

CITY OF HARMONY, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2007

CITY OF HARMONY, MINNESOTA

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CITY OF HARMONY, MINNESOTA

INTRODUCTORY SECTION

DECEMBER 31, 2007

**CITY OF HARMONY, MINNESOTA
CITY OFFICIALS
DECEMBER 31, 2007**

David Kingsley	Mayor
Mark McKay	Council Member
Gerald Shuck	Council Member
Sherry Hines	Council Member
Linda Grover	Council Member
Jerome Illg	Administrator
Eileen Schansberg	Deputy Clerk

CITY OF HARMONY, MINNESOTA

FINANCIAL SECTION

DECEMBER 31, 2007



Certified Public Accountants and Consultants

Members of American Institute of CPA's,
Private Companies Practice Section, Minnesota Society of CPA's

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Harmony, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Harmony, Minnesota, as of and for the year ended December 31, 2007, which collectively comprise the City of Harmony, Minnesota's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the City's 2006 financial statements which were audited by other auditors whose report dated May 14, 2007, expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type 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. 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Harmony, Minnesota as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund and the Major Special Revenue Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 to 13 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Harmony, Minnesota's basic financial statements. The introductory section and supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Harmony, Minnesota. The introductory section and the supplementary information have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Smith, Schafen and Associates, Ltd.

Rochester, Minnesota
April 21, 2008

CITY OF HARMONY, MINNESOTA

BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2007

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, 2007. 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 \$6,536,173 (*net assets*). Of this amount, \$2,234,370 (*unrestricted net assets*) may be used to meet the city's ongoing obligations to citizens and creditors.
- As of the close of the fiscal year, the City of Harmony's governmental funds reported combined ending fund balances of \$1,159,601, of which \$1,000,934 or 86% (percent) is available for use within the City's designations.
- As the end of the fiscal year, unreserved fund balance of the general fund was \$416,298, or 61% of total general fund expenditures.
- The City of Harmony decreased the existing debt principal by \$453,180 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 statements, 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 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, government buildings, public safety, streets and highways, library, parks and recreation, and economic development. The business-type activities of the City of Harmony include water, sewer, garbage, electric utilities, and a 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 governmental activity. The Economic Development Authority, although legally separate, functions for all practical purposes as a department of the City of Harmony, and therefore has been included as an integral part of the primary government.

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

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

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

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

The City of Harmony maintains 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 and the ambulance fund, which are considered to be major funds. Data from the other 12 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 and ambulance fund to demonstrate compliance with this budget.

The basic governmental funds financial statements can be found on pages 17-20 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, electric, and senior living (Heritage Grove) operations. The water, sewer, garbage, electric, 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 26-31 of this report.

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

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

The notes to the financial statements can be found on pages 33-57 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 58-61.

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 \$6,536,173 at the close of the fiscal year, with \$3,294,090 of these net assets from governmental activities and \$3,242,083 from proprietary funds.

A significant portion of the City of Harmony's net assets \$4,143,136 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	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 1,690,034	\$ 1,672,648	\$ 1,017,268	\$ 1,012,867	\$ 2,707,302	\$ 2,685,515
Capital assets	2,687,481	2,585,402	6,240,405	6,383,409	8,927,886	8,968,811
Total assets	\$ 4,377,515	\$ 4,258,050	\$ 7,257,673	\$ 7,396,276	\$ 11,635,188	\$ 11,654,326
Long-term liabilities outstanding	\$ 961,903	\$ 1,186,102	\$ 3,822,847	\$ 4,048,618	\$ 4,784,750	\$ 5,234,720
Other liabilities	121,522	81,249	192,743	214,209	314,265	295,458
Total liabilities	1,083,425	1,267,351	4,015,590	4,262,827	5,099,015	5,530,178
Net assets:						
Invested in capital assets, net of related debt	1,725,578	1,399,300	2,417,558	2,334,791	4,143,136	3,734,091
Restricted	158,667	154,177	-	-	158,667	154,177
Unrestricted	1,409,845	1,437,222	824,525	793,658	2,234,370	2,235,880
Total Net Assets	3,294,090	2,990,699	3,242,083	3,133,449	6,536,173	6,124,148
Total Liabilities & Net Assets	\$ 4,377,515	\$ 4,258,050	\$ 7,257,673	\$ 7,396,276	\$ 11,635,188	\$ 11,654,326

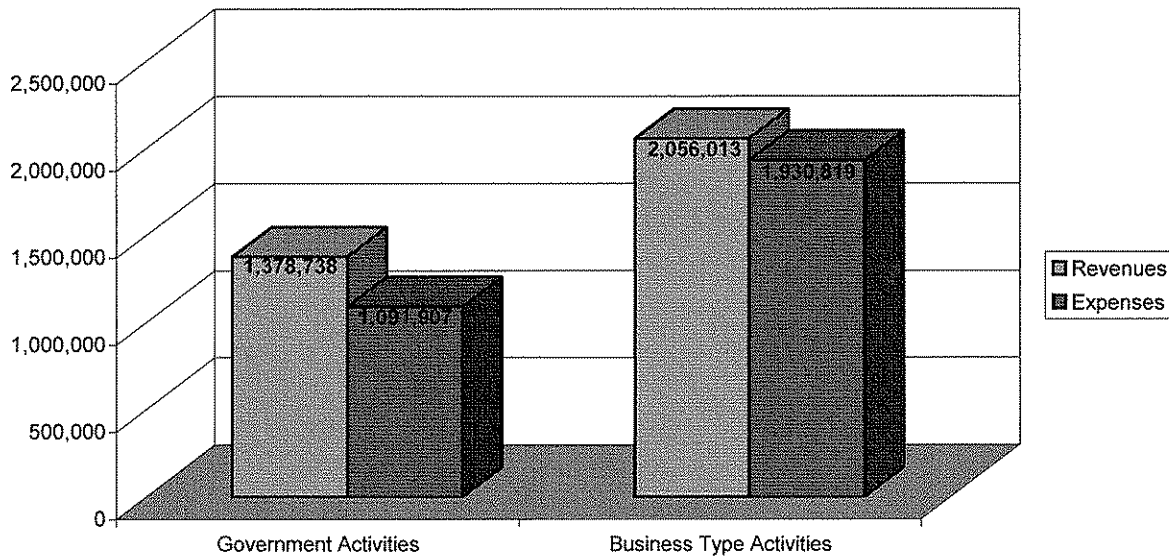
A portion of the City of Harmony's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the City's ongoing obligations to citizens.

City of Harmony's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues						
Charges for services	\$ 262,285	\$ 242,458	\$ 2,013,041	\$ 1,938,874	\$ 2,275,326	\$ 2,181,332
Operating Grants & Contributions	48,392	58,362			48,392	58,362
Capital Grants & Contributions	81,860	30,800		90,047	81,860	120,847
General revenues:						
Taxes	481,365	443,101			481,365	443,101
Intergovernmental Revenue	440,715	441,842			440,715	468,931
Unrestricted investment earnings	46,166	44,651	27,553	22,998	73,719	67,649
Other	17,955	28,316	15,419	19,917	33,374	48,233
Total revenues	1,378,738	1,316,619	2,056,013	2,071,836	3,434,751	3,388,455
Expenses:						
General government	107,649	97,863			107,649	97,863
Public Safety	318,468	274,837			318,468	274,837
Government Buildings	167,857	138,983			167,857	138,983
Highway and Streets	187,677	152,316			187,677	152,316
Library	84,668	80,610			84,668	80,610
Bond Interest and Fiscal Charges	36,587	34,044			36,587	34,044
Other	15,867	46,039			15,867	46,039
Parks and Recreation	21,764	61,013			21,764	61,013
Economic Development	151,370	89,913			151,370	89,913
Water			107,216	81,467	107,216	81,467
Sewer			249,846	266,976	249,846	266,976
Garbage			39,705	37,986	39,705	37,986
Electric			739,454	697,420	739,454	697,420
Heritage Grove			794,598	799,384	794,598	799,384
Total expenses	1,091,907	975,618	1,930,819	1,883,233	3,022,726	2,858,851
Increase in net assets before transfers and other items	286,831	341,001	125,194	188,603	412,025	529,604
Transfers	16,560	23,537	(16,560)	(23,060)	-	477
Increase in net assets	303,391	364,538	108,634	165,543	412,025	530,081
Net Assets – January 1	2,990,699	2,239,257	3,133,449	2,967,906	6,124,148	5,207,163
Prior Period Adjustment		386,904			-	386,904
Net Assets – December 31	\$ 3,294,090	\$ 2,990,699	\$ 3,242,083	\$ 3,133,449	\$ 6,536,173	\$ 6,124,148

The following graph shows 2007 revenues and expenses for both government activities and business-type activities.

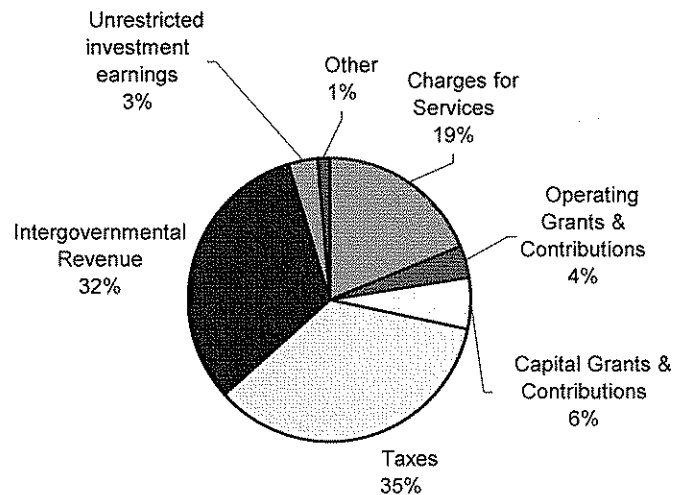
City of Harmony's Revenues & Expenses



Government Activities. Government activities account for 50% of the City of Harmony's net assets.

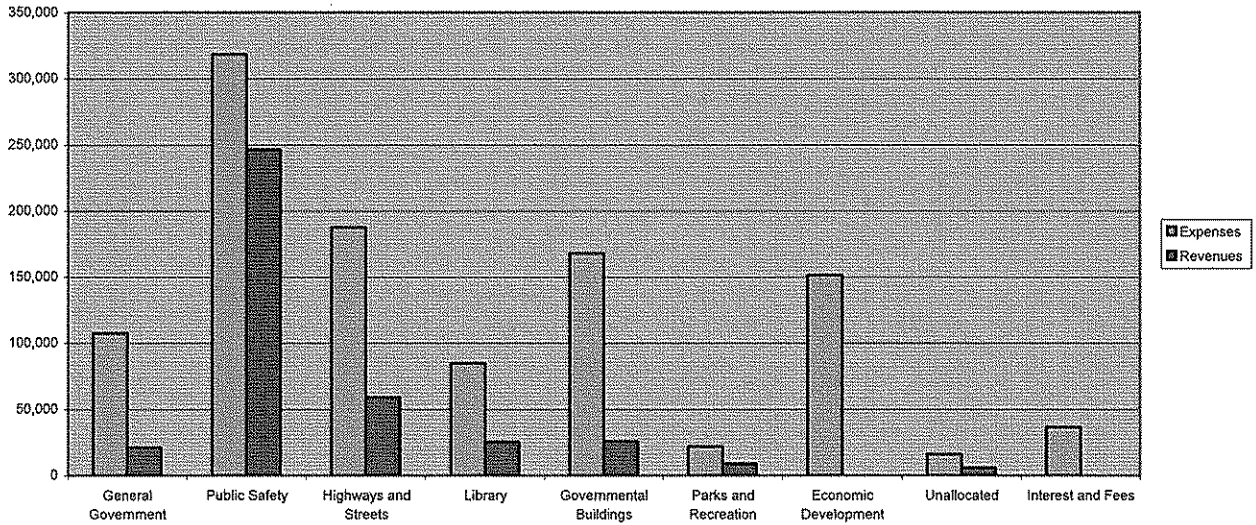
The total increase in net assets for governmental activities is \$303,391 for the year ended December 31, 2007. The total revenues for governmental activities amounted to \$1,378,738 while total expenses were \$1,090,907 and transfers in were \$16,560, which is illustrated in the chart above.

Government Activities Revenues

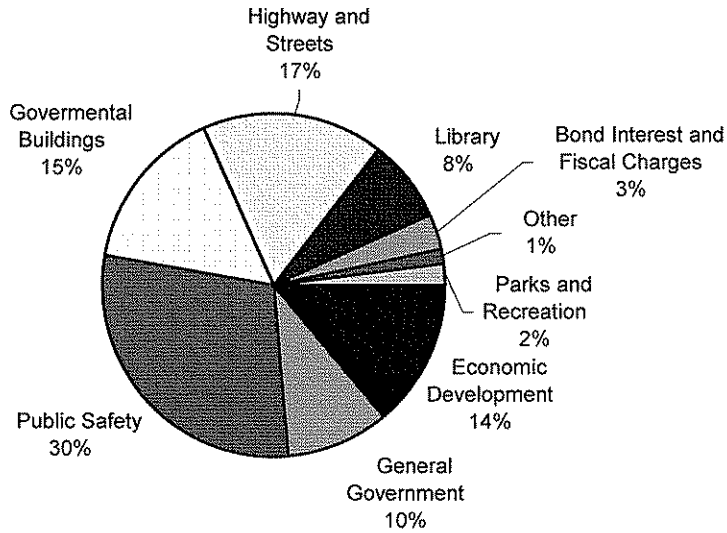


- Capital Grants and Contributions increased during the year, resulting from the Jacobson Addition project being completed in 2007.
- Charges for services increased due to an increase in fire and ambulance calls.
- Taxes increased due to increase in city's tax levy to cover necessary expenditures.

Expenses and Program Revenues-Governmental Activities



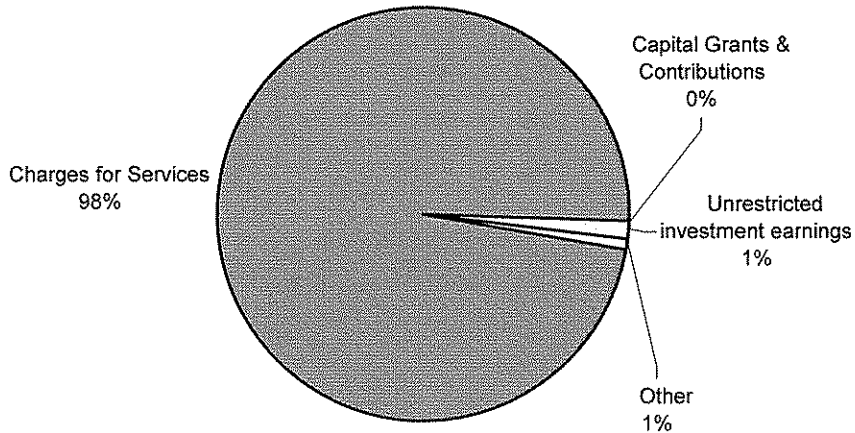
Government Activities Expenses



- Public safety increased, which was due to an increase in the number of emergency calls during the year. Also, a new ambulance was ordered in 2006 that was paid and delivered in 2007.
- Highway and streets increased which was due to seal coating municipal streets and purchase of maintenance vehicle.
- Changes for 2007 include classifying the economic development authority as a governmental activity, and reclassifying the community center and visitor center as general governmental buildings.

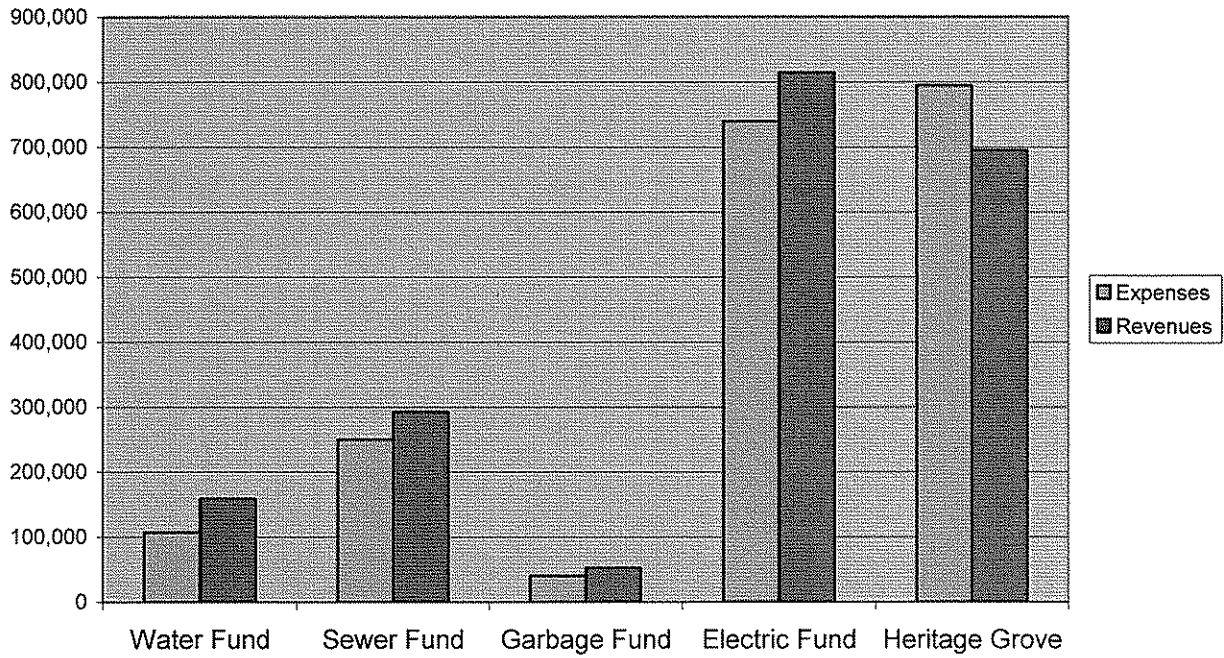
Business-type activities. Business-type activities increased the City of Harmony net assets \$108,634 for the year ended December 31, 2007. Business-type activities revenues and expenses are illustrated in the charts below.

Business-Type Activities Revenue

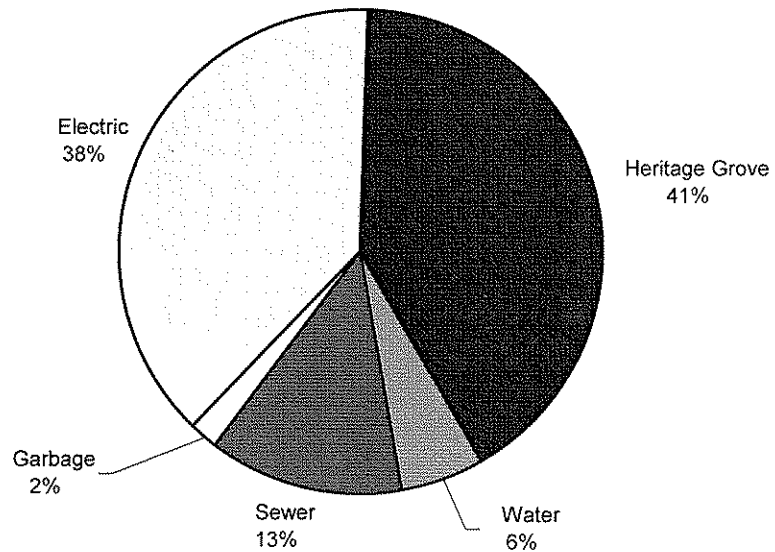


- Charges for services increased for consumption of electricity for hot summer.
- Charges for services increased due to increase in water consumption from dry and hot summer.
- Charges for services decreased for senior living facility from decrease in occupancy.

Expenses and Program Revenues-Business Type-Activities



Business-Type Activities Expenses



- The wholesale electric power costs increased coupled with warmer weather.
- The community center electric improvements were financed with the electric fund.
- The water fund had increased expenses due to well improvements and repairs being made in 2007.

Financial Analysis of the City's Funds

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

At the end of the current fiscal year, the City of Harmony's governmental funds reported combined ending fund balances of \$1,159,601.

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 \$416,298.

The fund balance of the City of Harmony's general fund decreased by \$48,326 during the current year. Key factors in this change are as follows:

- Public safety expenditures increased due to a new squad car purchase and improving the accessory equipment on the car that was unbudgeted resulted in an increase of \$5,000.
- The community center improvements were scaled back resulting in a small project.
- Expenditures were over budget by \$75,000 in the highways and streets area, due to city extending infrastructure in the Jacobson Addition, repairs to municipal streets, and higher snow removal costs. However, assessments prepaid of \$38,000 helped offset some of the Jacobson Addition costs.
- The City of Harmony's housing incentive program adopted in 2006 was very successful in 2007 resulting in an additional \$15,000 of incentives being paid.

The debt service funds have a total fund balance of \$144,655, 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	\$ 98,443
Sewer	\$ 65,427
Garbage & Recycling	\$ 3,825
Electric	\$677,266
Heritage Grove	(\$ 20,436)

General Fund Budgetary Highlights. After the 2007 budget was developed, the council approved extending infrastructure for the Jacobson Addition. They also reduced the scope of the community center improvement project.

Capital Asset Administration. The City of Harmony's investment in capital assets for its governmental and business type activities as of December 31, 2007 amounts to \$8,927,886 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, furniture, and infrastructure.

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

- \$125,000 Residential Housing Development. Extension of infrastructure (utilities and streets) in the city to complete the Jacobson Addition Housing development.
- \$60,500 Ambulance. The City of Harmony traded for a new ambulance.
- \$30,000 Well/Water Improvements. Installed new well motor and repiped water mains by well.
- \$40,000 Maintenance Vehicle. The City of Harmony purchased a new maintenance vehicle for street maintenance and snow/ice removal.
- \$28,500 Squad Car. The City of Harmony purchased a new police car with some necessary equipment.
- \$47,500 Community Center Improvements. Electrical improvements and wall improvements to the community center to make the building more energy-efficient.

City of Harmony's Capital Assets

	Government Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 332,266	\$ 332,266	\$ 168,114	\$ 168,113	\$ 500,380	\$ 500,379
Building and Improvements	923,825	890,602	4,808,534	4,806,936	5,732,359	5,697,538
Vehicles	810,028	808,330	28,700	28,700	838,728	837,030
Production and Distribution			540,630	522,039	540,630	522,039
Machinery and Other Equipment	355,042	327,104			355,042	327,104
Infrastructure	2,479,927	2,410,858	2,873,946	2,748,815	5,353,873	5,159,673
Work-In-Progress			-	27,285	-	27,285
Total assets	4,901,088	4,769,160	8,419,924	8,301,888	13,321,012	13,071,048
Less: Accumulated Depreciation	(2,213,607)	(2,183,758)	(2,179,519)	(1,918,479)	(4,393,126)	(4,102,237)
Net Capital Assets	\$ 2,687,481	\$ 2,585,402	\$ 6,240,405	\$ 6,383,409	\$ 8,927,886	\$ 8,968,811

More detailed information on the City of Harmony's capital assets is presented in the Notes to the Financial Statements on page 44-45.

Long-Term Debt. At the end of the fiscal year, the City of Harmony had long-term debt of \$4,848,340. General obligation debt outstanding of \$2,600,000 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 \$1,016,437 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	
	2007	2006	2007	2006	2007	2006
General Obligation Bonds	\$ 407,000	\$ 494,000			\$ 407,000	\$ 494,000
General Obligation Improvement	185,000	255,000			185,000	255,000
General Obligation Tax Increment	175,000	230,000			175,000	230,000
USDA Promissory Note	194,903	207,102			194,903	207,102
General Obligation Note			1,016,437	1,113,673	1,016,437	1,113,673
General Obligation Revenue			2,870,000	3,000,000	2,870,000	3,000,000
Capital Lease				1,745	-	1,745
Total assets	\$ 961,903	\$ 1,186,102	\$ 3,886,437	\$ 4,115,418	\$ 4,848,340	\$ 5,301,520

Additional information on the City of Harmony's long-term debt can be found in the Notes to the Financial Statements on pages 46-49.

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 completed the infrastructure in the Jacobson Addition housing development. The City of Harmony should see limited growth in the area of residential due to the slow-down in the economy.

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 has been awarded a DEED (Department of Employment and Economic Development) grant from the State of Minnesota to install a public parking lot.

The City of Harmony Economic Development Authority continues to recruit businesses into the industrial park. A new business is planning to build in the industrial park in 2008.

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.

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.

The City of Harmony is planning to finish the community center wall improvement project. The exterior walls of the community center, as well as a heating/cooling system for the gym, rooms and hallways will be replaced. The main electrical system has been updated prior, and will be finished as part of the project. The community center parking lot will be replaced also. The City of Harmony is planning to utilize the USDA Rural Development loan funds to complete the project.

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.

CITY OF HARMONY, MINNESOTA
STATEMENT OF NET ASSETS
December 31, 2007
With Comparative Totals for December 31, 2006

	Governmental Activities	Business-Type Activities	Totals	
			2007	2006
Assets				
Cash and investments	\$ 1,233,188	\$ 758,945	\$ 1,992,133	\$ 1,957,863
Receivables	330,131	152,659	482,790	549,984
Internal balances	(64,715)	64,715		
Due from other governmental units	9,623		9,623	7,176
Inventory		31,913	31,913	26,676
Loans receivable	174,642		174,642	129,134
Prepaid expenses	7,165	9,036	16,201	14,682
Capital assets:				
Nondepreciable	332,266	168,114	500,380	527,664
Depreciable, net	2,355,215	6,072,291	8,427,506	8,441,147
Total Assets	4,377,515	7,257,673	11,635,188	11,654,326
Liabilities and Net Assets				
Liabilities				
Accounts payable	61,966	105,720	167,686	143,479
Deposits payable		6,295	6,295	22,225
Compensated absences	42,797	26,130	68,927	69,787
Accrued liabilities	5,683	30,639	36,322	18,534
Accrued interest payable	11,076	23,959	35,035	39,595
Due to other governments				1,838
Noncurrent liabilities:				
Due within one year	217,728	234,467	452,195	453,180
Due in more than one year	744,175	3,588,380	4,332,555	4,781,540
Total Liabilities	1,083,425	4,015,590	5,099,015	5,530,178
Net Assets				
Invested in capital assets, net of related debt	1,725,578	2,417,558	4,143,136	3,734,091
Restricted for:				
Small city grant	(5,208)		(5,208)	(3,571)
Debt Service	163,875		163,875	157,748
Unrestricted	1,409,845	824,525	2,234,370	2,235,880
Total Net Assets	3,294,090	3,242,083	6,536,173	6,124,148
Total Liabilities and Net Assets	\$ 4,377,515	\$ 7,257,673	\$ 11,635,188	\$ 11,654,326

See Notes to Financial Statements

CITY OF HARMONY, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2007
With Comparative Totals for December 31, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 107,649	\$ 17,806	\$	\$ 3,300
Public safety	318,468	208,000	17,502	20,994
Streets and highways	187,677	1,244		57,566
Library	84,668	1,691	23,775	
Government buildings	167,857	25,730		
Park and recreation	21,764	1,889	7,115	
Economic development	151,370			
Interest on long-term debt	36,587			
Unallocated	15,867	5,925		
Total governmental activities	<u>1,091,907</u>	<u>262,285</u>	<u>48,392</u>	<u>81,860</u>
Business-Type activities:				
Water	107,216	158,958		
Sewer	249,846	292,234		
Electric	739,454	814,409		
Heritage Grove	794,598	695,055		
Garbage	39,705	52,385		
Total business-type activities	<u>1,930,819</u>	<u>2,013,041</u>		
Total	<u>\$ 3,022,726</u>	<u>\$ 2,275,326</u>	<u>\$ 48,392</u>	<u>\$ 81,860</u>

General revenues:
 General property taxes
 Tax increments
 Intergovernmental revenue
 Interest earnings
 Gain on sale of capital assets
 Miscellaneous
 Transfers, net
 Total general revenues and transfers

Change in net assets

Net assets - beginning

Prior period adjustment (Note 14)

Net assets - ending

FORM A-2

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Totals	
		2007	2006
\$ (86,543)	\$	\$ (86,543)	\$ (86,927)
(71,972)		(71,972)	(31,484)
(128,867)		(128,867)	(150,542)
(59,202)		(59,202)	(53,521)
(142,127)		(142,127)	(109,927)
(12,760)		(12,760)	(45,451)
(151,370)		(151,370)	(89,913)
(36,587)		(36,587)	(34,044)
(9,942)		(9,942)	(42,189)
<u>(699,370)</u>		<u>(699,370)</u>	<u>(643,998)</u>
	51,742	51,742	93,495
	42,388	42,388	71,571
	74,955	74,955	21,848
	(99,543)	(99,543)	(51,498)
	<u>12,680</u>	<u>12,680</u>	<u>10,272</u>
	82,222	82,222	145,688
<u>(699,370)</u>	<u>82,222</u>	<u>(617,148)</u>	<u>(498,310)</u>
397,579		397,579	358,682
83,786		83,786	84,419
440,715		440,715	468,931
46,166	27,553	73,719	67,649
			1,086
17,955	15,419	33,374	47,147
16,560	(16,560)		477
<u>1,002,761</u>	<u>26,412</u>	<u>1,029,173</u>	<u>1,028,391</u>
303,391	108,634	412,025	530,081
2,990,699	3,133,449	6,124,148	5,207,163
			<u>386,904</u>
<u>\$ 3,294,090</u>	<u>\$ 3,242,083</u>	<u>\$ 6,536,173</u>	<u>\$ 6,124,148</u>

CITY OF HARMONY, MINNESOTA
FUND FINANCIAL STATEMENTS
DECEMBER 31, 2007

CITY OF HARMONY, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2007
With Comparative Totals for December 31, 2006

	General	Ambulance	Other Governmental Funds	Total Governmental Funds	
				2007	2006
ASSETS					
Cash and investments	\$ 438,834	\$ 128,882	\$ 665,472	\$ 1,233,188	\$ 1,218,869
Accounts receivable	301	30,157	11,531	41,989	34,591
Note receivable	23,163		151,479	174,642	171,288
Special assessments receivable:					
Deferred	19,340		268,802	288,142	311,589
Due from other funds	41,520		17,476	58,996	19,761
Due from other governmental units	4,454		5,169	9,623	7,176
Prepaid items	4,501	611	2,053	7,165	6,282
TOTAL ASSETS	\$ 532,113	\$ 159,650	\$ 1,121,982	\$ 1,813,745	\$ 1,769,556
LIABILITIES AND FUND BALANCE					
Liabilities					
Accounts payable	\$ 49,547	\$ 598	\$ 11,821	\$ 61,966	\$ 38,814
Accrued liabilities	4,545	73	1,065	5,683	4,164
Due to other funds			123,711	123,711	95,300
Due to other governments					1,838
Deferred revenue	42,503		420,281	462,784	486,438
Total Liabilities	96,595	671	556,878	654,144	626,554
Fund Balance					
Reserved for:					
Small cities grant			(5,208)	(5,208)	(3,571)
Debt service	19,220		144,655	163,875	157,748
Unreserved, designated	300,000		256,265	556,265	573,996
Unreserved, undesignated, reported in:					
General fund	116,298			116,298	164,624
Special revenue fund		158,979	169,392	328,371	250,205
Total Fund Balance	435,518	158,979	565,104	1,159,601	1,143,002
TOTAL LIABILITIES AND FUND BALANCE	\$ 532,113	\$ 159,650	\$ 1,121,982	\$ 1,813,745	\$ 1,769,556

CITY OF HARMONY, MINNESOTA
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2007
With Comparative Totals for The Year Ended December 31, 2006

	General	Ambulance	Other Governmental Funds	Total Governmental Funds	
				2007	2006
REVENUES					
General property taxes	\$ 275,309	\$	\$ 122,270	\$ 397,579	\$ 365,709
Tax increments			83,786	83,786	84,419
Special assessments	38,391		51,033	89,424	47,857
Licenses and permits	10,740			10,740	9,887
Fines and forfeits	1,244			1,244	2,791
Intergovernmental revenues	452,121	19,130	60,633	531,884	521,457
Charges for services	25,730	134,619	17,347	177,696	147,769
Investment income	15,151	2,459	28,556	46,166	28,600
Refunds and reimbursements	7,066			7,066	
Miscellaneous revenues	29,665	20,350	49,875	99,890	111,728
Total Revenues	855,417	176,558	413,500	1,445,475	1,320,217
EXPENDITURES					
General government	108,116			108,116	105,543
Public safety	132,059	172,322	58,071	362,452	410,038
Street and highways	238,400			238,400	128,025
Library			84,668	84,668	81,743
Government buildings	177,699			177,699	128,414
Park and recreation			40,469	40,469	46,494
Economic development			151,370	151,370	144,626
Debt service			242,333	242,333	239,441
Unallocated	23,924		35,026	58,950	75,513
Total Expenditures	680,198	172,322	611,937	1,464,457	1,359,837
Excess (deficiency) of revenues over (under) expenditures	175,219	4,236	(198,437)	(18,982)	(39,620)
OTHER FINANCING SOURCES (USES)					
Transfers in	105,947	60,000	392,048	557,995	420,841
Transfers out	(329,492)	(24,996)	(186,947)	(541,435)	(397,304)
Total Other Financing Sources (Uses)	(223,545)	35,004	205,101	16,560	23,537
Net change in fund balances	(48,326)	39,240	6,664	(2,422)	(16,083)
Fund Balance - Beginning	483,844	119,739	558,440	1,162,023	1,159,011
Prior Period Adjustment (Note 14)					19,095
Fund Balance - Beginning as Restated	483,844	119,739	558,440	1,162,023	1,178,106
Fund Balance - Ending	\$ 435,518	\$ 158,979	\$ 565,104	\$ 1,159,601	\$ 1,162,023

**CITY OF HARMONY, MINNESOTA
RECONCILIATION OF NET ASSETS IN THE
GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND BALANCES
IN THE FUND BASIS FINANCIAL STATEMENTS
December 31, 2007**

Amounts reported for governmental activities in the statement of net assets are different because:

Total governmental fund balances (page 17)	\$	1,159,601	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			
Governmental funds - capital assets	\$	4,901,088	
Less: Accumulated depreciation		<u>(2,213,607)</u>	
			2,687,481
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			
Delinquent property taxes	\$		
Deferred and delinquent special assessments		288,142	
Notes receivable		<u>174,642</u>	
			462,784
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Bonds payable	\$	(1,004,700)	
Accrued interest		<u>(11,076)</u>	
			<u>(1,015,776)</u>
Net assets of governmental activities (page 14)	\$		<u><u>3,294,090</u></u>

CITY OF HARMONY, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2007

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (page 18)	\$	(2,422)
<p>Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay-capital outlay funds	\$	259,334
Depreciation expense		<u>(145,868)</u>
		113,466
<p>The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net assets</p>		
		(11,387)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Deferred revenue, December 31, 2007	\$	462,784
Deferred revenue, December 31, 2006		<u>(486,438)</u>
		(23,654)
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
Principal retirement on long-term debt		224,199
Change in compensated absences		467
Change in accrued interest		<u>2,722</u>
		<u>227,388</u>
Change in net assets of governmental activities (pages 15 and 16)	\$	<u><u>303,391</u></u>

CITY OF HARMONY, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2007
With Comparative Totals for The Year Ended December 31, 2006

	Budgeted Amounts		2007 Actual Amounts	Variance with Final Budget - Positive (Negative)	2006 Actual Amounts
	Original	Final			
REVENUES					
Property Tax Levy					
Property tax collected	\$ 254,055	\$ 254,055	\$ 275,309	\$ 21,254	\$ 240,430
Licenses and Permits	8,700	8,700	10,740	2,040	9,887
Intergovernmental Revenues					
Local government aid	370,142	370,142	370,142		374,998
Market value credit	68,113	68,113	68,113		64,843
Fire state aid	10,000	10,000	13,002	3,002	12,926
PERA rate increase aid	864	864	864		864
Total Intergovernmental	449,119	449,119	452,121	3,002	453,631
Charges for Services					
Rental income	28,925	28,925	25,730	(3,195)	29,056
Special Assessments					
			38,391	38,391	7
Fines and Forfeits					
	800	800	1,244	444	2,791
Investment Income					
	16,005	16,005	15,151	(854)	10,442
Refunds and Reimbursements					
	7,500	7,500	7,066	(434)	4,130
Miscellaneous Revenues					
Lodging tax	4,000	4,000	5,925	1,925	3,850
Loan principal	18,996	18,996	18,991	(5)	18,434
Other	3,335	3,335	4,749	1,414	12,574
	26,331	26,331	29,665	3,334	34,858
TOTAL REVENUES	\$ 791,435	\$ 791,435	\$ 855,417	\$ 63,982	\$ 785,232

See Notes to Financial Statements

CITY OF HARMONY, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2007
With Comparative Totals for The Year Ended December 31, 2006

	Budgeted Amounts		2007 Actual Amounts	Variance with Final Budget - Positive (Negative)	2006 Actual Amounts
	Original	Final			
EXPENDITURES					
General Government					
Mayor and Council					
Employee services	\$ 7,350	\$ 7,350	\$ 7,321	\$ 29	7,320
Printing and publication	400	400	737	(337)	102
Insurance	550	550	413	137	413
Dues	1,000	1,000	1,061	(61)	20
Total Mayor and Council	9,300	9,300	9,532	(232)	7,855
Elections			4	(4)	1,700
Finance and Administration					
Employee services	59,857	59,857	63,419	(3,562)	57,654
Materials and supplies	6,700	6,700	3,433	3,267	5,435
Printing and publication	1,750	1,750	1,107	643	736
Training	1,400	1,400	376	1,024	161
Repairs and maintenance	750	750	821	(71)	2,175
Professional fees	16,250	16,250	19,525	(3,275)	16,650
Miscellaneous	2,981	2,981	2,607	374	2,401
Total Finance and Administration	89,688	89,688	91,288	(1,600)	85,212
Professional Services					
Legal	\$ 7,500	\$ 7,500	\$ 5,473	\$ 2,027	\$ 9,039

See Notes to Financial Statements

CITY OF HARMONY, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2007
With Comparative Totals for The Year Ended December 31, 2006

	Budgeted Amounts		2007 Actual Amounts	Variance with Final Budget - Positive (Negative)	2006 Actual Amounts
	Original	Final			
EXPENDITURES (Continued)					
Civil Defense	\$ 1,779	\$ 1,779	\$ 1,819	\$ (40)	\$ 1,737
Total General Government	108,267	108,267	108,116	151	105,543
Government Buildings					
Community Center					
Employee services	36,723	36,723	29,987	6,736	30,010
Materials and supplies	2,000	2,000	5,989	(3,989)	1,547
Insurance	8,740	8,740	8,528	212	7,841
Repairs and maintenance	6,100	6,100	4,986	1,114	2,252
Utilities	49,250	49,250	44,876	4,374	43,335
Miscellaneous	1,550	1,550	2,518	(968)	
Capital outlay	60,000	60,000	33,223	26,777	
Debt service	21,175	21,175	21,175		21,175
Total Community Center	185,538	185,538	151,282	34,256	106,160
Visitor Center					
Employee services	11,581	11,581	8,988	2,593	9,568
Materials and supplies	1,325	1,325	2,926	(1,601)	1,727
Insurance	2,248	2,248	2,176	72	1,979
Repairs and maintenance	1,750	1,750	3,435	(1,685)	347
Utilities	10,450	10,450	8,892	1,558	8,632
Total Visitor Center	27,354	27,354	26,417	937	22,253
Total Government Buildings	212,892	212,892	177,699	35,193	128,413
Public Safety					
Police Protection					
Contractual services	68,200	68,200	76,688	(8,488)	64,116
Vehicle expense	3,500	3,500	3,004	496	2,958
Materials and supplies	500	500	56	444	251
Insurance	564	564	480	84	511
Repairs and maintenance	1,000	1,000	659	341	911
Capital outlay	23,500	23,500	28,508	(5,008)	
Miscellaneous	1,000	1,000	693	307	796
Total Police Protection	\$ 98,264	\$ 98,264	\$ 110,088	\$ (11,824)	\$ 69,543

See Notes to Financial Statements

CITY OF HARMONY, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2007
With Comparative Totals for The Year Ended December 31, 2006

	Budgeted Amounts		2007 Actual Amounts	Variance with Final Budget - Positive (Negative)	2006 Actual Amounts
	Original	Final			
EXPENDITURES (Continued)					
Fire Protection					
Firemen's relief	\$ 17,000	\$ 17,000	\$ 18,002	\$ (1,002)	\$ 17,926
Animal Control					
Employee services	3,575	3,575	3,555	20	3,611
Miscellaneous	500	500	414	86	333
Total Animal Control	4,075	4,075	3,969	106	3,944
Total Public Safety	119,339	119,339	132,059	(12,720)	91,413
Streets and Highway					
Employee services	23,298	23,298	20,204	3,094	18,795
Vehicle expense	3,750	3,750	3,693	57	2,800
Materials and supplies	10,225	10,225	10,906	(681)	8,841
Insurance	2,753	2,753	2,847	(94)	2,544
Repairs and maintenance	46,750	46,750	38,781	7,969	53,301
Snow and ice	17,878	17,878	31,790	(13,912)	10,182
Building maintenance	17,702	17,702	20,051	(2,349)	15,005
Capital outlay	35,000	35,000	110,128	(75,128)	16,557
Total Streets and Highway	157,356	157,356	238,400	(81,044)	128,025
Unallocated					
Insurance	4,000	4,000	7,133	(3,133)	2,710
Lodging tax	6,435	6,435	5,627	808	3,643
Community events	5,000	5,000	4,741	259	6,994
Community development	7,500	7,500	6,423	1,077	1,834
Total Unallocated	22,935	22,935	23,924	(989)	15,181
TOTAL EXPENDITURES	620,789	620,789	680,198	(59,409)	468,575
Excess of revenues over expenditures	170,646	170,646	175,219	(4,573)	316,657
Other Financing Sources (Uses)					
Transfers in	135,947	135,947	105,947	30,000	51,500
Transfers out	(314,092)	(314,092)	(329,492)	(15,400)	(291,000)
Total Other Financing Sources (Uses)	(178,145)	(178,145)	(223,545)	14,600	(239,500)
Net change in fund balance	(7,499)	(7,499)	(48,326)	10,027	77,157
FUND BALANCE - Beginning	483,844	483,844	483,844		406,687
FUND BALANCE - Ending	\$ 476,345	\$ 476,345	\$ 435,518	\$ 10,027	\$ 483,844

See Notes to Financial Statements

CITY OF HARMONY, MINNESOTA
AMBULANCE FUND
Schedule of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual

For the Year Ended December 31, 2007
 With Comparative Totals for The Year Ended December 31, 2006

REVENUES	Budgeted Amounts		2007 Actual Amounts	Variance with Final Budget Positive (Negative)	2006 Actual Amounts
	Original	Final			
Charges for Services					
Service fees	\$ 95,000	\$ 95,000	\$ 134,619	\$ 39,619	\$ 108,213
Intergovernmental Revenues	15,070	15,070	19,130	4,060	15,070
Miscellaneous					
Investment income	250	250	2,459	2,209	2,582
Contributions			11,500	11,500	
Other	1,600	1,600	8,850	7,250	7,578
Total Miscellaneous	1,850	1,850	22,809	20,959	10,160
TOTAL REVENUES	111,920	111,920	176,558	64,638	133,443
EXPENDITURES					
Public Safety					
Salaries and wages	37,021	37,021	43,753	(6,732)	35,301
Insurance	2,542	2,542	2,693	(151)	2,275
Repair and maintenance	8,500	8,500	8,511	(11)	8,161
Travel, schools, conferences	3,600	3,600	4,475	(875)	3,247
Miscellaneous	8,205	8,205	8,137	68	6,443
Bad debts	30,000	30,000	27,863	2,137	22,976
Capital outlay	62,749	62,749	76,890	(14,141)	
TOTAL EXPENDITURES	152,617	152,617	172,322	(19,705)	78,403
EXCESS (DEFICIT) REVENUES OVER (UNDER) EXPENDITURES	(40,697)	(40,697)	4,236	44,933	55,040
Other Financing Sources					
Operating transfers in	60,000	60,000	60,000		
Operating transfers out	(25,000)	(25,000)	(24,996)	4	(24,996)
Total Other Financing Sources	35,000	35,000	35,004	4	(24,996)
NET CHANGE IN FUND BALANCE	(5,697)	(5,697)	39,240	44,937	30,044
FUND BALANCE, JANUARY 1	119,739	119,739	119,739		89,695
FUND BALANCE, DECEMBER 31	\$ 114,042	\$ 114,042	\$ 158,979	\$ 44,937	\$ 119,739

See Notes to Financial Statements

CITY OF HARMONY, MINNESOTA
PROPRIETARY FUNDS
Statement of Net Assets
December 31, 2007
With Comparative Totals for December 31, 2006

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Electric Fund
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 85,528	\$ 67,284	\$ 552,545
Accounts receivable	13,766	29,116	94,034
Special assessments			
Due from other funds			82,191
Inventory	8,602		23,311
Prepaid expense	590	267	1,173
Total Current Assets	108,486	96,667	753,254
Noncurrent Assets:			
Capital assets:			
Nondepreciable	1,150	14,400	5,000
Depreciable	700,647	3,308,935	1,334,132
Less: Accumulated depreciation	(134,225)	(693,794)	(737,260)
Net capital assets	567,572	2,629,541	601,872
TOTAL ASSETS	676,058	2,726,208	1,355,126
LIABILITIES			
Current Liabilities:			
Current maturities of bonds payable		144,467	
Accounts payable	1,464	8,149	60,074
Capital lease payable			
Accrued liabilities	506	599	4,121
Accrued interest payable		12,299	
Customer deposits			6,295
Due to other funds			
Accrued compensated absences	8,073	10,193	5,498
Total Current Liabilities	10,043	175,707	75,988
Noncurrent Liabilities:			
Bonds payable, net of current maturities, discount, and issuance costs		1,141,969	
Total Liabilities	10,043	1,317,676	75,988
NET ASSETS			
Invested in capital assets, net of related debt	567,572	1,343,105	601,872
Unrestricted	98,443	65,427	677,266
Total Net Assets	\$ 666,015	\$ 1,408,532	\$ 1,279,138

See Notes to Financial Statements

FORM C-1

Business-Type Activities - Enterprise Funds			
Heritage Grove	Garbage Fund	TOTALS	
		2007	2006
\$ 52,186	\$ 1,402	\$ 758,945	\$ 719,652
10,679	5,064	152,659	153,709
			5,841
		82,191	95,300
		31,913	26,676
6,982	24	9,036	8,224
<u>69,847</u>	<u>6,490</u>	<u>1,034,744</u>	<u>1,009,402</u>
147,564		168,114	195,398
2,908,096		8,251,810	8,106,490
(614,240)		(2,179,519)	(1,918,479)
<u>2,441,420</u>		<u>6,240,405</u>	<u>6,383,409</u>
<u>2,511,267</u>	<u>6,490</u>	<u>7,275,149</u>	<u>7,392,811</u>
90,000		234,467	227,236
36,033		105,720	102,198
			1,795
25,114	299	30,639	14,240
11,660		23,959	25,797
		6,295	22,225
17,476		17,476	19,761
	2,366	26,130	26,523
<u>180,283</u>	<u>2,665</u>	<u>444,686</u>	<u>439,775</u>
<u>2,446,411</u>		<u>3,588,380</u>	<u>3,819,587</u>
<u>2,626,694</u>	<u>2,665</u>	<u>4,033,066</u>	<u>4,259,362</u>
(94,991)		2,417,558	2,267,941
(20,436)	3,825	824,525	865,508
<u>\$ (115,427)</u>	<u>\$ 3,825</u>	<u>\$ 3,242,083</u>	<u>\$ 3,133,449</u>

See Notes to Financial Statements

CITY OF HARMONY, MINNESOTA
PROPRIETARY FUNDS
Statement of Revenues, Expenses and
Changes in Fund Net Assets
For the Year Ended December 31, 2007
With Comparative Totals for The Year Ended December 31, 2006

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Electric Fund
Operating Revenues			
Sales and rentals	\$ 158,958	\$ 292,234	\$ 814,409
Operating Expenses			
Salaries and wages	36,890	39,591	27,722
Service contracts	805	274	205
Purchased power			632,199
Materials and supplies	11,947	8,376	4,507
Utilities	15,067	45,903	12,575
Repairs and maintenance	25,678	11,440	17,186
Travel and training	125	633	
Professional fees		8,472	50
Miscellaneous	1,009	1,867	2,260
Insurance	1,640	415	5,458
Economic development			
Depreciation/amortization	14,055	98,864	37,292
Total Operating Expenses	<u>107,216</u>	<u>215,835</u>	<u>739,454</u>
Operating Income (Loss)	<u>51,742</u>	<u>76,399</u>	<u>74,955</u>
Nonoperating Revenues (Expenses)			
Investment income	4,799	301	18,586
Special assessments		317	1,020
Other revenue (expense)			14,082
Interest expense and fiscal charges		<u>(34,011)</u>	
Total Nonoperating Revenues (Expenses)	<u>4,799</u>	<u>(33,393)</u>	<u>33,688</u>
Income (Loss) Before Transfers and Capital Contributions	56,541	43,006	108,643
Capital contributions			
Transfers in		74,436	
Transfers out	<u>(62,496)</u>	<u>(2,496)</u>	<u>(26,004)</u>
Change in net assets	(5,955)	114,946	82,639
Total Net Assets - Beginning of Year	<u>671,970</u>	<u>1,293,586</u>	<u>1,196,499</u>
Prior period adjustment (Note 14)			
Total Net Assets - Beginning of Year as Restated	<u>671,970</u>	<u>1,293,586</u>	<u>1,196,499</u>
Total Net Assets - End of Year	<u>\$ 666,015</u>	<u>\$ 1,408,532</u>	<u>\$ 1,279,138</u>

See Notes to Financial Statements

FORM C-2

Business-Type Activities - Enterprise Funds			
Heritage Grove	Garbage Fund	TOTALS	
		2007	2006
\$ 695,055	\$ 52,385	\$ 2,013,041	\$ 1,938,874
291,335	9,493	405,031	393,863
34,743	28,877	64,904	40,727
		632,199	575,561
46,574	1,165	72,569	53,538
42,854		116,399	98,048
20,554		74,858	72,080
873		1,631	1,428
1,483		10,005	29,817
29,258	170	34,564	75,839
68,518		76,031	88,929
114,090		264,301	267,537
650,282	39,705	1,752,492	1,697,367
44,773	12,680	260,549	241,507
3,867		27,553	22,998
		1,337	3,679
		14,082	16,238
(144,316)		(178,327)	(185,866)
(140,449)		(135,355)	(142,951)
(95,676)	12,680	125,194	98,556
			90,047
		74,436	76,936
		(90,996)	(99,996)
(95,676)	12,680	108,634	165,543
(19,751)	(8,855)	3,133,449	3,095,539
			(127,633)
(19,751)	(8,855)	3,133,449	2,967,906
\$ (115,427)	\$ 3,825	\$ 3,242,083	\$ 3,133,449

See Notes to Financial Statements

CITY OF HARMONY, MINNESOTA
PROPRIETARY FUNDS
Statement of Cash Flows
For the Year Ended December 31, 2007
With Comparative Totals for The Year Ended December 31, 2006

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Electric Fund
Cash Flows From Operating Activities			
Cash received from customers	\$ 158,935	\$ 296,078	\$ 818,127
Cash payments to suppliers	(56,840)	(76,006)	(679,708)
Cash payments to employees or on their behalf	(38,541)	(38,643)	(28,056)
Other cash payments			1,170
Net Cash Provided By Operating Activities	<u>63,554</u>	<u>181,429</u>	<u>111,533</u>
Cash Flows From Capital and Related Financing Activities			
Capital contributions			
Acquisition and construction of capital assets	(63,305)	(19,011)	(31,366)
Principal payments on bonds		(142,236)	
Interest paid on bonds		(34,011)	
Special assessments received		317	1,020
Net Cash Used In Capital and Related Financing Activities	<u>(63,305)</u>	<u>(194,941)</u>	<u>(30,346)</u>
Cash Flows From Non-Capital Financing Activities			
Transfers in (out) to other funds	(62,496)	71,940	(26,004)
Other income (expense)			14,082
Net Cash Used In Non-Capital Financing Activities	<u>(62,496)</u>	<u>71,940</u>	<u>(11,922)</u>
Cash Flows From Investing Activities			
Investment earnings received	4,799	301	18,586
Net Increase (Decrease) in Cash and Cash Equivalents	(57,448)	58,729	87,851
Cash and Cash Equivalents, Beginning of Year	<u>142,976</u>	<u>8,555</u>	<u>464,694</u>
Cash and Cash Equivalents, End of Year	<u>\$ 85,528</u>	<u>\$ 67,284</u>	<u>\$ 552,545</u>

**Reconciliation of Operating Income to Net Cash
Provided by Operating Activities**

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Electric Fund
Operating Income	\$ 51,742	\$ 76,399	\$ 74,955
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	14,055	98,864	37,292
(Increase) Decrease In:			
Accounts receivable	199	3,845	(4,281)
Prepaid expenses	(43)	(1)	(52)
Inventory	(179)		(5,058)
Due from other funds			13,109
Increase (Decrease) In:			
Accounts payable	(1,374)	2,619	(5,473)
Accrued interest payable		(1,519)	
Accrued liabilities	(846)	1,222	(129)
Customer deposits			1,170
Due to other funds			
Net Cash Provided By Operating Activities	<u>\$ 63,554</u>	<u>\$ 181,429</u>	<u>\$ 111,533</u>

See Notes to Financial Statements

FORM C-3

Business-Type Activities - Enterprise Funds			
Heritage Grove	Garbage Fund	TOTALS	
		2007	2006
\$ 701,579	\$ 52,273	\$ 2,026,992	\$ 1,819,489
(221,578)	(1,335)	(1,035,467)	(1,002,471)
(310,090)	(38,599)	(453,929)	(408,229)
(2,285)		(1,115)	(3,120)
<u>167,626</u>	<u>12,339</u>	<u>536,481</u>	<u>405,669</u>
			90,047
(4,355)		(118,037)	(196,197)
(85,000)		(227,236)	(225,306)
(144,316)		(178,327)	(185,866)
		1,337	3,679
<u>(233,671)</u>		<u>(522,263)</u>	<u>(513,643)</u>
		(16,560)	(23,060)
		14,082	15,703
		(2,478)	(7,357)
<u>3,867</u>		<u>27,553</u>	<u>23,533</u>
(62,178)	12,339	39,293	(91,798)
<u>114,364</u>	<u>(10,937)</u>	<u>719,652</u>	<u>811,450</u>
<u>\$ 52,186</u>	<u>\$ 1,402</u>	<u>\$ 758,945</u>	<u>\$ 719,652</u>

Business-Type Activities - Enterprise Funds			
Heritage Grove	Garbage Fund	TOTALS	
		2007	2006
\$ 44,773	\$ 12,680	\$ 260,549	\$ 241,507
114,090		264,301	267,537
7,236	(108)	6,891	(11,114)
(712)	(4)	(812)	(1,015)
		(5,237)	(11,956)
		13,109	(95,300)
7,750		3,522	17,706
(2,114)		(3,633)	
15,988	(229)	16,006	1,218
(17,100)		(15,930)	(680)
(2,285)		(2,285)	(2,234)
<u>\$ 167,626</u>	<u>\$ 12,339</u>	<u>\$ 536,481</u>	<u>\$ 405,669</u>

See Notes to Financial Statements

CITY OF HARMONY, MINNESOTA
Statement of Fiduciary Net Assets
December 31, 2007
With Comparative Totals for December 31, 2006

	2007	2006
Assets		
Cash and cash equivalents	\$ 12,162	\$ 12,241
Net Assets		
Unrestricted	\$ 12,162	\$ 12,241

CITY OF HARMONY, MINNESOTA
Statement of Changes in Fiduciary Net Assets
For the Year Ended December 31, 2007
With Comparative Totals for The Year Ended December 31, 2006

	2007	2006
Additions to		
Investment income	\$ 954	\$ 410
Deductions from		
Miscellaneous	1,033	
Other Financing Sources (Uses)		
Transfer out		(477)
Increase (Decrease) in Net Assets	(79)	(67)
Net Assets - Beginning of Year	12,241	12,308
Net Assets - End of Year	\$ 12,162	\$ 12,241

See Notes to Financial Statements

CITY OF HARMONY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The City's major operations include police and fire protection, parks, library, recreation, public works, economic development and general administrative services. In addition, the City owns and operates a water and sewer system and a regional ambulance department.

The City's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issues after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

Reporting Entity

In accordance with GASB Statement No. 14 the City's financial statements include the primary government and the component units of the City of Harmony, defined as follows:

Primary Government - Includes all funds, account groups, organizations, institutions, agencies, departments, or offices which are not legally separate from the City of Harmony.

Component Units - Component units are legally separate organizations for which the elected officials of the City of Harmony are financially accountable or for which the nature or significance of their relationship with the City of Harmony would cause the general purpose financial statements to be misleading or incomplete. Because its sole purpose is to encourage future development within the City, the Harmony Economic Development Authority (EDA), has been reported as a blended component unit in the financial statements of the City of Harmony.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Property taxes, licenses and permits, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *General fund* is the government's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

The *Ambulance fund* accounts for the activities for the ambulance service.

The City reports the following major proprietary funds:

The *Water fund* accounts for the provisions of water services to the residents of the City.

The *Sewer fund* accounts for the provisions of sewer services to the residents of the City.

The *Electric fund* accounts for the provisions of electric services to the residents of the City.

The *Heritage Grove fund* accounts for the provisions of the Assisted Living Center of the City.

The *Garbage fund* accounts for the provisions of garbage service to the residents of the City.

The City reports the following fiduciary fund:

The *Sanderson Memorial Trust fund* is a non-expendable trust fund for assets held by the city in a trustee capacity of as an agent for individuals, private organizations, other governments and/or other funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's enterprise funds and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities, and Net Assets or Equity

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Formal budgetary accounting is employed as a management control for funds of the City. Annual operating budgets are adopted each fiscal year through passage of an annual budget ordinance and may be amended by formal council action. All budget appropriations lapse at the end of the fiscal year.

Cash and Investments

Except where otherwise required, the City maintains all deposits in bank accounts in the name of the City. These deposits are invested on a short-term basis with interest income allocated to each fund based upon their relative account balance. The balances shown in each fund represents an equity interest in the commingled pool of cash and temporary cash investments which is under the management of the City. Temporary cash investments are stated at cost, which approximates market.

The City has designated cash and cash equivalents as demand deposits and all investments with an original maturity of three months or less.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Property Taxes

Property tax levies are set by the City Council in December of 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.

Taxes which remain unpaid at December 31 are classified as delinquent taxes receivable. Delinquent taxes receivable are fully offset by deferred revenue in the governmental funds of the fund financial statements because they are not known to be available to finance current expenditures.

The County spreads all levies over taxable property. Such taxes become a lien on January 1, following, and are recorded as receivables by the City at that date. Revenues from property taxes are accrued and recognized in the year collectable, 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 normally during the months of July and December.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market. The cost of inventories are recorded as expense when consumed rather than when purchased.

Special Assessments

Assessments are levied at various times by City resolution for property owner improvements made by the City. Generally, assessment collections are deferred over periods ranging from one to ten years with interest charges of 5.0% to 7.5%. Revenue from these assessments is recognized when the City certifies the assessment in the government wide financial statements and as the annual installments become collectible in the fund financial statements. Annual installments not collected as of each December 31 are classified as delinquent assessments receivable. Delinquent assessments receivable are fully offset by deferred revenue in the governmental funds of the fund financial statements because they are not known to be available to finance current expenditures.

Tax Increment Districts

Property tax revenues received on tax increment districts are recorded in the Capital Projects Fund.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity (continued)

Short-Term Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "advances from other funds" or "advances to other funds".

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, net of interest earned on the invested debt proceeds over the same period.

Property, plant and equipment are capitalized when acquired, and depreciation is provided using the straight-line method applied over the following estimated useful lives of the assets.

	Useful Life <u>in Years</u>
Buildings and improvements	10 - 50
Improvements other than buildings	20 - 50
Production and distribution systems	10 - 50
Furniture and fixtures	5 - 10
Machinery and equipment	5 - 25

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity (continued)

Capital Assets (continued)

Infrastructure assets include roads, streets, water, sewer and electric lines, etc. These infrastructure assets are likely to be the largest asset class of the City. Neither their historical cost nor related depreciation has historically been reported in the financial statements. Historical cost, accumulated depreciation and depreciation expense related to infrastructure assets constructed prior to January 1, 2004 are not included in the City's financial statements as allowed by GASB Statement No. 34.

Compensated Absences

It is the City's policy to permit employees to accumulate a limited amount of earned but unused paid time off which is paid to the employees upon separation. PTO is accrued when incurred in the government-wide and proprietary fund financial statements. A liability is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirement.

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported separately and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental fund types report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity (continued)

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses or revenues/income initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses or revenues/income in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

Concentration of Credit Risk

Financial instruments which expose the City to a concentration of credit risk consist primarily of cash investments and accounts receivable. Credit risk associated with cash and investments are discussed in Note 2.

The City's accounts receivable are concentrated geographically, as for the most part, amounts are due from individuals residing in and businesses located in the City of Harmony.

Reclassifications

Certain amounts in the 2006 financial statements have been reclassified to conform with the 2007 presentation.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments

Summary of Cash and Investments

As of December 31, 2007, the City's cash and investments consisted of the following items, all of which are held in an internal cash and investment pool:

<u>Cash and Investments</u>	<u>Maturities</u>	<u>Ratings</u>	<u>Fair Value</u>
Cash on hand	None	N/A	\$ 365
Cash	None	N/A	417,419
Money Market Mutual Funds	None	N/A	271,117
Non-Negotiable CD's	January - October 2008	Unrated	<u>1,303,232</u>
Cash and Investments per Statement of Net Assets			<u>\$ 1,992,133</u>

Investments Authorized by Minnesota Statutes

The City is authorized by Minnesota Statutes to invest idle funds as follows:

- a) Direct obligations or obligations guaranteed by the United States or its agencies.
- b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- c) General obligations of the State of Minnesota or its municipalities.
- 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 agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a reporting dealer in to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- g) Money market funds with institutions that have portfolios consisting exclusively of United States Treasury obligations and Federal Agency issues.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments (Continued)

Collateralization of Cash Deposits

The City's deposits are entirely covered by federal depository insurance or by collateral held by the City's custodial banks in the City's name.

Minnesota Statutes require that all City deposits be insured, secured by surety bonds or be collateralized. Except for notes secured by first mortgages of future maturity, the market value of collateral pledged by the custodial bank must equal 110% of the deposits not covered by insurance or surety bonds.

Authorized collateral includes certain state or local government obligations and legal investments. Minnesota Statutes also require that securities pledged as collateral be held in safekeeping by the Treasurer, or in a financial institution other than the institution furnishing the collateral.

Inherent Rate Risk

The City does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The City has no investment policy that would limit its investment choices.

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Loans 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 original 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, 2007:

2008	\$	20,000
2009		<u>3,163</u>
Total Obligation	\$	<u>23,163</u>

The City of Harmony has made several loans through its revolving loan program. These loans are payable over 3 to 10 years, with interest rates ranging from 4.0% to 7.0% over the term of the loan. These loans are offset by deferred revenue until the repayments are made. The remaining balance at December 31, 2007 is \$140,871.

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, 2007 is \$17,476.

4. Due From Other Governmental Units

Amounts due from other governmental units at December 31, 2007 are as follows:

<u>Fund</u>	<u>Fillmore County</u>
General	\$ 4,454
Debt Service	2,088
Capital Projects	<u>3,081</u>
	<u>\$ 9,623</u>

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Capital Assets

Capital asset activity for the year ended December 31, 2007 was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 332,266	\$	\$	\$ 332,266
Total capital assets, not being depreciated	<u>332,266</u>			<u>332,266</u>
Capital assets, being depreciated:				
Buildings and improvements	890,602	33,223		923,825
Vehicles	808,333	129,101	127,406	810,028
Machinery and other equipment	327,104	27,938		355,042
Infrastructure	2,410,855	69,072		2,479,927
Total capital assets, being depreciated	<u>4,436,894</u>	<u>259,334</u>	<u>127,406</u>	<u>4,568,822</u>
Less accumulated depreciation for:				
Buildings and improvements	386,411	45,135		431,546
Vehicles	397,560	37,605	116,019	319,146
Machinery and other equipment	148,987	30,459		179,446
Infrastructure	1,250,800	32,669		1,283,469
Total accumulated depreciation	<u>2,183,758</u>	<u>145,868</u>	<u>116,019</u>	<u>2,213,607</u>
Total capital assets, being depreciated, net	<u>2,253,136</u>	<u>113,466</u>	<u>11,387</u>	<u>2,355,215</u>
Governmental activities capital assets, net	<u>\$2,585,402</u>	<u>\$ 113,466</u>	<u>\$ 11,387</u>	<u>\$2,687,481</u>

Governmental Activities:

Government buildings	\$ 11,333
Public safety	59,212
Streets and highways	60,805
Culture and recreation	14,518

Total depreciation expense - governmental activities \$ 145,868

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Capital Assets (Continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 168,114			\$ 168,114
Construction in progress	27,285		27,285	
Total capital assets, not being depreciated	195,399		27,285	168,114
Capital assets, being depreciated:				
Buildings and improvements	4,806,936	1,598		4,808,534
Production and distribution systems	522,038	18,592		540,630
Vehicles	28,700			28,700
Infrastructure	2,748,815	125,131		2,873,946
Total capital assets, being depreciated	8,106,489	145,321		8,251,810
Less accumulated depreciation for:				
Buildings and improvements	1,011,122	181,245		1,192,367
Production and distribution systems	197,896	9,650		207,546
Vehicles	28,700			28,700
Infrastructure	680,761	70,145		750,906
Total accumulated depreciation	1,918,479	261,040		2,179,519
Total capital assets, being depreciated, net	6,188,010	(115,719)		6,072,291
Business-type activities capital assets, net	\$ 6,383,409	\$ (115,719)	\$ 27,285	\$ 6,240,405

Depreciation expense was charged to functions/programs as follows:

Business-Type Activities:	
Water	\$ 14,055
Sewer	98,864
Electric	37,292
Heritage	110,829
Total depreciation expense - business-type activities	\$ 261,040

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Long-Term Debt

The long-term debt obligations outstanding and related maturities and interest rates are summarized in the schedule of bonds payable and compensated absences.

General Obligation Improvement Bonds:

The 2002B G.O. Refunding and Improvement bonds were issued to refund the 1994B G.O. Improvement Bonds and to finance construction of various improvements. The 2003 G.O. Refunding Bonds were issued to refund the 1994A G.O. Fire Station Bonds. These bonds are payable primarily from ad valorem tax levies and are backed by the full faith and credit of the City.

General Obligation Revenue Notes:

The 1993 G.O. Sewer Note and the 2004 G.O. Sewer Note were issued to finance construction of the wastewater treatment facility. The funds to repay this debt will come from user fees and are backed by the full faith and credit of the City.

General Obligation Water and Sewer Revenue Bonds:

The 2002A G.O. Water and Sewer Revenue Bonds were issued to finance various improvements to the water and sewer system. The funds to repay this debt will come from user fees and are backed by the full faith and credit of the City.

General Obligation EDA Housing Bonds:

The 2001 Economic Development Authority Housing Bonds were issued to finance construction of a senior living facility. These bonds are payable solely from revenues generated from rental income.

General Obligation Tax Increment Bonds:

The 2004A G.O. Tax Increment and Improvement Refunding Bonds were issued to refund the 1995A G.O. Tax Increment Bonds, the 1998 G.O. Improvement Bonds, the 2000A G.O. Improvement Bonds and to provide funding for improvements of the industrial park. These bonds are payable primarily from ad valorem tax levies and tax increments and are backed by the full faith and credit of the City.

USDA Promissory Notes:

Proceeds from these USDA Promissory Notes were used to finance the Community Center Roof Project. These notes are payable solely from revenues generated from a long-term lease agreement between the blended component unit (EDA) and the primary government.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Long-Term Debt (Continued)

A summary of interest rates, maturities and December 31, 2007 balances is as follows:

	Range of Interest Rates	Final Maturity	Balance December 31, 2007
General Obligation Improvement Bonds			
Series 2002B Refunding and Improvement	2.00 - 4.30%	2013	\$ 295,000
Series 2003 Refunding	1.55 - 3.50%	2010	112,000
General Obligation Revenue Notes			
Series 1993 - PFA	3.34%	2014	478,437
Series 2004 - PFA	1.00%	2023	538,000
General Obligation Revenue Bonds			
Series 2002A Water and Sewer	2.00 - 4.30%	2013	270,000
2001 EDA Housing Bonds	4.10 - 5.75%	2026	2,600,000
General Obligation Tax Increment Bonds			
Series 2004A Refunding and Improvement	3.15%	2011	360,000
Other			
Promissory Note - USDA	4.375%	2019	131,411
Promissory Note - USDA	4.25%	2019	63,492
Total			<u>\$ 4,848,340</u>

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Long-Term Debt (Continued)

The changes in the Long-Term Debt of the City during the year ended December 31, 2007 are as follows:

	Beginning Balance	Additions	Debt Reductions	Other Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES						
General Obligation Improvement Bonds:						
Series 2002B Refunding and Improvement	\$ 345,000	\$	\$ 50,000	\$	\$ 295,000	\$ 45,000
Series 2003 Refunding	149,000		37,000		112,000	35,000
General Obligation Tax Increment Bonds:						
Series 2004A Refunding and Improvement	485,000		125,000		360,000	125,000
Other:						
Promissory Note - USDA	139,613		8,202		131,411	8,561
Promissory Note - USDA	67,489		3,997		63,492	4,167
Compensated Absences	43,264			467	42,797	
Governmental Activities Long-term Liabilities	<u>1,229,366</u>		<u>224,199</u>	<u>467</u>	<u>1,004,700</u>	<u>217,728</u>
BUSINESS-TYPE ACTIVITIES						
General Obligation Revenue Notes:						
Series 1993 - PFA	544,673		66,236		478,437	68,467
Series 2004 - PFA	569,000		31,000		538,000	31,000
General Obligation Revenue Bonds:						
Series 2002A Water and Sewer	315,000		45,000		270,000	45,000
2001 EDA Housing Bonds	2,685,000		85,000		2,600,000	90,000
Capital Lease:						
Heritage Grove Van	1,745		1,745			
Compensated Absences	26,523			393	26,130	
Unamortized Discount and Issue Costs	(66,850)			(3,261)	(63,589)	
Business-type Activities Long-term Liabilities	<u>4,075,091</u>		<u>228,981</u>	<u>(2,868)</u>	<u>3,848,978</u>	<u>234,467</u>
Total	<u>\$ 5,304,457</u>	<u>\$</u>	<u>\$ 453,180</u>	<u>\$ (2,401)</u>	<u>\$ 4,853,678</u>	<u>\$ 452,195</u>

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Long-Term Debt (Continued)

The annual requirements to amortize all long-term debt outstanding as of December 31, 2007 are summarized below.

Years	General Obligation Improvement Bonds		General Obligation Tax Increment Bonds		General Obligation Revenue Bonds / Notes		Other	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
<u>Governmental Activities</u>								
2008	\$ 80,000	\$ 14,067	\$ 125,000	\$ 9,371			\$ 12,728	\$ 8,448
2009	89,000	11,179	130,000	5,355			13,279	7,896
2010	88,000	7,890	100,000	1,733			13,854	7,321
2011	50,000	5,225	5,000	79			14,455	6,720
2012	50,000	3,188					15,081	6,094
2013-2017	50,000	1,075					85,801	20,077
2018-2022							39,705	2,599
Totals	\$ 407,000	\$ 42,623	\$ 360,000	\$ 16,538			\$ 194,903	\$ 59,154
<u>Business-Type Activities</u>								
2008					\$ 234,467	\$ 170,709		
2009					237,773	162,266		
2010					245,157	153,588		
2011					247,620	144,445		
2012					255,167	135,055		
2013-2017					909,253	550,300		
2018-2022					941,000	362,420		
2023-2027					816,000	44,940		
Totals					\$ 3,886,437	\$ 1,723,723		

The City is subject to a statutory limitation by the State of Minnesota for bonded indebtedness payable principally from property taxes, net of debt service cash and investments available to pay these bonds. The limitation is two percent of the City's estimated market valuation. At December 31, 2007 the City did not exceed the statutory limitation.

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-posers 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 of pledge of the faith and credit of the City, and accordingly have not been reported in the accompanying financial statements.

At December 31, 2007, the Housing Revenue Refunding Bonds outstanding aggregated \$9,085,000.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Individual Fund Disclosures

Transfers during the year ended December 31, 2007 were as follows:

Funds	Transfers In	Transfers Out
General Fund:	\$ 105,947	\$ 329,492
Special Revenue:		
Ambulance	60,000	24,996
Park	33,468	6,000
Library	62,004	
Fire	28,500	15,000
Arts	4,704	
EDA	107,876	
Capital Projects:		
Capital Projects	155,496	165,947
Enterprise:		
Water		62,496
Sewer	74,436	2,496
Electric		26,004
Total Transfers	\$ 632,431	\$ 632,431

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Individual Fund Disclosures (Continued)

The amounts due to and from and advanced to and from other funds at December 31, 2007, at the individual fund level are summarized below:

	Due From Other Funds	Due To Other Funds
General Fund	\$ 41,520	\$
Special Revenue:		
Fire		120,003
Revolving Loan	17,476	
Small Cities Grant		3,708
Enterprise Fund:		
Electric	82,191	
Heritage Grove		17,476
	<u>\$ 141,187</u>	<u>\$ 141,187</u>

At December 31, 2007 the following funds have deficit fund equity:

Special Revenue:		
Fire	\$	112,072
Small Cities Grant		5,208
Enterprise Fund:		
Heritage Grove		115,427

The City intends to fund accumulated deficits through additional revenue sources.

Excess of expenditures over appropriations at the individual fund level during 2007 are as follows:

General Fund	\$	59,409
Special Revenue:		
Ambulance Fund		19,705

All excess expenditures were the result of planned processes.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Deferred Revenue

Deferred revenue recorded in the fund financial statements at December 31, 2007 consists of the following:

- Special assessments and loans receivable that are not available for current year expenditures

Revenue	General Fund	Special Revenue	Debt Service Funds	Capital Projects Funds	Totals
Special assessments	\$ 19,340	\$	\$ 77,679	\$ 191,123	\$ 288,142
Loans receivable	23,163	151,479			174,642
Total	\$ 42,503	\$ 151,479	\$ 77,679	\$ 191,123	\$ 462,784

9. Fund Equity

Reserved fund equity represents the portion not available for expenditures or legally segregated for specific future use. Designated fund equity represents the portion which is based on tentative future spending plans. Fund equity has been reserved or designated at December 31, 2007 as follows:

Reserved for Debt Service

Debt Service Funds	
1994 G.O. Fire Station Bonds	\$ 27,318
2002 G.O. Improvement Bonds	51,302
2004 G.O. Increment and Improvement Refund	66,035

10. Commitments and Contingencies

The City participates in a number of federal and state agency assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The City does not anticipate any audit adjustments or disallowed program expenditures that would be material in relation to the general purpose financial statements taken as a whole.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. 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 pension 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. This plan is 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 PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For 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 is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement benefit 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 reduce the monthly normal annuity amount, because the annuity is 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 www.mnpera.com, 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.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Defined Benefit Pension Plans - Statewide (Continued)

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 5.75%, respectively, of their annual covered salary. Contribution rates in the Coordinated Plan will increase in 2008 to 6.0%. The City of Harmony is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 6.25% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan will increase to 6.5% effective January 1, 2008. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2007, 2006, and 2005 were \$20,599, \$18,482, and \$16,365, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

12. Risk Management

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries insurance for employee health, liability, property, and automotive insurance through the League of Minnesota Cities Insurance Trust (LMCIT). Settled claims resulting from these risks have not exceeded the insurance coverage in any of the past three years. There were no reductions in insurance coverage in 2007.

The City participates in a group workers' compensation plan of the LMCIT, which is a public entity risk pool currently operating as a common risk management and insurance program for member Minnesota Cities. All cities participating in the plan are jointly and severally liable for all claims and expenses of the plan. The LMCIT workers' compensation plan is self-sustaining based on the premiums charged, total contributions plus compounded earnings on those contributions will be sufficient to satisfy claims liabilities and other expenses of the plan. The LMCIT plan participates in the Workers' Compensation Reinsurance Association with coverage of \$1,000,000 per claim for plan year 2007. The amount of any liability in excess of plan assets may be assessed to participating Cities in a method and amount determined by the LMCIT.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13. Pronouncements Issued Not Yet Implemented

The Governmental Accounting Standards Board (GASB) has issued several pronouncements that have future 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 Post employment Benefits Other Than Pensions, issued in July 2004, will be effective for the City beginning with its year ending December 31, 2009. This Statement establishes standards for the measurement, recognition, and display of other post employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. OPEB are part of an exchange of salaries and benefits for employee services rendered. From an accrual accounting perspective, the cost of OPEB, like the cost of pensions benefits, generally should be associated with the periods in which the exchange occurs, rather than with the periods (often many years later) when benefits are paid or provided.

14. Prior Period Adjustments

Subsequent to the issuance of the December 31, 2006 financial statements, management determined that deferred revenue was overstated and net assets were understated relative to the recognition of income from special assessments and loans/notes receivables in the government-wide financial statements. As a result, beginning net assets in the government-wide financial statements as of January 1, 2006 were increased by \$386,904.

In addition, management reclassified the economic development authority fund from an enterprise fund to a special revenue fund. As a result, beginning net assets as of January 1, 2006 in the enterprise funds were decreased by \$127,633 and beginning net assets in the governmental funds were increased by \$19,095.

CITY OF HARMONY, MINNESOTA
COMBINING AND INDIVIDUAL FUND STATEMENTS
DECEMBER 31, 2007

CITY OF HARMONY, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2007
With Comparative Totals for December 31, 2006

	Special Revenue					
	Park	Library	Fire	Small Cities Grant	Revolving Loan	Arts
ASSETS						
Cash and investments	\$ 28,048	\$ 13,012	\$	\$	\$ 126,132	\$ 5,657
Accounts receivable			9,431			
Special assessments receivable						
Deferred						
Loan receivable				10,608	140,871	
Due from other funds					17,476	
Due from other governmental units						
Prepaid items	493	109	1,307			
TOTAL ASSETS	\$ 28,541	\$ 13,121	\$ 10,738	\$ 10,608	\$ 284,479	\$ 5,657
LIABILITIES AND FUND BALANCE						
Liabilities:						
Accounts payable	\$ 216	\$ 1,384	\$ 2,807	\$ 1,500	\$ 8	\$
Accrued liabilities	32	893				
Due to other funds			120,003	3,708		
Due to other governments						
Deferred revenue				10,608	140,871	
Total Liabilities	248	2,277	122,810	15,816	140,879	
Fund Balance:						
Reserved for small cities grant				(5,208)		
Reserved for debt service						
Unreserved:						
Designated						
Undesignated	28,293	10,844	(112,072)		143,600	5,657
Total Fund Balance	28,293	10,844	(112,072)	(5,208)	143,600	5,657
TOTAL LIABILITIES AND FUND BALANCE	\$ 28,541	\$ 13,121	\$ 10,738	\$ 10,608	\$ 284,479	\$ 5,657

Special Revenue	Capital Project		Debt Service			Total Nonmajor Governmental Funds	
	Capital Projects	TIF #1	1994 G.O. Fire Station Bonds	2002 G.O. Improvement Bonds	2004 G.O. Tax Increment and Improvement Refunding	2007	2006
EDA							
\$ 25,284 2,100	\$ 256,265	\$ 68,507	\$ 26,666	\$ 50,644	\$ 65,257	\$ 665,472 11,531	\$ 611,531 7,200
		191,123		51,154	26,525	268,802	311,589
						151,479	118,526
						17,476	19,761
		3,081	652	658	778	5,169	1,690
144						2,053	1,593
<u>\$ 27,528</u>	<u>\$ 256,265</u>	<u>\$ 262,711</u>	<u>\$ 27,318</u>	<u>\$ 102,456</u>	<u>\$ 92,560</u>	<u>\$ 1,121,982</u>	<u>\$ 1,071,890</u>
\$ 5,906 140	\$	\$	\$	\$	\$	\$ 11,821 1,065	\$ 4,313 905
		191,123		51,154	26,525	123,711	95,300
							1,838
		191,123		51,154	26,525	420,281	430,115
6,046		191,123		51,154	26,525	556,878	532,471
						(5,208)	(3,571)
			27,318	51,302	66,035	144,655	157,748
	256,265					256,265	254,776
21,482		71,588				169,392	130,466
21,482	256,265	71,588	27,318	51,302	66,035	565,104	539,419
<u>\$ 27,528</u>	<u>\$ 256,265</u>	<u>\$ 262,711</u>	<u>\$ 27,318</u>	<u>\$ 102,456</u>	<u>\$ 92,560</u>	<u>\$ 1,121,982</u>	<u>\$ 1,071,890</u>

CITY OF HARMONY, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2007
With Comparative Totals for The Year Ended December 31, 2006

	Special Revenue					
	Park	Library	Fire	Small Cities Grant	Revolving Loan	Arts
REVENUES						
General property taxes	\$	\$	\$	\$	\$	\$
Tax increment						
Special assessments						
Intergovernmental revenues		22,750	36,287			
Charges for services	1,889	1,691	13,767			
Investment income	1,113	462			10,949	184
Miscellaneous revenues	3,462	1,025	16,110		21,547	4,890
TOTAL REVENUES	6,464	25,928	66,164		32,496	5,074
EXPENDITURES						
Public safety			58,071			
Library		84,668				
Culture and recreation	34,183					6,286
Economic development						
Debt service						
Unallocated				1,637	33,196	
TOTAL EXPENDITURES	34,183	84,668	58,071	1,637	33,196	6,286
Excess (deficiency) of revenues over (under) expenditures	(27,719)	(58,740)	8,093	(1,637)	(700)	(1,212)
OTHER FINANCING SOURCES (USES)						
Transfers in	33,468	62,004	28,500			4,704
Transfers out	(6,000)		(15,000)			
Total other financing sources (uses)	27,468	62,004	13,500			4,704
Net change in fund balances	(251)	3,264	21,593	(1,637)	(700)	3,492
Fund Balance - Beginning	28,544	7,580	(133,665)	(3,571)	144,300	2,165
Prior period adjustment (Note 14)						
Fund Balance - Beginning as Restated	28,544	7,580	(133,665)	(3,571)	144,300	2,165
Fund Balance - Ending	\$ 28,293	\$ 10,844	\$ (112,072)	\$ (5,208)	\$ 143,600	\$ 5,657

Special Revenue	Capital Projects		Debt Service			Total Nonmajor Governmental Funds	
	Capital Projects	TIF #1	1994 G.O. Fire Station Bonds	2002 G.O. Improvement Bonds	2004 G.O. Tax Increment and Improvement Refunding	2007	2006
EDA	\$	\$	\$ 38,892	\$ 36,850	\$ 46,528	\$ 122,270	\$ 125,279
		83,786				83,786	84,419
		7,540		21,350	22,143	51,033	47,851
		1,596				60,633	52,756
						17,347	10,499
516	11,940	1,294	237	585	1,276	28,556	15,259
2,841						49,875	65,404
3,357	11,940	94,216	39,129	58,785	69,947	413,500	401,467
						58,071	240,221
						84,668	81,743
						40,469	46,494
108,772		42,598				151,370	144,626
		61,379	41,038	62,986	76,930	242,333	239,441
		193				35,026	60,259
108,772		104,170	41,038	62,986	76,930	611,937	812,784
(105,415)	11,940	(9,954)	(1,909)	(4,201)	(6,983)	(198,437)	(411,317)
107,876	155,496					392,048	369,341
	(165,947)					(186,947)	(81,308)
107,876	(10,451)					205,101	288,033
2,461	1,489	(9,954)	(1,909)	(4,201)	(6,983)	6,664	(123,284)
19,021	254,776	81,542	29,227	55,503	73,018	558,440	662,629
							19,095
19,021	254,776	81,542	29,227	55,503	73,018	558,440	681,724
\$ 21,482	\$ 256,265	\$ 71,588	\$ 27,318	\$ 51,302	\$ 66,035	\$ 565,104	\$ 558,440

CITY OF HARMONY, MINNESOTA

SUPPLEMENTAL INFORMATION

DECEMBER 31, 2007

SCHEDULE 1

CITY OF HARMONY, MINNESOTA
WATER FUND
Statement of Revenues, Expenses
and Changes in Fund Net Assets
For the Year Ended December 31, 2007
With Comparative Totals for the Year Ended December 31, 2006

	2007	2006
Operating Revenue		
Sales and rentals	\$ 158,958	\$ 140,270
Operating Expenses		
Salaries and wages	36,890	36,955
Service contracts	805	1,890
Materials and supplies	11,947	13,095
Utilities	15,067	11,269
Repairs and maintenance	25,678	3,001
Travel and training	125	75
Miscellaneous	1,009	1,341
Insurance	1,640	1,624
Depreciation/amortization	14,055	12,218
Total Operating Expenses	<u>107,216</u>	<u>81,468</u>
Operating Income	<u>51,742</u>	<u>58,802</u>
Nonoperating Revenues (Expenses)		
Investment income	4,799	5,039
Special assessments		321
Other revenue		46
Total Nonoperating Revenues (Expenses)	<u>4,799</u>	<u>5,406</u>
INCOME BEFORE TRANSFERS AND CONTRIBUTIONS	56,541	64,208
Capital contributions		34,692
Transfers in		2,500
Transfers out	<u>(62,496)</u>	<u>(65,004)</u>
Change in net assets	(5,955)	36,396
Net Assets - Beginning of Year	<u>671,969</u>	<u>635,573</u>
Net Assets - End of Year	<u>\$ 666,014</u>	<u>\$ 671,969</u>

SCHEDULE 2

CITY OF HARMONY, MINNESOTA
SEWER FUND
Statement of Revenues, Expenses
and Changes in Fund Net Assets
For the Year Ended December 31, 2007
With Comparative Totals for the Year Ended December 31, 2006

	2007	2006
Operating Revenue		
Sales and rentals	\$ 292,234	\$ 283,192
Operating Expenses		
Salaries and wages	39,591	41,208
Service contracts	274	5,738
Materials and supplies	8,376	5,964
Utilities	45,903	41,752
Repairs and maintenance	11,440	25,884
Travel and training	633	1,126
Professional fees	8,472	7,728
Miscellaneous	1,867	2,030
Insurance	415	380
Depreciation/amortization	98,864	97,448
Total Operating Expenses	<u>215,835</u>	<u>229,258</u>
Operating Income	<u>76,399</u>	<u>53,934</u>
Nonoperating Revenues (Expenses)		
Investment income	301	(1,231)
Special assessments	317	3,170
Other revenue		200
Interest expense and fiscal charges	(34,011)	(37,717)
Total Nonoperating Revenues (Expenses)	<u>(33,393)</u>	<u>(35,578)</u>
INCOME BEFORE TRANSFERS AND CONTRIBUTIONS	43,006	18,356
Capital contributions		55,355
Transfers in	74,436	74,436
Transfers out	(2,496)	(2,496)
Change in net assets	114,946	145,651
Net Assets - Beginning of Year	<u>1,293,587</u>	<u>1,147,936</u>
Net Assets - End of Year	<u>\$ 1,408,533</u>	<u>\$ 1,293,587</u>

SCHEDULE 3

CITY OF HARMONY, MINNESOTA
ELECTRIC FUND
Statement of Revenues, Expenses
and Changes in Fund Net Assets
For the Year Ended December 31, 2007
With Comparative Totals for the Year Ended December 31, 2006

	2007	2006
Operating Revenue		
Sales and rentals	\$ 814,409	\$ 719,268
Operating Expenses		
Salaries and wages	27,722	28,043
Service contracts	205	
Purchased power	632,199	575,562
Materials and supplies	4,507	4,341
Utilities	12,575	11,722
Repairs and maintenance	17,186	25,010
Professional fees	50	
Miscellaneous	2,260	5,758
Insurance	5,458	5,191
Depreciation/amortization	37,292	41,792
Total Operating Expenses	739,454	697,419
Operating Income	74,955	21,849
Nonoperating Revenues (Expenses)		
Investment income	18,586	15,123
Special assessments	1,020	188
Other revenue	14,082	15,992
Total Nonoperating Revenues (Expenses)	33,688	31,303
INCOME BEFORE TRANSFERS AND CONTRIBUTIONS	108,643	53,152
Transfers out	(26,004)	(32,496)
Change in net assets	82,639	20,656
Net Assets - Beginning of Year	1,196,500	1,175,844
Net Assets - End of Year	\$ 1,279,139	\$ 1,196,500

CITY OF HARMONY, MINNESOTA
 HERITAGE GROVE FUND
 Statement of Revenues, Expenses
 and Changes in Fund Net Assets
 For the Year Ended December 31, 2007
With Comparative Totals for the Year Ended December 31, 2006

	2007	2006
Operating Revenue		
Sales and rentals	\$ 695,055	\$ 747,886
Operating Expenses		
Salaries and wages	291,335	294,716
Service contracts	34,743	37,398
Materials and supplies	46,574	45,280
Utilities	42,854	39,030
Repairs and maintenance	20,554	18,409
Travel and training	873	
Professional fees	1,483	1,157
Miscellaneous	29,258	21,868
Insurance	68,518	81,002
Depreciation/amortization	114,090	112,375
Total Operating Expenses	<u>650,282</u>	<u>651,235</u>
Operating Income	<u>44,773</u>	<u>96,651</u>
Nonoperating Revenues (Expenses)		
Investment income	3,867	4,542
Interest expense and fiscal charges	(144,316)	(148,149)
Total Nonoperating Revenues (Expenses)	<u>(140,449)</u>	<u>(143,607)</u>
Change in net assets	(95,676)	(46,956)
Net Assets - Beginning of Year	<u>(19,751)</u>	<u>27,205</u>
Net Assets - End of Year	<u>\$ (115,427)</u>	<u>\$ (19,751)</u>

CITY OF HARMONY, MINNESOTA
GARBAGE FUND
Statement of Revenues, Expenses
and Changes in Fund Net Assets
For the Year Ended December 31, 2007
With Comparative Totals for the Year Ended December 31, 2006

	2007	2006
Operating Revenue		
Sales and rentals	\$ 52,385	\$ 48,258
Operating Expenses		
Salaries and wages	9,493	9,286
Service contracts	28,877	27,523
Materials and supplies	1,165	1,176
Miscellaneous	170	475
Total Operating Expenses	30,212	29,174
Operating Income	22,173	19,084
Net Assets - Beginning of Year	432	(18,652)
Net Assets - End of Year	\$ 22,605	\$ 432



Certified Public Accountants and Consultants

Members of American Institute of CPA's,
Private Companies Practice Section, Minnesota Society of CPA's

AUDITOR'S REPORT ON COMPLIANCE

Honorable Mayor and Members
of the City Council
City of Harmony, Minnesota

We have audited the financial statements of the City of Harmony, Minnesota as of and for the year ended December 31, 2007 and have issued our report thereon dated April 21, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Governments*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* covers six main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, the City of Harmony, Minnesota complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the City Council, management, and the Office of the State Auditor of Minnesota and is not intended to be, and should not be, used by anyone other than those specified parties.

Smith, Schafner and Associates, Ltd.

Rochester, Minnesota
April 21, 2008