fund was an increase of \$410,000.

NOTE 19 PRONOUNCEMENTS ISSUED NOT YET IMPLEMENTED

The Governmental Accounting Standards Board (GASB) has issued pronouncements that have effective dates that may impact financial presentations.

Management has not currently determined what, if any, impact implementation of the following statement may have on the financial statements of the City.

GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, issued June, 2004, will be effective for the City beginning with its years ending December 31, 2008. This statement established accounting standards for the measurement, recognition, and display of Other Postemployment Benefits. In financial statements prepared on accrual basis of accounting, employers should recognize and disclose an amount equal to the annual cost of other postemployment benefits. The annual cost includes the normal cost for the year and a component for amortization of the total unfounded actuarial accrued liabilities of the plan over a period not to exceed thirty years.

FINANCIAL STATEMENTS OF NONMAJOR, COMBINING AND INDIVIDUAL FUNDS

CITY OF HARMONY, MINNESOTA

COMBINED BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2006

SPECIAL REVENUE FUNDS

	<u>Park Fund</u>	<u>Library Fund</u>	<u>Fire Fund</u>	<u>Small Cities Grant Fund</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 28,355	\$ 9,916	\$ (45,129)	\$ (3,571)
Receivables				
Accounts	-	-	7,200	-
Taxes	-	-	-	-
Special Assessments	-	-	-	-
Contracts/Grants	-	-	-	-
Due from Other Funds	-	-	-	-
Due from Other Governments	-	-	-	-
Prepaid Insurance/Other	451	93	1,049	-
TOTAL ASSETS	\$ 28,806	\$ 10,009	\$ (36,880)	\$ (3,571)
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities</u>				
Accounts Payable	\$ 250	\$ 1,536	\$ 1,485	\$ -
Retainage Payable	-	-	-	-
Accrued Salaries	12	890	-	-
Accrued Sales Tax	-	3	-	-
Other Accrued Expenses	-	-	-	-
Due to Other Funds	-	-	95,300	-
Due to Other Governments	-	-	-	-
Deferred Revenue	-	-	-	-
TOTAL LIABILITIES	262	2,429	96,785	-
<u>Fund Balances</u>				
Reserved	-	-	-	(3,571)
Unreserved, Designated	-	-	-	-
Unreserved, Undesignated	28,544	7,580	(133,665)	-
TOTAL FUND BALANCES	28,544	7,580	(133,665)	(3,571)
TOTAL LIABILITIES AND FUND BALANCES	\$ 28,806	\$ 10,009	\$ (36,880)	\$ (3,571)

SPECIAL REVENUE FUNDS

Ambulance Fund	Revolving Loan Fund	Arts Fund	Tax Increment Financing District #1	Tax Increment Financing District #4	Total
\$ 94,029	\$ 124,539	\$ 2,195	\$ 81,935	\$ 1,838	\$ 294,107
26,417	-	-	-	-	33,617
-	-	-	619	-	619
-	-	-	194,297	-	194,297
-	-	-	-	-	-
-	19,761	-	-	-	19,761
-	-	-	-	-	-
512	-	-	-	-	2,105
<u>\$ 120,958</u>	<u>\$ 144,300</u>	<u>\$ 2,195</u>	<u>\$ 276,851</u>	<u>\$ 1,838</u>	<u>\$ 544,506</u>
\$ 1,173	\$ -	\$ 30	\$ 1,012	\$ -	\$ 5,486
-	-	-	-	-	-
46	-	-	-	-	948
-	-	-	-	-	3
-	-	-	-	-	-
-	-	-	-	-	95,300
-	-	-	-	1,838	1,838
-	-	-	194,297	-	194,297
1,219	-	30	195,309	1,838	297,872
-	-	-	-	-	(3,571)
-	-	-	-	-	-
119,739	144,300	2,165	81,542	-	250,205
119,739	144,300	2,165	81,542	-	246,634
<u>\$ 120,958</u>	<u>\$ 144,300</u>	<u>\$ 2,195</u>	<u>\$ 276,851</u>	<u>\$ 1,838</u>	<u>\$ 544,506</u>

CITY OF HARMONY, MINNESOTA

COMBINED BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2006

	<u>CAPITAL PROJECT FUNDS</u>		<u>DEBT SERVICE FUNDS</u>
	<u>Capital Projects Fund</u>	<u>Total</u>	<u>1994 G.O. Fire Station Bonds</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 254,776	\$ 254,776	\$ 28,918
Receivables			
Accounts	-	-	-
Taxes	-	-	309
Special Assessments	-	-	-
Contracts/Grants	-	-	-
Due from Other Funds	-	-	-
Due from Other Governments	-	-	-
Prepaid Insurance/Other	-	-	-
	<u>\$ 254,776</u>	<u>\$ 254,776</u>	<u>\$ 29,227</u>
TOTAL ASSETS			
	<u>\$ 254,776</u>	<u>\$ 254,776</u>	<u>\$ 29,227</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	254,776	254,776	29,227
Unreserved, Undesignated	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL FUND BALANCES	<u>254,776</u>	<u>254,776</u>	<u>29,227</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 254,776</u>	<u>\$ 254,776</u>	<u>\$ 29,227</u>

<u>DEBT SERVICE FUNDS</u>			
<u>2002 G.O. Improvement Bonds</u>	<u>2004 G.O. Tax Increment & Improvement Refund</u>	<u>Total</u>	<u>Total Other Governmental Funds</u>
\$ 55,150	\$ 72,609	\$ 156,677	\$ 705,560
-	-	-	33,617
353	409	1,071	1,690
69,804	47,488	117,292	311,589
-	-	-	-
-	-	-	19,761
-	-	-	-
-	-	-	2,105
<u>\$ 125,307</u>	<u>\$ 120,506</u>	<u>\$ 275,040</u>	<u>\$ 1,074,322</u>
\$ -	\$ -	\$ -	\$ 5,486
-	-	-	-
-	-	-	948
-	-	-	3
-	-	-	-
-	-	-	95,300
-	-	-	1,838
69,804	47,488	117,292	311,589
69,804	47,488	117,292	415,164
-	-	-	(3,571)
55,503	73,018	157,748	412,524
-	-	-	250,205
<u>55,503</u>	<u>73,018</u>	<u>157,748</u>	<u>659,158</u>
<u>\$ 125,307</u>	<u>\$ 120,506</u>	<u>\$ 275,040</u>	<u>\$ 1,074,322</u>

CITY OF HARMONY, MINNESOTA

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2006

	<u>SPECIAL REVENUE FUNDS</u>			
	<u>Park Fund</u>	<u>Library Fund</u>	<u>Fire Fund</u>	<u>Small Cities Grant Fund</u>
<u>REVENUES</u>				
Taxes	\$ -	\$ -	\$ -	\$ -
Special Assessments	-	-	-	-
Intergovernmental	-	27,089	24,530	-
Licenses and Permits	-	-	-	-
Charges for Service	1,902	1,388	7,209	-
Fines and Forfeits	-	-	-	-
Note - Nursing Home/Hospital	-	-	-	-
Interest Earnings	937	244	(1,504)	122
Refunds and Reimbursements	-	-	-	-
Miscellaneous	2,575	1,220	27,585	-
TOTAL REVENUES	5,414	29,941	57,820	122
<u>EXPENDITURES</u>				
General Government	-	-	-	-
Public Safety	-	-	41,280	-
Highways and Streets	-	-	-	-
Library	-	80,610	-	-
Parks and Recreation	33,265	-	-	-
Unallocated	-	-	-	16,246
Capital Outlay/Capital Projects	-	1,133	198,941	-
<u>Debt Service</u>				
Principal	-	-	-	-
Interest and Fees	-	-	-	-
TOTAL EXPENDITURES	33,265	81,743	240,221	16,246
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(27,851)	(51,802)	(182,401)	(16,124)
<u>OTHER FINANCING SOURCES (USES)</u>				
Proceeds from Bonds/Notes	-	-	-	-
Operating Transfers In	33,504	58,473	33,296	-
Operating Transfers Out	(5,004)	-	(20,004)	-
TOTAL OTHER FINANCING SOURCES (USES)	28,500	58,473	13,292	-
NET CHANGE IN FUND BALANCES	649	6,671	(169,109)	(16,124)
FUND BALANCE - BEGINNING OF YEAR	27,895	909	35,444	12,553
FUND BALANCE - END OF YEAR	\$ 28,544	\$ 7,580	\$ (133,665)	\$ (3,571)

SPECIAL REVENUE FUNDS

Ambulance Fund	Revolving Loan Fund	Arts Fund	Tax Increment Financing District #1	Tax Increment Financing District #4	Total
\$ -	\$ -	\$ -	\$ 78,004	\$ 6,415	\$ 84,419
-	-	-	1,340	-	1,340
15,070	-	-	937	200	67,826
-	-	-	-	-	-
108,214	-	-	-	-	118,713
-	-	-	-	-	-
-	-	-	-	-	-
2,582	4,537	74	1,746	-	8,738
-	-	-	-	-	-
7,578	18,435	12,272	-	-	69,665
133,444	22,972	12,346	82,027	6,615	350,701
-	-	-	-	-	-
78,404	-	-	-	-	119,684
-	-	-	-	-	-
-	-	-	-	-	80,610
-	-	13,229	-	-	46,494
-	40,390	-	1,536	2,087	60,259
-	-	-	55,000	-	255,074
-	-	-	55,000	-	55,000
-	-	-	8,111	-	8,111
78,404	40,390	13,229	119,647	2,087	625,232
55,040	(17,418)	(883)	(37,620)	4,528	(274,531)
-	-	-	-	-	-
-	-	3,048	-	-	128,321
(24,996)	-	-	-	-	(50,004)
(24,996)	-	3,048	-	-	78,317
30,044	(17,418)	2,165	(37,620)	4,528	(196,214)
89,695	161,718	-	119,162	(4,528)	442,848
\$ 119,739	\$ 144,300	\$ 2,165	\$ 81,542	\$ -	\$ 246,634

CITY OF HARMONY, MINNESOTA

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

For the Year Ended December 31, 2006

	<u>CAPITAL PROJECT FUNDS</u>		<u>DEBT SERVICE FUNDS</u>
	Capital <u>Projects Fund</u>	<u>Total</u>	1994 G.O. Fire Station <u>Bonds</u>
<u>REVENUES</u>			
Taxes	\$ -	\$ -	\$ 36,172
Special Assessments	-	-	-
Intergovernmental	-	-	-
Licenses and Permits	-	-	-
Charges for Service	-	-	-
Fines and Forfeits	-	-	-
Note - Nursing Home/Hospital	-	-	-
Interest Earnings	6,812	6,812	-
Refunds and Reimbursements	-	-	-
Miscellaneous	-	-	316
	<u>6,812</u>	<u>6,812</u>	<u>36,488</u>
TOTAL REVENUES	6,812	6,812	36,488
 <u>EXPENDITURES</u>			
General Government	-	-	-
Public Safety	-	-	-
Highways and Streets	-	-	-
Library	-	-	-
Parks and Recreation	-	-	-
Unallocated	-	-	-
Capital Outlay/Capital Projects	-	-	-
<u>Debt Service</u>			
Principal	-	-	33,000
Interest and Fees	-	-	4,839
	<u>-</u>	<u>-</u>	<u>37,839</u>
TOTAL EXPENDITURES	-	-	37,839
 EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	6,812	6,812	(1,351)
 <u>OTHER FINANCING SOURCES (USES)</u>			
Proceeds from Bonds/Notes	-	-	-
Operating Transfers In	155,004	155,004	-
Operating Transfers Out	(56,300)	(56,300)	-
	<u>98,704</u>	<u>98,704</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	98,704	98,704	-
 NET CHANGE IN FUND BALANCES	105,516	105,516	(1,351)
 FUND BALANCE - BEGINNING OF YEAR	<u>149,260</u>	<u>149,260</u>	<u>30,578</u>
FUND BALANCE - END OF YEAR	<u>\$ 254,776</u>	<u>\$ 254,776</u>	<u>\$ 29,227</u>

DEBT SERVICE FUNDS			
2002 G.O. Improvement Bonds	2004 G.O. Tax Increment & Improvement Refund	Total	Total Other Governmental Funds
\$ 41,320	\$ 47,787	\$ 125,279	\$ 209,698
16,124	30,387	46,511	47,851
-	-	-	67,826
-	-	-	-
-	-	-	118,713
-	-	-	-
-	-	-	-
713	1,043	1,756	17,306
-	-	-	-
-	-	316	69,981
58,157	79,217	173,862	531,375
-	-	-	-
-	-	-	119,684
-	-	-	-
-	-	-	80,610
-	-	-	46,494
-	-	-	60,259
-	-	-	255,074
50,000	65,000	148,000	203,000
14,436	9,055	28,330	36,441
64,436	74,055	176,330	801,562
(6,279)	5,162	(2,468)	(270,187)
-	-	-	-
-	-	-	283,325
-	-	-	(106,304)
-	-	-	177,021
(6,279)	5,162	(2,468)	(93,166)
61,782	67,856	160,216	752,324
\$ 55,503	\$ 73,018	\$ 157,748	\$ 659,158

CITY OF HARMONY, MINNESOTA

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

For the Year Ended December 31, 2006

(With Partial Comparative Information For the Year Ended December 31, 2005)

	2006 Budget	2006 Actual	Variance Favorable (Unfavorable)	2005 Actual
<u>REVENUES</u>				
General Property Taxes	\$ 281,702	\$ 240,430	\$ (41,272)	\$ 234,115
Special Assessments	-	7	7	-
<u>Intergovernmental Revenue</u>				
Local Governmental Aid	374,998	374,998	-	326,267
Homestead/Ag Credit	-	64,843	64,843	64,203
Police State Aid	-	-	-	-
Fire State Aid	12,000	12,926	926	12,886
PERA Rate Increase Aid	432	864	432	864
Other State Aid	-	-	-	-
Licenses and Permits	9,450	9,887	437	21,735
Traffic Ordinances and Fines	810	2,791	1,981	1,069
Other Revenues	75	11,558	11,483	9,767
Rental Income	26,250	29,056	2,806	23,436
Donations	3,000	3,300	300	3,896
Interest Earnings	4,000	10,442	6,442	5,531
Refunds and Reimbursements	9,100	4,130	(4,970)	12,093
Note-Nursing Home/Hospital	20,000	20,000	-	20,000
Sale of Fixed Assets	-	-	-	-
TOTAL REVENUES	741,817	785,232	43,415	735,862
<u>EXPENDITURES</u>				
<u>General Government</u>				
<u>Mayor and Council</u>				
Salaries	6,800	6,800	-	6,800
FICA and PERA	550	520	30	520
Insurance	500	413	87	459
Dues	800	20	780	1,027
Travel and Training/Supplies	310	3	307	762
Printing and Publishing	250	99	151	183
Total Mayor and Council	9,210	7,855	1,355	9,751
<u>Administration</u>				
Salaries	45,195	43,793	1,402	43,490
FICA and PERA	6,169	5,843	326	5,733
Employee Benefits	5,704	8,018	(2,314)	8,613
Office Supplies and Postage	4,315	3,914	401	2,942
General Supplies and Repair	1,750	3,824	(2,074)	2,195
Insurance	166	161	5	395
Printing and Publishing	1,000	736	264	924
Travel, Conferences and Conventions	250	428	(178)	588
Professional Fees	16,450	16,650	(200)	17,730
Miscellaneous	2,300	1,845	455	813
Capital Outlay	1,500	-	1,500	-
Total Administration	\$ 84,799	\$ 85,212	\$ (413)	\$ 83,423

CITY OF HARMONY, MINNESOTA

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

For the Year Ended December 31, 2006

(With Partial Comparative Information For the Year Ended December 31, 2005)

	2006 Budget	2006 Actual	Variance Favorable (Unfavorable)	2005 Actual
<u>EXPENDITURES - (Continued)</u>				
<u>Planning and Zoning</u>				
Salaries	\$ -	\$ -	\$ -	\$ -
FICA and PERA	-	-	-	-
Miscellaneous	150	-	150	201
Total Planning and Zoning	150	-	150	201
<u>Other General Government</u>				
Elections	5,185	1,700	3,485	53
Legal	6,500	9,039	(2,539)	6,839
Civil Defense	1,861	1,737	124	1,578
Total Other General Government	13,546	12,476	1,070	8,470
<u>Community Center</u>				
Salaries	25,108	21,711	3,397	22,989
FICA and PERA	3,427	2,951	476	3,045
Employee Benefits	6,470	5,349	1,121	7,642
Supplies	3,500	1,547	1,953	2,121
Maintenance and Repairs	5,100	2,252	2,848	3,923
Insurance	8,147	7,841	306	6,346
Telephone	2,750	2,351	399	2,211
Utilities	46,500	39,568	6,932	40,409
Miscellaneous	1,550	1,416	134	20
Capital Outlay	2,500	-	2,500	-
Debt Service Principal	22,000	21,175	825	21,175
Total Community Center	127,052	106,161	20,891	109,881
<u>Visitor Center</u>				
Salaries	7,924	6,947	977	6,753
FICA and PERA	1,081	942	139	878
Employee Benefits	1,945	1,679	266	2,149
Supplies	1,525	1,727	(202)	1,514
Maintenance and Repairs	150	347	(197)	352
Insurance	1,909	1,979	(70)	1,406
Utilities	9,950	8,632	1,318	7,970
Capital Outlay	1,000	-	1,000	-
Total Visitor Center	25,484	22,253	3,231	21,022
<u>Animal Control</u>				
Salary	3,000	3,380	(380)	2,972
FICA and PERA	157	157	-	151
Employee Benefits	56	74	(18)	50
Contracted Services	-	-	-	-
Miscellaneous	250	333	(83)	251
Total Animal Control	\$ 3,463	\$ 3,944	\$ (481)	\$ 3,424

CITY OF HARMONY, MINNESOTA

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

For the Year Ended December 31, 2006

(With Partial Comparative Information For the Year Ended December 31, 2005)

<u>EXPENDITURES</u> - (Continued)	2006 <u>Budget</u>	2006 <u>Actual</u>	Variance Favorable (Unfavorable)	2005 <u>Actual</u>
<u>Police Protection</u>				
Contracted Services	\$ 65,500	\$ 64,116	\$ 1,384	\$ 59,348
Vehicle Expense	2,750	2,958	(208)	2,447
Insurance	549	511	38	490
Supplies	500	230	270	826
Maintenance and Repairs	1,000	911	89	1,202
Miscellaneous	1,000	817	183	759
Capital Outlay	-	-	-	-
Total Police Protection	71,299	69,543	1,756	65,072
<u>Highways, Streets and Alleys</u>				
Salaries	25,331	20,242	5,089	23,030
FICA and PERA	3,425	2,764	661	3,011
Employee Benefits	5,430	3,854	1,576	5,189
Asphalt, Road Oil, and Other Street Maintenance Supplies	15,850	15,344	506	16,728
Vehicle Expense	6,500	3,227	3,273	4,977
Repair and Maintenance	51,700	56,200	(4,500)	20,749
Insurance	5,746	5,058	688	4,242
Telephone	1,250	913	337	1,678
Utilities	5,250	3,866	1,384	4,261
Capital Outlay	-	16,557	(16,557)	20,136
Total Highways, Streets and Alleys	120,482	128,025	(7,543)	104,001
<u>Unallocated</u>				
Employee Benefits	-	-	-	-
Insurance	5,855	6,353	(498)	5,236
Community Events	5,000	6,994	(1,994)	5,207
Community Development	2,500	1,833	667	12,691
Fire Pension Contributions	17,000	17,926	(926)	17,886
Total Unallocated	30,355	33,106	(2,751)	41,020
TOTAL EXPENDITURES	485,840	468,575	17,265	446,265
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 255,977	\$ 316,657	\$ 60,680	\$ 289,597

CITY OF HARMONY, MINNESOTA

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

For the Year Ended December 31, 2006

(With Partial Comparative Information For the Year Ended December 31, 2005)

	2006	2006	Variance	2005
	Budget	Actual	Favorable (Unfavorable)	Actual
<u>OTHER FINANCING SOURCES (USES)</u>				
<u>Operating Transfers In</u>				
Capital Projects Fund	\$ 35,000	\$ 51,500	\$ 16,500	\$ 20,000
Enterprise Fund	-	-	-	-
<u>Operating Transfers Out</u>				
Special Revenue Fund	(123,050)	(123,048)	2	(110,004)
Debt Service Fund	-	-	-	(2,037)
Capital Projects Fund	(55,000)	(54,996)	4	(43,500)
Enterprise Fund	<u>(112,940)</u>	<u>(112,956)</u>	<u>(16)</u>	<u>(110,004)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(255,990)</u>	<u>(239,500)</u>	<u>16,490</u>	<u>(245,545)</u>
NET CHANGE IN FUND BALANCES	(13)	77,157	77,170	44,052
FUND BALANCE - BEGINNING OF YEAR	<u>406,687</u>	<u>406,687</u>	-	<u>362,635</u>
FUND BALANCE - END OF YEAR	<u>\$ 406,674</u>	<u>\$ 483,844</u>	<u>\$ 77,170</u>	<u>\$ 406,687</u>

CITY OF HARMONY, MINNESOTA
COMBINED STATEMENT OF INDEBTEDNESS
December 31, 2006

<u>BONDED INDEBTEDNESS</u>	<u>Interest Rates</u>	<u>Authorized</u>	<u>Issued</u>
<u>General Obligations</u>			
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
Economic Development Authority Housing Bond 2001	4.10-5.75%	3,000,000	3,000,000
G.O. Sewer Note - 1993	3.34%	1,216,700	1,216,700
G.O. Sewer Note - 2004	1.00%	625,465	625,465
G.O. Water and Sewer Revenue Bonds - 2002A	2.00-4.30%	455,000	455,000
Heritage Grove Van Lease	5.00%	<u>24,107</u>	<u>24,107</u>
TOTAL BONDED INDEBTEDNESS		<u><u>\$ 6,886,272</u></u>	<u><u>\$ 6,886,272</u></u>

Balance January 1 2006	Issued	Retired	Balance December 31 2006	Principal Due in 2007	Interest Due in 2007
\$ 395,000	\$ -	\$ 50,000	\$ 345,000	\$ 50,000	\$ 12,555
182,000	-	33,000	149,000	37,000	4,038
605,000	-	120,000	485,000	125,000	13,309
147,471	-	7,858	139,613	8,202	6,108
71,323	-	3,834	67,489	3,997	2,868
2,765,000	-	80,000	2,685,000	85,000	143,740
608,751	-	64,078	544,673	66,236	17,644
600,000	-	31,000	569,000	31,000	5,690
360,000	-	45,000	315,000	45,000	11,565
7,023	-	5,278	1,745	1,745	19
<u>\$ 5,741,568</u>	<u>\$ -</u>	<u>\$ 440,048</u>	<u>\$ 5,301,520</u>	<u>\$ 453,180</u>	<u>\$ 217,536</u>

COMPLIANCE AND INTERNAL CONTROL REPORT

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

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, 2006, which collectively comprise the City of Harmony, Minnesota's basic financial statements and have issued our report thereon dated May 14, 2007. 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 initiate, record, process, 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 its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

The Minnesota Legal Compliance Audit Guide for Local Government covers six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interests, public indebtedness, claims and disbursements, and tax increment financing. 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

May 14, 2007
Spring Valley, Minnesota

CITY OF HARMONY
HARMONY, MINNESOTA

SCHEDULE OF FINDINGS

Finding: Internal Control

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

Response:

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

CITY OF HARMONY
HARMONY, MINNESOTA

FOLLOW-UP ON PRIOR AUDIT FINDINGS

Prior Finding: Internal Control

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

Response:

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

Finding: Depositories

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

Response:

The City will continue to coordinate with the bank to ensure proper collateral coverage in the future.

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, 2006, 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 initiate, record, process, 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.

* * * * *

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, 2006 financial statements, and this report does not affect our report on the financial statements dated May 14, 2007.

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

May 14, 2007
Spring Valley, Minnesota