

CITY OF HARMONY, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2009

CITY OF HARMONY, MINNESOTA

TABLE OF CONTENTS

	<u>REFERENCE</u>	<u>PAGE</u>
INTRODUCTORY SECTION		
City Officials		i
FINANCIAL SECTION		
Independent Auditor's Report		1
Management's Discussion and Analysis		3-13
Basic Financial Statements		
Government-wide Financial Statements		
Statement of Net Assets	FORM A-1	14
Statement of Activities	FORM A-2	15-16
Fund Financial Statements		
Balance Sheet - Governmental Funds	FORM B-1	17
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	FORM B-2	18
Reconciliation of Net Assets in the Government-wide Financial Statements and Fund Balances in the Fund Basis Financial Statements	FORM B-3	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	FORM B-4	20
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	FORM B-5	21-24
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Ambulance Fund	FORM B-6	25
Statement of Net Assets - Proprietary Funds	FORM C-1	26-27
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	FORM C-2	28-29
Statement of Cash Flows - Proprietary Funds	FORM C-3	30-31
Statement of Fiduciary Net Assets and Changes in Fiduciary Net Assets	FORM D-1	32
Notes to Financial Statements		33-54
Combining and Individual Fund Statements and Schedules		
Combining Balance Sheet - Nonmajor Governmental Funds	FORM E-1	55-56
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Governmental Funds	FORM E-2	57-58
Supplemental Information		
Enterprise Funds:		
Statement of Revenues, Expenses and Changes in Fund Net Assets - Water Fund	SCHEDULE 1	59
Statement of Revenues, Expenses and Changes in Fund Net Assets - Sewer Fund	SCHEDULE 2	60
Statement of Revenues, Expenses and Changes in Fund Net Assets - Electric Fund	SCHEDULE 3	61
Statement of Revenues, Expenses and Changes in Fund Net Assets - Heritage Grove	SCHEDULE 4	62
Statement of Revenues, Expenses and Changes in Fund Net Assets - Garbage Fund	SCHEDULE 5	63
Statement of Revenues, Expenses and Changes in Fund Net Assets - Storm Water Fund	SCHEDULE 6	64
Auditor's Report on Compliance		65

(This Page is Left Blank Intentionally)

CITY OF HARMONY, MINNESOTA

INTRODUCTORY SECTION

DECEMBER 31, 2009

(This Page is Left Blank Intentionally)

CITY OF HARMONY, MINNESOTA

CITY OFFICIALS

December 31, 2008

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

December 31, 2009

Steve Donney	Mayor
Dan Tieffenbacher	Council Member
Gerald Shuck	Council Member
Sherry Hines	Council Member
Debbie Scrabeck	Council Member
Jerome Illg	Administrator
Eileen Schansberg	Deputy Clerk

(This Page is Left Blank Intentionally)

CITY OF HARMONY, MINNESOTA

FINANCIAL SECTION

DECEMBER 31, 2009

(This Page is Left Blank Intentionally)

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, each major fund and the aggregate remaining fund information of the City of Harmony, Minnesota, as of and for the year ended December 31, 2009, 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 comparative information has been derived from the City's 2008 financial statements and, in our report dated March 25, 2009 we 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 audits 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 audits provide 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, each major fund, and the aggregate remaining fund information of the City of Harmony, Minnesota as of December 31, 2009, 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 inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Harmony, Minnesota's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, 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 combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. 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.



Rochester, Minnesota
April 2, 2010

CITY OF HARMONY, MINNESOTA 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, 2009. 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 \$7,559,446 (*net assets*). Of this amount, \$2,643,771 (*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 \$1,516,134, of which 88% (percent) is available for use with the City's designations.
- As the end of the fiscal year, unreserved fund balance of the general fund was \$547,891, or 110% of total general fund expenditures.
- The City of Harmony decreased the existing debt principal by \$234,053 during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements include not only the City of Harmony itself (known as the primary government), but also a legally separate economic development authority, which is reported as a 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.

CITY OF HARMONY, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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 16 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, ambulance and community center building improvement funds, which are considered to be major funds. Data from the other 13 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental is provided in the form of combining statements elsewhere in this report.

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

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 & recycling, storm water, electric, and senior living (Heritage Grove) operations. The water, sewer, garbage and recycling, electric, storm water, 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 fund are used to account for resources held for the benefit of parties outside the governments control. The accounting used for fiduciary funds is much like that used for proprietary funds. The City of Harmony currently maintains one fiduciary fund that is a non-expendable trust fund for the library.

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

The notes to the financial statements can be found on pages 33-54 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 55-58.

CITY OF HARMONY, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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 \$7,559,446 at the close of the fiscal year, with \$4,201,426 of these net assets from governmental activities and \$3,358,020 from proprietary funds.

A significant portion of the City of Harmony's net assets \$4,736,127 reflects its investment in capital assets (e.g. land, buildings, streets, vehicles, 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	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 2,081,828	\$ 1,488,786	\$ 1,037,164	\$ 989,406	\$ 3,118,992	\$ 2,478,192
Capital assets	2,989,407	3,058,607	5,876,595	6,006,996	8,866,002	9,065,603
Total assets	<u>\$ 5,071,235</u>	<u>\$ 4,547,393</u>	<u>\$ 6,913,759</u>	<u>\$ 6,996,402</u>	<u>\$11,984,994</u>	<u>\$11,543,795</u>
Long-term liabilities outstanding	\$ 757,896	\$ 744,175	\$ 3,371,979	\$ 3,613,911	\$ 4,129,875	\$ 4,358,086
Other liabilities	111,913	135,547	183,760	196,251	295,673	331,798
Total liabilities	<u>869,809</u>	<u>879,722</u>	<u>3,555,739</u>	<u>3,810,162</u>	<u>4,425,548</u>	<u>4,689,884</u>
Net assets:						
Invested in capital assets, net of related debt	2,231,511	2,314,432	2,504,616	2,393,085	4,736,127	4,707,517
Restricted	179,548	171,958			179,548	171,958
Unrestricted	1,790,367	1,181,281	853,404	793,155	2,643,771	1,974,436
Total Net Assets	<u>4,201,426</u>	<u>3,667,671</u>	<u>3,358,020</u>	<u>3,186,240</u>	<u>7,559,446</u>	<u>6,853,911</u>
Total Liabilities & Net Assets	<u>\$ 5,071,235</u>	<u>\$ 4,547,393</u>	<u>\$ 6,913,759</u>	<u>\$ 6,996,402</u>	<u>\$11,984,994</u>	<u>\$11,543,795</u>

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

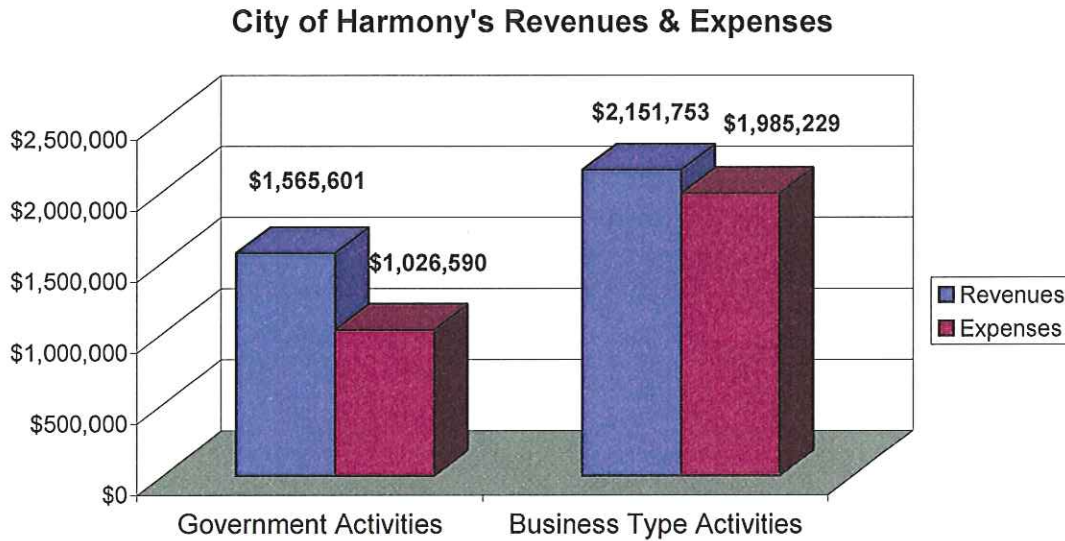
**CITY OF HARMONY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

City of Harmony's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues						
Charges for services	\$ 287,668	\$ 264,074	\$ 2,112,093	\$ 2,062,093	\$ 2,399,761	\$ 2,326,167
Operating Grants & Contributions	44,719	44,063			44,719	44,063
Capital Grants & Contributions	91,230	14,846			91,230	14,846
General revenues:						
Taxes	637,211	581,084			637,211	581,084
Intergovernmental Revenue	434,059	406,975			434,059	406,975
Unrestricted investment earnings	23,518	46,922	14,461	31,988	37,979	78,910
Other	47,196	50,881	25,199	38,259	72,395	89,140
Total revenues	1,565,601	1,408,845	2,151,753	2,132,340	3,717,354	3,541,185
Expenses:						
General government	105,096	131,589			105,096	131,589
Public Safety	325,910	299,938			325,910	299,938
Highway and Streets	213,383	210,446			213,383	210,446
Library	92,817	90,820			92,817	90,820
General Government Buildings	161,655	153,665			161,655	153,665
Parks and Recreation	60,479	56,507			60,479	56,507
Economic Development Authority	36,524	171,438			36,524	171,438
Bond Interest and Fiscal Charges	1,937	8,467			1,937	8,467
Other	28,789	26,454			28,789	26,454
Water			97,752	153,900	97,752	153,900
Sewer			243,612	258,007	243,612	258,007
Electric			799,743	782,422	799,743	782,422
Senior Living			772,434	836,984	772,434	836,984
Garbage & Recycling			45,479	42,810	45,479	42,810
Storm Water			26,209		26,209	
Total expenses	1,026,590	1,149,324	1,985,229	2,074,123	3,011,819	3,223,447
Increase in net assets before transfers and other items	539,011	259,521	166,524	58,217	705,535	317,738
Transfers	(5,256)	114,060	5,256	(114,060)		
Change in net assets	533,755	373,581	171,780	(55,843)	705,535	317,738
Net Assets – January 1	3,667,671	3,294,090	3,186,240	3,242,083	6,853,911	6,536,173
Net Assets – December 31	\$ 4,201,426	\$ 3,667,671	\$ 3,358,020	\$ 3,186,240	\$ 7,559,446	\$ 6,853,911

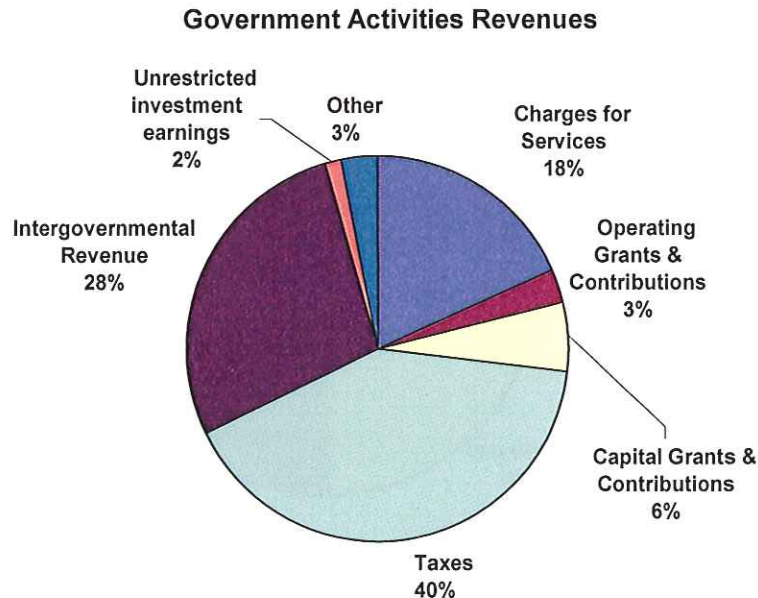
CITY OF HARMONY, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

The following graph shows 2009 revenues and expenses for both government activities and business-type activities.



Government Activities. Government activities account for 56% of the City of Harmony's net assets.

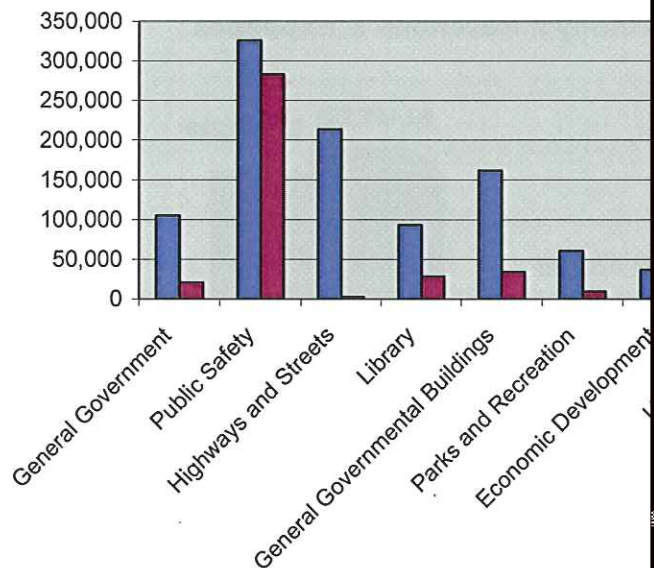
The total increase in net assets for governmental activities is \$533,755 for the year ended December 31, 2009. The total revenues for governmental activities amounted to \$1,565,601 while total expenses were \$1,026,590 and transfers out were \$5,256, which is illustrated in the chart above.



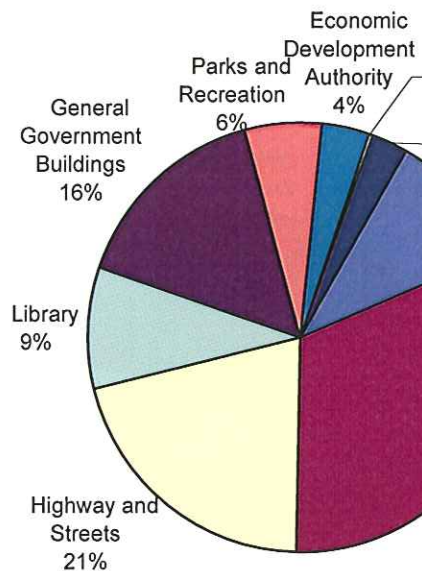
- Capital Grants and Contributions increased during the year, resulting from a grant for the downtown parking lot and a fire equipment grant.
- Taxes increased due to increase in city's tax levy to cover necessary expenditures with the reduced LGA.
- Intergovernmental Revenue increased due to LGA (Local Government Aid) unallotment that occurred in December of 2008.

CITY OF HARMONY, MINNESOTA MANAGEMENT'S DISCUSSION AND BUDGET

Expenses and Program Revenues-Government



Government Activities Expense

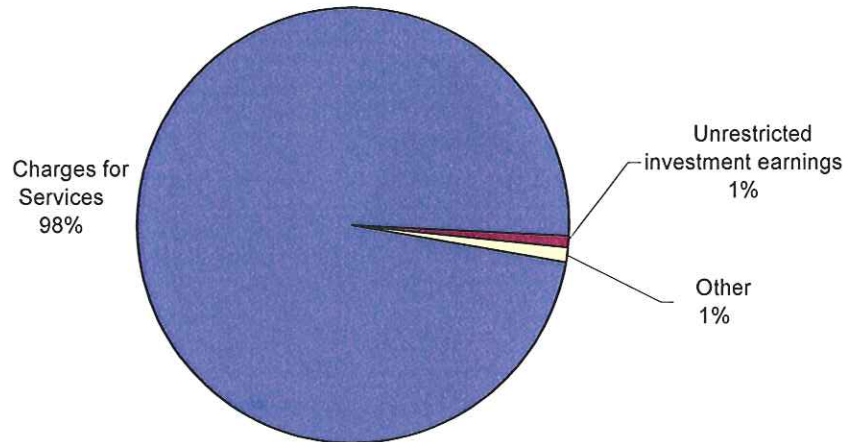


- Public safety increased, which was due to the acquisition of a new department, however there was a grant and donations in revenue.
- Highway and streets decreased due to the purchase of a new storm water utility as a business-type activity which shifted expenses.
- Decrease in the economic development authority was due to the program in 2009.
- General government buildings increased due to the visitor center.

CITY OF HARMONY, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

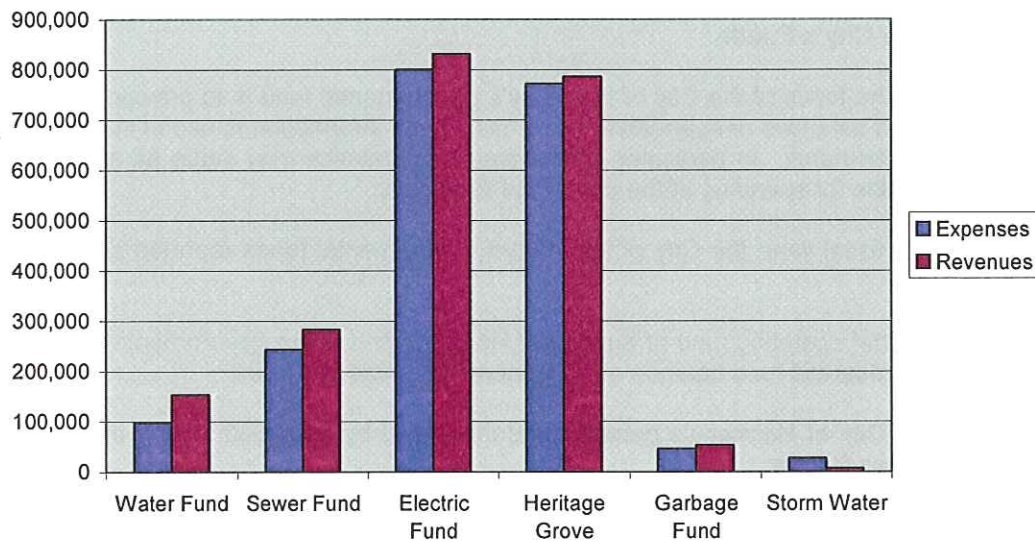
Business-type activities. Business-type activities increased the City of Harmony net assets \$171,780 for the year ended December 31, 2009. Business-type activities revenues and expenses are illustrated in the charts below.

Business-Type Activities Revenue



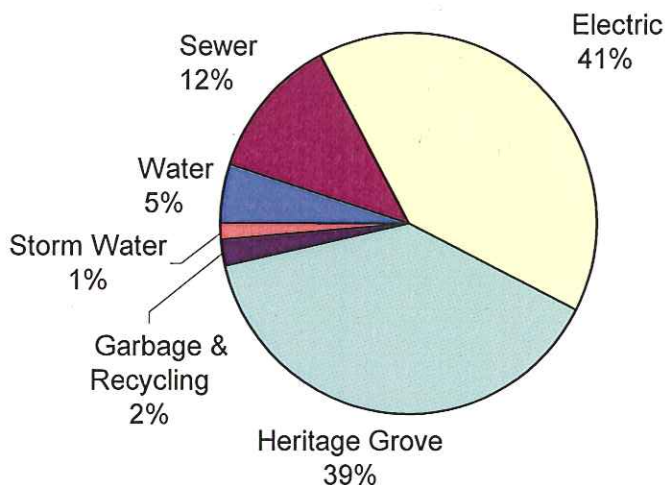
- Charges for services increased due to an increase in electric rates.
- Unrestricted investment earnings decreased due to lower interest rate on investments.
- Other decreased due to one time revenue received from a developer to reimburse development costs.
- Charges for services increased for senior living facility from an increase in occupancy.

Expenses and Program Revenues-Business Type-Activities



CITY OF HARMONY, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

Business-Type Activities Expenses



- The wholesale electric power costs increased.
- Heritage Grove had decreased expenses due to refinancing of debt with lower debt service costs.
- The water fund decreased in expenses due to painting the water tower exterior and coating the water tower interior tank that was done in 2008.
- Additional repairs and maintenance were necessary on the electric system.
- A new storm water utility fund was created

Financial Analysis of the City's Funds

Governmental Funds. The focus of the City of Harmony's governmental fund is to provide information on 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 \$1,516,134.

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 \$547,891.

The fund balance of the City of Harmony's general fund increased by \$155,532 during the current year. Key factors in this change are as follows:

- Local Government Aid (LGA) decreased by \$25,000 in June due to the unallotment from the State of Minnesota due to their budget deficit issues regarding the global recession. Changes in budgeted expenditures were used to offset the revenue reduction.
- Investment Income decreased by \$12,000 due to a low interest rate on investments

CITY OF HARMONY, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

- Miscellaneous Revenues increased due to \$7,000 sales of city property as well as some special assessments being prepaid of \$5,000.
- Some expenditures, such as audit fee, safety contract, were allocated more appropriately between funds of the city, as part of the lower LGA.
- The community center energy costs were lower by \$10,000 due to improvements that were made to the building in 2008.
- Unexpected repairs to the visitor center roof, tuck-pointing and painting of the building resulted in expenditures of \$9,000.
- Police coverage changes with the contracted service with the county caused savings in labor and fuel of \$10,000.
- With the creation of a storm water utility fund, due to decreased LGA, the streets and maintenance had decreased labor and repairs and maintenance expenditures. However, part of the repairs and maintenance was offset by increased seal coating expenditures.
- Expenditures were under budget by \$79,750 in transfers out of the general fund due to changes made in funds set aside for capital items, reductions in parks, EDA, arts, library, and fire expenditures due to LGA unallotment.

The debt service funds have a total fund balance of \$142,266, 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 having resources available 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	\$79,220
Sewer	\$128,243
Garbage & Recycling	\$22,202
Electric	\$628,967
Heritage Grove	(\$4,509)
Storm Water	(\$719)

General Fund Budgetary Highlights. After the 2009 budget was developed, the council made expenditure reductions, expenditure allocation changes, as well as the creation of storm water utility fund in light of the LGA unallotment.

Capital Asset Administration. The City of Harmony's investment in capital assets for its governmental and business type activities as of December 31, 2009 amounts to \$8,866,002 (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:

- \$131,500 Downtown Parking Lot and Alley. Replaced the deteriorated alley downtown, installed new parking lot to allow for adjacent commercial development along with upgrading electrical services and installing new street lights.
- \$32,900 Compressed Air Machine. The City of Harmony fire department purchased a compressed air machine through a FEMA grant for filling their SCBA tanks.
- \$12,500 Well House Upgrades. A new starter and pump controller was installed at the city wells.
- \$10,000 Handheld Meter Reader. A new handheld meter reading device was purchased to read radio read electric and water meters. Radio meters will be installed over the next few years.
- \$18,250 Sanitary Sewer Extension. A sanitary sewer line on 2nd Ave NW was extended to allow existing businesses to connect to city sewer.
- \$13,400 Sludge Tank Mixer. A new sludge mixing pump was purchased to mix and pump sludge at the wastewater treatment plant.
- \$12,400 Sewer Jeter. A used sewer jetter was purchased to clean sanitary sewer lines.

CITY OF HARMONY, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Harmony's Capital Assets

	Government Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$ 289,318	\$ 293,893	\$ 168,114	\$ 168,114	\$ 457,432	\$ 462,007
Building and Improvements	1,208,836	1,207,859	4,808,534	4,808,534	6,017,370	6,016,393
Vehicles	904,233	904,233	52,807	52,807	957,040	957,040
Machinery and Other Equipment	416,336	368,159	346,997	296,560	763,333	664,719
Infrastructure	2,717,103	2,641,284	3,208,685	3,119,741	5,925,788	5,761,025
Work-In-Progress				4,444		4,444
Total assets	5,535,826	5,415,428	8,585,137	8,450,200	14,120,963	13,865,628
Less: Accumulated Depreciation	(2,546,419)	(2,356,821)	(2,708,542)	(2,443,204)	(5,254,961)	(4,800,025)
Net Capital Assets	\$ 2,989,407	\$ 3,058,607	\$ 5,876,595	\$ 6,006,996	\$ 8,866,002	\$ 9,065,603

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 \$4,232,092. General obligation debt outstanding of \$2,480,000 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 \$814,196 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	
	2009	2008	2009	2008	2009	2008
General Obligation Bonds	\$ 238,000	\$ 327,000	\$	\$	\$ 238,000	\$ 327,000
General Obligation Improvement	45,000	115,000			45,000	115,000
General Obligation Tax Increment	60,000	120,000			60,000	120,000
USDA Promissory Note	414,896	182,175			414,896	182,175
General Obligation Note			814,196	916,970	814,196	916,970
General Obligation Revenue			2,660,000	2,805,000	2,660,000	2,805,000
Total assets	\$ 757,896	\$ 744,175	\$ 3,474,196	\$ 3,721,970	\$ 4,232,092	\$ 4,466,145

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.

CITY OF HARMONY, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

Factors on the City of Harmony's Future

The City of Harmony has finished the community center building improvement project. The exterior walls and windows of the community center, as well as a heating/cooling system for the gym, rooms and hallways were replaced. The community center parking lot has been replaced also with funds from the electric fund. The City of Harmony utilized the approved USDA Rural Development loan funds to finance the project. The City of Harmony is using the energy-efficiency savings to finance some of the annual debt payments on the USDA loan.

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 has seen limited growth in the area of residential due to the economic recession. It appears that trend may change in the coming years.

The City of Harmony Economic Development Authority has purchased deteriorated parcels in the downtown area for redevelopment. The City was 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 installed the parking lot in 2009 along with adjacent improvements to the alley. It has the potential to allow for commercial development.

The City of Harmony Economic Development Authority continues to recruit businesses into the industrial park. A new business built in the industrial park in 2008 with a new business to build in 2010. A Tax Increment Financing (TIF) was established to help finance the projects.

The City of Harmony continues to monitor its utility rates. In order to finance future utility projects, rates are being reviewed on an annual basis, and changes may need to be made in 2010. The city saw increases in its wholesale power costs. There was a rate increase in electric rates to offset the higher wholesale power costs. It is anticipated that there may be higher wholesale power costs in the future.

The City of Harmony's senior living facility continues to operate well. Occupancy improved in 2009, however at the beginning of 2010 occupancy will continually need to be monitored. The outstanding bonds were refinanced in 2008, which should help improve the cash flow of the facility in the long-term. The operations of the facility continue to finance the debt outstanding with a local management company managing the facility.

With the anticipated State of Minnesota budget deficit, there will most likely be future Local Government Aid (LGA) reductions in 2010 similar to 2008 and 2009, due to the global recession, that the City of Harmony will not be able to levy to replace. The City of Harmony was fortunate through the 2010 budget that it did not have to levy for debt that was paid off in 2009. The City of Harmony used the excess to plan for anticipated future LGA reductions as well as planning for a future street reconstruction project in 2010.

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

BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2009

(This Page is Left Blank Intentionally)

CITY OF HARMONY, MINNESOTA
STATEMENT OF NET ASSETS
December 31, 2009
With Comparative Totals for December 31, 2008

	Governmental Activities	Business-Type Activities	Totals	
			2009	2008
Assets				
Cash and investments	\$ 1,532,009	\$ 787,926	\$ 2,319,935	\$ 1,805,361
Receivables	293,475	169,863	463,338	448,920
Internal balances	(35,988)	35,988		
Due from other governmental units	9,700		9,700	7,326
Inventory		32,273	32,273	30,540
Loans receivable	275,208		275,208	168,990
Prepaid expenses	7,424	11,114	18,538	17,055
Capital assets:				
Nondepreciable	289,318	168,114	457,432	466,451
Depreciable, net	2,700,089	5,708,481	8,408,570	8,599,152
Total Assets	5,071,235	6,913,759	11,984,994	11,543,795
Liabilities and Net Assets				
Liabilities				
Accounts payable	54,601	96,753	151,354	173,416
Deposits payable		24,995	24,995	24,745
Compensated absences	46,045	29,206	75,251	77,327
Accrued liabilities	5,926	15,026	20,952	24,071
Accrued interest payable	5,341	17,780	23,121	28,204
Deferred revenue				4,035
Noncurrent liabilities:				
Due within one year	213,692	255,157	468,849	480,052
Due in more than one year	544,204	3,116,822	3,661,026	3,878,034
Total Liabilities	869,809	3,555,739	4,425,548	4,689,884
Net Assets				
Invested in capital assets, net of related debt	2,231,511	2,504,616	4,736,127	4,707,517
Restricted for:				
Small city grant	(2,555)		(2,555)	(4,145)
Debt Service	182,103		182,103	176,103
Unrestricted	1,790,367	853,404	2,643,771	1,974,436
Total Net Assets	4,201,426	3,358,020	7,559,446	6,853,911
Total Liabilities and Net Assets	\$ 5,071,235	\$ 6,913,759	\$ 11,984,994	\$ 11,543,795

See Notes to Financial Statements

CITY OF HARMONY, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2009
With Comparative Totals for December 31, 2008

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>
			<u>Contributions</u>	<u>Contributions</u>
Governmental activities:				
General government	\$ 105,096	\$ 16,023	\$ 4,705	\$
Public safety	325,910	232,405	5,295	45,018
Streets and highways	213,383	2,395		
Library	92,817	1,566	26,800	
Government buildings	161,655	33,892		
Park and recreation	60,479	1,387	7,919	
Economic development	36,524			46,212
Interest on long-term debt	1,937			
Unallocated	28,789			
Total governmental activities	<u>1,026,590</u>	<u>287,668</u>	<u>44,719</u>	<u>91,230</u>
Business-Type activities:				
Water	97,752	152,659		
Sewer	243,612	282,805		
Electric	799,743	831,032		
Heritage Grove	772,434	786,537		
Garbage	45,479	52,593		
Storm Water	26,209	6,467		
Total business-type activities	<u>1,985,229</u>	<u>2,112,093</u>		
Total	<u>\$ 3,011,819</u>	<u>\$ 2,399,761</u>	<u>\$ 44,719</u>	<u>\$ 91,230</u>

General revenues:
General property taxes
Tax increments
Intergovernmental revenue
Interest earnings
Miscellaneous
Transfers, net
Total general revenues and transfers

Change in net assets

Net assets - beginning

Net assets - ending

See Notes to Financial Statements

FORM A-2

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Totals	
		2009	2008
\$ (84,368)	\$	\$ (84,368)	\$ (116,149)
(43,192)		(43,192)	(62,700)
(210,988)		(210,988)	(208,754)
(64,451)		(64,451)	(62,055)
(127,763)		(127,763)	(123,199)
(51,173)		(51,173)	(53,015)
9,688		9,688	(171,438)
(1,937)		(1,937)	(8,467)
(28,789)		(28,789)	(20,564)
<u>(602,973)</u>		<u>(602,973)</u>	<u>(826,341)</u>
	54,907	54,907	(952)
	39,193	39,193	24,409
	31,289	31,289	16,913
	14,103	14,103	(62,152)
	7,114	7,114	9,752
	<u>(19,742)</u>	<u>(19,742)</u>	
	126,864	126,864	(12,030)
<u>(602,973)</u>	<u>126,864</u>	<u>(476,109)</u>	<u>(838,371)</u>
526,177		526,177	478,176
111,034		111,034	102,908
434,059		434,059	406,975
23,518	14,461	37,979	78,910
47,196	25,199	72,395	89,140
(5,256)	5,256		
<u>1,136,728</u>	<u>44,916</u>	<u>1,181,644</u>	<u>1,156,109</u>
533,755	171,780	705,535	317,738
<u>3,667,671</u>	<u>3,186,240</u>	<u>6,853,911</u>	<u>6,536,173</u>
<u>\$ 4,201,426</u>	<u>\$ 3,358,020</u>	<u>\$ 7,559,446</u>	<u>\$ 6,853,911</u>

(This Page is Left Blank Intentionally)

CITY OF HARMONY, MINNESOTA

FUND FINANCIAL STATEMENTS

DECEMBER 31, 2009

CITY OF HARMONY, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2009
With Comparative Totals for December 31, 2008

	101 General	223 Ambulance	Community Center Building Improvement	Other Governmental Funds	Total Governmental Funds	
					2009	2008
ASSETS						
Cash and investments	\$ 522,379	\$ 204,809	\$	\$ 804,821	\$ 1,532,009	\$ 1,050,738
Accounts receivable	6,238	52,078		5,200	63,516	41,880
Taxes receivable - delinquent	20,383			12,736	33,119	24,687
Special assessments receivable:						
Deferred	9,986			178,258	188,244	231,884
Delinquent				8,596	8,596	6,049
Note receivable				275,208	275,208	168,990
Due from other funds	95,890			12,622	108,512	321,701
Due from other governmental units	6,070			3,630	9,700	7,326
Prepaid items	4,497	790		2,137	7,424	7,349
TOTAL ASSETS	<u>\$ 665,443</u>	<u>\$ 257,677</u>	<u>\$</u>	<u>\$ 1,303,208</u>	<u>\$ 2,226,328</u>	<u>\$ 1,860,604</u>
LIABILITIES AND FUND BALANCE						
Liabilities						
Accounts payable	\$ 42,705	\$ 2,240	\$	\$ 9,656	\$ 54,601	\$ 71,899
Accrued liabilities	4,641	223		1,062	5,926	3,730
Due to other funds				144,500	144,500	371,818
Deferred revenue	30,369			474,798	505,167	435,645
Total Liabilities	<u>77,715</u>	<u>2,463</u>		<u>630,016</u>	<u>710,194</u>	<u>883,092</u>
Fund Balance						
Reserved for:						
Small cities grant				(2,555)	(2,555)	(4,145)
Debt service	39,837			142,266	182,103	176,103
Unreserved, designated	300,000			277,062	577,062	238,077
Unreserved, undesignated, reported in:						
General fund	247,891				247,891	112,976
Special revenue fund		255,214		256,419	511,633	454,501
Total Fund Balance	<u>587,728</u>	<u>255,214</u>		<u>673,192</u>	<u>1,516,134</u>	<u>977,512</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 665,443</u>	<u>\$ 257,677</u>	<u>\$</u>	<u>\$ 1,303,208</u>	<u>\$ 2,226,328</u>	<u>\$ 1,860,604</u>

See Notes to Financial Statements

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

For the Year Ended December 31, 2009
With Comparative Totals for the Year Ended December 31, 2008

	General	Ambulance	Community Center Building Improvement	Other Governmental Funds	Total Governmental Funds	
					2009	2008
REVENUES						
General property taxes	\$ 390,347	\$	\$	\$ 127,398	\$ 517,745	\$ 453,489
Tax increments				111,034	111,034	102,908
Special assessments	8,393			36,339	44,732	60,537
Licenses and permits	6,965				6,965	7,797
Fines and forfeits	2,395				2,395	1,692
Intergovernmental revenues	412,726	19,130		84,349	516,205	501,620
Charges for services	33,892	165,259		14,753	213,904	185,190
Investment income	2,994	3,556		16,968	23,518	46,922
Refunds and reimbursements	9,058				9,058	4,043
Miscellaneous revenues	33,518	14,500		136,488	184,506	143,826
Total Revenues	900,288	202,445		527,329	1,630,062	1,508,024
EXPENDITURES						
General government	107,538				107,538	126,905
Public safety	92,277	121,291		86,566	300,134	243,987
Street and highways	135,187				135,187	264,585
Library				92,817	92,817	90,820
Government buildings	135,016				135,016	578,634
Park and recreation				53,506	53,506	42,849
Economic development				241,920	241,920	201,070
Debt service				237,277	237,277	228,869
Unallocated	28,636			153	28,789	26,454
Total Expenditures	498,654	121,291		712,239	1,332,184	1,804,173
Excess (deficiency) of revenues over (under) expenditures	401,634	81,154		(184,910)	297,878	(296,149)
OTHER FINANCING SOURCES (USES)						
Bond proceeds			246,000		246,000	
Transfers in	44,334			359,980	404,314	759,520
Transfers out	(290,436)	(27,492)	(9,342)	(82,300)	(409,570)	(645,460)
Total Other Financing Sources (Uses)	(246,102)	(27,492)	236,658	277,680	240,744	114,060
Net change in fund balances	155,532	53,662	236,658	92,770	538,622	(182,089)
Fund Balance - Beginning	432,196	201,552	(236,658)	580,422	977,512	1,159,601
Fund Balance - Ending	\$ 587,728	\$ 255,214	\$	\$ 673,192	\$ 1,516,134	\$ 977,512

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, 2009

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

Total governmental fund balances (page 17)		\$ 1,516,134
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 5,535,826	
Less: Accumulated depreciation	<u>(2,546,419)</u>	
		2,989,407
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Delinquent property taxes	\$ 33,119	
Deferred and delinquent special assessments	196,840	
Notes receivable	<u>275,208</u>	
		505,167
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	\$ (803,941)	
Accrued interest	<u>(5,341)</u>	
		<u>(809,282)</u>
Net assets of governmental activities (page 14)		<u><u>\$ 4,201,426</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, 2009

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

Net change in fund balances - total governmental funds (page 18)	\$	538,622
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.		
Capital outlay	\$	128,896
Depreciation expense	(189,654)	(60,758)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net assets		
		(8,442)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Deferred revenue, December 31, 2009	\$	505,167
Deferred revenue, December 31, 2008	(431,610)	73,557
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.		
Principal retirement on long-term debt	\$	232,279
Proceeds from issuance of notes payable	(246,000)	
Change in compensated absences	1,436	
Change in accrued interest	3,061	(9,224)
Change in net assets of governmental activities (pages 15 and 16)	\$	533,755

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, 2009
With Comparative Totals for the Year Ended December 31, 2008

	Budgeted Amounts		2009	Variance with	2008
	Original	Final	Actual	Final Budget - Positive (Negative)	Actual
REVENUES					
Property Tax Levy					
Property tax collected	\$ 395,446	\$ 395,446	\$ 390,347	\$ (5,099)	\$ 327,881
Special Assessments	1,500	1,500	8,393	6,893	3,326
Intergovernmental Revenues					
Local government aid	374,439	374,439	349,843	(24,596)	327,527
Market value credit	53,577	53,577	53,577		49,570
Fire state aid	10,000	10,000	8,442	(1,558)	9,547
PERA rate increase aid	864	864	864		864
Total Intergovernmental	438,880	438,880	412,726	(26,154)	387,508
Licenses and Permits	6,275	6,275	6,965	690	7,797
Fines and Forfeits	1,050	1,050	2,395	1,345	1,692
Charges for Services					
Rental income - community center and visitor center	31,800	31,800	33,892	2,092	30,466
Investment Income	15,015	15,015	2,994	(12,021)	9,101
Refunds and Reimbursements	5,000	5,000	9,058	4,058	4,043
Miscellaneous Revenues					
Lodging tax	5,000	5,000	4,183	(817)	5,890
Loan principal	3,588	3,588	3,588		19,575
Cable TV franchise fee	3,500	3,500	7,927	4,427	3,800
Other	3,350	3,350	17,820	14,470	27,500
Total Miscellaneous Revenues	15,438	15,438	33,518	18,080	56,765
TOTAL REVENUES	\$ 910,404	\$ 910,404	\$ 900,288	\$ (10,116)	\$ 828,579

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, 2009
With Comparative Totals for the Year Ended December 31, 2008

	Budgeted Amounts		2009	Variance with	2008
	Original	Final	Actual	Final Budget - Positive (Negative)	Actual
EXPENDITURES					
General Government					
Mayor and Council					
Employee services	\$ 7,350	\$ 7,350	\$ 7,240	\$ 110	\$ 7,320
Printing and publication	850	850	765	85	450
Insurance	425	425	335	90	372
Dues	1,000	1,000	1,085	(85)	1,089
Total Mayor and Council	9,625	9,625	9,425	200	9,231
Elections					2,116
Finance and Administration					
Employee services	69,187	69,187	70,110	(923)	66,550
Materials and supplies	5,600	5,600	4,042	1,558	5,911
Printing and publication	1,750	1,750	1,359	391	1,866
Training	1,400	1,400	620	780	117
Repairs and maintenance	750	750	1,313	(563)	1,420
Professional fees	19,970	19,970	10,051	9,919	19,717
Miscellaneous	3,409	3,409	2,235	1,174	2,548
Total Finance and Administration	102,066	102,066	89,730	12,336	98,129
Professional Services					
Legal	7,500	7,500	7,201	299	5,501
Civil Defense					
Employee services	660	660	646	14	646
Other	428	428	536	(108)	926
Capital outlay					10,355
Total Civil Defense	1,088	1,088	1,182	(94)	11,927
Total General Government	\$ 120,279	\$ 120,279	\$ 107,538	\$ 12,741	\$ 126,904

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, 2009
With Comparative Totals for the Year Ended December 31, 2008

	Budgeted Amounts		2009	Variance with	2008
	Original	Final	Actual	Final Budget - Positive (Negative)	Actual
EXPENDITURES (Continued)					
Government Buildings					
Community Center					
Employee services	\$ 36,571	\$ 36,571	\$ 27,492	\$ 9,079	\$ 23,092
Materials and supplies	2,500	2,500	6,818	(4,318)	10,561
Insurance	10,214	10,214	8,785	1,429	8,720
Repairs and maintenance	6,100	6,100	11,888	(5,788)	9,090
Utilities	36,750	36,750	26,280	10,470	35,721
Miscellaneous	1,650	1,650	2,049	(399)	2,485
Capital outlay					157,660
Debt service	21,175	21,175	21,175		21,175
Total Community Center	<u>114,960</u>	<u>114,960</u>	<u>104,487</u>	<u>10,473</u>	<u>268,504</u>
Visitor Center					
Employee services	10,294	10,294	8,320	1,974	8,270
Materials and supplies	1,350	1,350	2,589	(1,239)	3,068
Insurance	2,499	2,499	1,548	951	2,066
Repairs and maintenance	1,750	1,750	10,317	(8,567)	956
Utilities	10,200	10,200	7,755	2,445	9,108
Total Visitor Center	<u>26,093</u>	<u>26,093</u>	<u>30,529</u>	<u>(4,436)</u>	<u>23,468</u>
Total Government Buildings	<u>141,053</u>	<u>141,053</u>	<u>135,016</u>	<u>6,037</u>	<u>291,972</u>
Public Safety					
Police Protection					
Contractual services	76,876	76,876	70,480	6,396	63,097
Vehicle expense	4,500	4,500	1,913	2,587	3,670
Materials and supplies	600	600	85	515	356
Insurance	496	496	442	54	455
Repairs and maintenance	1,000	1,000	471	529	519
Miscellaneous	750	750	625	125	551
Total Police Protection	<u>84,222</u>	<u>84,222</u>	<u>74,016</u>	<u>10,206</u>	<u>68,648</u>
Fire Protection					
Firemen's relief	17,000	17,000	13,442	3,558	14,547
Animal Control					
Employee services	3,689	3,689	3,787	(98)	4,140
Miscellaneous	600	600	1,032	(432)	934
Total Animal Control	<u>4,289</u>	<u>4,289</u>	<u>4,819</u>	<u>(530)</u>	<u>5,074</u>
Total Public Safety	<u>\$ 105,511</u>	<u>\$ 105,511</u>	<u>\$ 92,277</u>	<u>\$ 13,234</u>	<u>\$ 88,269</u>

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, 2009

With Comparative Totals for the Year Ended December 31, 2008

	Budgeted Amounts		2009 Actual Amounts	Variance with Final Budget - Positive (Negative)	2008 Actual Amounts
	Original	Final			
EXPENDITURES (Continued)					
Streets and Highway					
Employee services	\$ 24,452	\$ 24,452	\$ 18,036	\$ 6,416	\$ 21,150
Vehicle expense	4,000	4,000	3,461	539	6,734
Materials and supplies	10,750	10,750	8,488	2,262	10,766
Insurance	2,751	2,751	2,789	(38)	2,601
Repairs and maintenance	44,500	44,500	57,161	(12,661)	47,915
Snow and ice	27,771	27,771	25,169	2,602	27,242
Building maintenance	19,509	19,509	20,083	(574)	21,143
Capital outlay					127,037
Total Streets and Highway	<u>133,733</u>	<u>133,733</u>	<u>135,187</u>	<u>(1,454)</u>	<u>264,588</u>
Unallocated					
Insurance	6,658	6,658	5,784	874	6,089
Lodging tax	5,000	5,000	3,975	1,025	5,596
Community events	5,000	5,000	6,608	(1,608)	5,638
Community development	13,000	13,000	12,269	731	8,881
Total Unallocated	<u>29,658</u>	<u>29,658</u>	<u>28,636</u>	<u>1,022</u>	<u>26,204</u>
TOTAL EXPENDITURES	<u>530,234</u>	<u>530,234</u>	<u>498,654</u>	<u>31,580</u>	<u>797,937</u>
Excess of revenues over expenditures	<u>380,170</u>	<u>380,170</u>	<u>401,634</u>	<u>21,464</u>	<u>30,642</u>
Other Financing Sources (Uses)					
Transfers in	30,000	30,000	44,334	14,334	302,750
Transfers out	(370,190)	(370,190)	(290,436)	79,754	(336,714)
Total Other Financing Sources (Uses)	<u>(340,190)</u>	<u>(340,190)</u>	<u>(246,102)</u>	<u>94,088</u>	<u>(33,964)</u>
Net change in fund balance	39,980	39,980	155,532	115,552	(3,322)
FUND BALANCE - Beginning	<u>432,196</u>	<u>432,196</u>	<u>432,196</u>		<u>435,518</u>
FUND BALANCE - Ending	<u>\$ 472,176</u>	<u>\$ 472,176</u>	<u>\$ 587,728</u>	<u>\$ 115,552</u>	<u>\$ 432,196</u>

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, 2009
With Comparative Totals for the Year Ended December 31, 2008

REVENUES	Budgeted Amounts		2009 Actual Amounts	Variance with Final Budget Positive (Negative)	2008 Actual Amounts
	Original	Final			
Charges for Services					
Service fees	\$ 110,000	\$ 110,000	\$ 165,259	\$ 55,259	\$ 139,245
Intergovernmental Revenues	19,130	19,130	19,130		19,130
Miscellaneous					
Investment income	1,500	1,500	3,556	2,056	6,122
Contributions			2,205	2,205	
Other	4,300	4,300	12,295	7,995	4,783
Total Miscellaneous	5,800	5,800	18,056	12,256	10,905
TOTAL REVENUES	134,930	134,930	202,445	67,515	169,280
EXPENDITURES					
Public Safety					
Salaries and wages	47,116	47,116	56,880	(9,764)	47,086
Insurance	3,265	3,265	3,354	(89)	2,591
Repair and maintenance	12,550	12,550	10,646	1,904	8,925
Travel, schools, conferences	4,050	4,050	4,630	(580)	2,447
Miscellaneous	9,000	9,000	9,821	(821)	7,718
Medicare write-offs	30,000	30,000	28,442	1,558	30,181
Capital outlay	1,500	1,500	7,518	(6,018)	2,763
TOTAL EXPENDITURES	107,481	107,481	121,291	(13,810)	101,711
EXCESS (DEFICIT) REVENUES OVER (UNDER) EXPENDITURES	27,449	27,449	81,154	53,705	67,569
Other Financing Sources					
Transfers out	(25,000)	(25,000)	(27,492)	(2,492)	(24,996)
NET CHANGE IN FUND BALANCE	2,449	2,449	53,662	51,213	42,573
FUND BALANCE, JANUARY 1	201,552	201,552	201,552		158,979
FUND BALANCE, DECEMBER 31	\$ 204,001	\$ 204,001	\$ 255,214	\$ 51,213	\$ 201,552

See Notes to Financial Statements

CITY OF HARMONY, MINNESOTA
PROPRIETARY FUNDS
Statement of Net Assets
December 31, 2009
With Comparative Totals for December 31, 2008

	Business-Type Activities - Enterprise Funds		
	601 Water Fund	602 Sewer Fund	604 Electric Fund
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 68,672	\$ 124,240	\$ 549,849
Accounts receivable	14,001	26,291	94,460
Special assessments		7,363	2,187
Due from other funds			49,117
Prepaid expense	835	587	1,455
Inventory	10,037		22,236
Total Current Assets	<u>93,545</u>	<u>158,481</u>	<u>719,304</u>
Noncurrent Assets:			
Capital assets:			
Nondepreciable	1,150	14,400	5,000
Depreciable	734,867	2,596,929	1,414,938
Less: Accumulated depreciation	<u>(165,749)</u>	<u>(700,380)</u>	<u>(814,501)</u>
Net capital assets	<u>570,268</u>	<u>1,910,949</u>	<u>605,437</u>
Total Assets	<u>663,813</u>	<u>2,069,430</u>	<u>1,324,741</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	4,818	9,056	70,490
Accrued liabilities	622	648	4,508
Due to other funds			
Customer deposits			9,995
Accrued interest payable		8,970	
Accrued compensated absences	8,885	11,564	5,344
Current maturities of bonds payable		150,157	
Total Current Liabilities	<u>14,325</u>	<u>180,395</u>	<u>90,337</u>
Noncurrent Liabilities:			
Bonds payable, net of current maturities, discount, and issuance costs		844,039	
Total Liabilities	<u>14,325</u>	<u>1,024,434</u>	<u>90,337</u>
NET ASSETS			
Invested in capital assets, net of related debt	570,268	916,753	605,437
Unrestricted	<u>79,220</u>	<u>128,243</u>	<u>628,967</u>
Total Net Assets	<u>\$ 649,488</u>	<u>\$ 1,044,996</u>	<u>\$ 1,234,404</u>

See Notes to Financial Statements

FORM C-1

Business-Type Activities - Enterprise Funds				
621 Heritage Grove	603 Garbage Fund	605 Storm Water Fund	TOTALS	
			2009	2008
\$ 24,916	\$ 20,249	\$	\$ 787,926	\$ 754,623
19,886	4,917	758	160,313	144,420
			9,550	
			49,117	65,215
8,208	29		11,114	9,706
			32,273	30,540
<u>53,010</u>	<u>25,195</u>	<u>758</u>	<u>1,050,293</u>	<u>1,004,504</u>
147,564			168,114	172,558
2,909,405		760,884	8,417,023	8,277,643
(834,341)		(193,571)	(2,708,542)	(2,443,205)
<u>2,222,628</u>		<u>567,313</u>	<u>5,876,595</u>	<u>6,006,996</u>
<u>2,275,638</u>	<u>25,195</u>	<u>568,071</u>	<u>6,926,888</u>	<u>7,011,500</u>
12,173	216		96,753	101,518
8,914	320	14	15,026	20,341
12,622		507	13,129	15,098
15,000			24,995	24,745
8,810			17,780	19,802
	2,457	956	29,206	29,845
105,000			255,157	237,773
<u>162,519</u>	<u>2,993</u>	<u>1,477</u>	<u>452,046</u>	<u>449,122</u>
<u>2,272,783</u>			<u>3,116,822</u>	<u>3,376,138</u>
<u>2,435,302</u>	<u>2,993</u>	<u>1,477</u>	<u>3,568,868</u>	<u>3,825,260</u>
(155,155)		567,313	2,504,616	2,393,085
(4,509)	22,202	(719)	853,404	793,155
<u>\$ (159,664)</u>	<u>\$ 22,202</u>	<u>\$ 566,594</u>	<u>\$ 3,358,020</u>	<u>\$ 3,186,240</u>

CITY OF HARMONY, MINNESOTA
PROPRIETARY FUNDS
Statement of Revenues, Expenses and
Changes in Fund Net Assets
For the Year Ended December 31, 2009
With Comparative Totals for the Year Ended December 31, 2008

	Business-Type Activities - Enterprise Funds		
	601	602	604
	Water	Sewer	Electric
	Fund	Fund	Fund
Operating Revenues			
Sales and rentals	\$ 152,659	\$ 282,805	\$ 831,032
Operating Expenses			
Salaries and wages	40,698	46,823	24,958
Service contracts	800	1,058	
Purchased power			676,922
Materials and supplies	15,134	3,789	3,380
Utilities	11,827	50,815	13,123
Repairs and maintenance	6,207	16,487	30,228
Travel and training	1,615	2,490	
Professional fees	1,375	11,271	2,990
Miscellaneous	1,265	1,877	2,117
Insurance	2,557	1,648	6,807
Depreciation/amortization	16,274	81,913	39,218
Total Operating Expenses	97,752	218,171	799,743
Operating Income (Loss)	54,907	64,634	31,289
Nonoperating Revenues (Expenses)			
Special assessments		7,363	2,187
Investment income	1,621	1,696	9,521
Other revenue (expense)	47	30	15,572
Interest expense and fiscal charges		(25,441)	
Total Nonoperating Revenues (Expenses)	1,668	(16,352)	27,280
Income (Loss) Before Transfers	56,575	48,282	58,569
Transfers in		84,436	27,800
Transfers out	(84,492)	(589,828)	(18,000)
Change in net assets	(27,917)	(457,110)	68,369
Total Net Assets - Beginning of Year	677,405	1,502,106	1,166,035
Total Net Assets - End of Year	\$ 649,488	\$ 1,044,996	\$ 1,234,404

Business-Type Activities - Enterprise Funds				
621 Heritage Grove	603 Garbage Fund	605 Storm Water Fund	TOTALS	
			2009	2008
\$ 786,537	\$ 52,593	\$ 6,467	\$ 2,112,093	\$ 2,062,092
294,415	12,173	4,415	423,482	420,054
39,283	30,032		71,173	70,895
			676,922	663,449
50,425	1,233	123	74,084	80,676
42,172			117,937	125,927
18,205		2,625	73,752	109,907
317			4,422	900
6,338	1,375		23,349	11,127
36,748	666		42,673	83,019
59,561			70,573	66,885
114,752		19,022	271,179	268,238
662,216	45,479	26,185	1,849,546	1,901,077
124,321	7,114	(19,718)	262,547	161,015
			9,550	522
1,287	336		14,461	31,990
			15,649	37,737
(110,218)		(24)	(135,683)	(173,046)
(108,931)	336	(24)	(96,023)	(102,797)
15,390	7,450	(19,742)	166,524	58,218
		586,336	698,572	126,936
	(996)		(693,316)	(240,996)
15,390	6,454	566,594	171,780	(55,842)
(175,054)	15,748		3,186,240	3,242,082
\$ (159,664)	\$ 22,202	\$ 566,594	\$ 3,358,020	\$ 3,186,240

CITY OF HARMONY, MINNESOTA
PROPRIETARY FUNDS
Statement of Cash Flows
For the Year Ended December 31, 2009
With Comparative Totals for the Year Ended December 31, 2008

	Business-Type Activities - Enterprise Funds		
	601 Water Fund	602 Sewer Fund	604 Electric Fund
Cash Flows From Operating Activities			
Cash received from customers	\$ 149,212	\$ 275,039	\$ 835,695
Cash payments to suppliers	(37,007)	(86,410)	(734,812)
Cash payments to employees or on their behalf	(41,832)	(48,109)	(25,630)
Other cash payments			2,050
Net Cash Provided By Operating Activities	<u>70,373</u>	<u>140,520</u>	<u>77,303</u>
Cash Flows From Capital and Related Financing Activities			
Acquisition and construction of capital assets	(17,841)	(45,535)	(71,560)
Bond proceeds			
Principal payments on bonds		(147,774)	
Interest paid on bonds		(25,441)	
Issuance costs			
Special assessments received		7,363	
Net Cash Used In Capital and Related Financing Activities	<u>(17,841)</u>	<u>(211,387)</u>	<u>(71,560)</u>
Cash Flows From Non-Capital Financing Activities			
Transfers in (out) to other funds	(84,492)	80,944	9,800
Other income (expense)	46	30	15,572
Net Cash Used In Non-Capital Financing Activities	<u>(84,446)</u>	<u>80,974</u>	<u>25,372</u>
Cash Flows From Investing Activities			
Investment earnings received	<u>1,621</u>	<u>1,696</u>	<u>9,521</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(30,293)</u>	<u>11,803</u>	<u>40,636</u>
Cash and Cash Equivalents, Beginning of Year	<u>98,965</u>	<u>112,437</u>	<u>509,213</u>
Cash and Cash Equivalents, End of Year	<u>\$ 68,672</u>	<u>\$ 124,240</u>	<u>\$ 549,849</u>

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

	Business-Type Activities - Enterprise Funds		
	601 Water Fund	602 Sewer Fund	604 Electric Fund
Operating Income	\$ 54,907	\$ 64,634	\$ 31,289
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	16,274	81,913	39,218
(Increase) Decrease In:			
Accounts receivable	(570)	(7,491)	(12,223)
Prepaid expenses	(202)	(275)	(154)
Inventory	(2,675)		942
Due from other funds			16,098
Increase (Decrease) In:			
Accounts payable	2,973	3,647	755
Accrued interest payable		(1,680)	
Accrued liabilities	(334)	(228)	(672)
Customer deposits			2,050
Due to other funds			
Net Cash Provided By Operating Activities	<u>\$ 70,373</u>	<u>\$ 140,520</u>	<u>\$ 77,303</u>

See Notes to Financial Statements

FORM C-3

Business-Type Activities - Enterprise Funds				
621 Heritage Grove	603 Garbage Fund	605 Storm Water Fund	TOTALS	
			2009	2008
\$ 783,367	\$ 52,772	\$ 5,709	\$ 2,101,794	\$ 2,088,011
(228,151)	(3,171)	(2,748)	(1,092,299)	(1,133,447)
(339,228)	(42,365)	(3,445)	(500,609)	(497,532)
(2,476)			(426)	(728)
213,512	7,236	(484)	508,460	456,304
			(134,936)	(30,276)
				2,580,000
(100,000)			(247,774)	(2,744,467)
(110,218)		(23)	(135,682)	(173,048)
				(49,020)
			7,363	522
(210,218)		(23)	(511,029)	(416,289)
	(996)	507	5,763	(114,060)
			15,648	37,735
	(996)	507	21,411	(76,325)
1,287	336		14,461	31,988
4,581	6,576		33,303	(4,322)
20,335	13,673		754,623	758,945
\$ 24,916	\$ 20,249	\$	\$ 787,926	\$ 754,623

Business-Type Activities - Enterprise Funds				
621 Heritage Grove	603 Garbage Fund	605 Storm Water Fund	TOTALS	
			2009	2008
\$ 124,321	\$ 7,114	\$ (19,718)	\$ 262,547	\$ 161,018
114,752		19,022	271,179	268,238
(2,393)	179	(758)	(23,256)	8,239
(777)			(1,408)	(670)
			(1,733)	1,373
			16,098	16,976
(12,243)	103		(4,765)	13,197
(342)			(2,022)	(4,157)
(5,530)	(160)	970	(5,954)	(6,582)
(1,800)			250	1,050
(2,476)			(2,476)	(2,378)
\$ 213,512	\$ 7,236	\$ (484)	\$ 508,460	\$ 456,304

(This Page is Left Blank Intentionally)

CITY OF HARMONY, MINNESOTA
Statement of Fiduciary Net Assets
December 31, 2009
With Comparative Totals for December 31, 2008

	2009	2008
Assets		
Cash and cash equivalents	\$ 13,753	\$ 13,554
Net Assets		
Unrestricted	\$ 13,753	\$ 13,554

CITY OF HARMONY, MINNESOTA
Statement of Changes in Fiduciary Net Assets
For the Year Ended December 31, 2009
With Comparative Totals for the Year Ended December 31, 2008

	2009	2008
Additions to		
Investment income	\$ 199	\$ 478
Donations		914
Total Additions to	199	1,392
Increase (Decrease) in Net Assets	199	1,392
Net Assets - Beginning of Year	13,554	12,162
Net Assets - End of Year	\$ 13,753	\$ 13,554

See Notes to Financial Statements

(This Page is Left Blank Intentionally)

CITY OF HARMONY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

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 is 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 is 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 *Community Center Building Improvement fund* accounts for the funds used for the 2008 community center building improvement project.

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 *Storm Water fund* accounts for the provisions of storm water services 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 twelve 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 in Years
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.

Market Value Credit (MVC)

Property taxes on homestead property (as defined by State Statutes) are partially reduced by MVC. This credit is paid to the City by the State in lieu of taxes levied against homestead property. The State remits this credit through installments each year. The intergovernmental revenue is recognized as revenue by the City at the time of recognition.

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 may be 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 2008 financial statements have been reclassified to conform to the 2009 presentation.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments

Summary of Cash and Investments

As of December 31, 2009, 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	440,709
Money Market Mutual Funds	None	N/A	277,808
Non-Negotiable CD's	January - December 2010	Unrated	1,601,053
Cash and Investments per Statement of Net Assets			<u>\$ 2,319,935</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.

Interest 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

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, 2009 is \$185,551.

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 years. This is recorded in due to / due from on the balance sheet. The remaining balance at December 31, 2009 is \$12,622.

4. Due From Other Governmental Units

Amounts due from other governmental units at December 31, 2009 are as follows:

<u>Fund</u>	<u>Fillmore County</u>
General	\$ 6,070
Debt Service	2,011
Capital Projects	1,619
	<u>\$ 9,700</u>

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Capital Assets

Capital asset activity for the year ended December 31, 2009 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 293,893	\$	\$ 4,575	\$ 289,318
Total capital assets, not being depreciated	293,893		4,575	289,318
Capital assets, being depreciated:				
Buildings and improvements	1,207,859	4,900	3,923	1,208,836
Vehicles	904,233			904,233
Machinery and other equipment	368,159	48,177		416,336
Infrastructure (e.g. streets)	2,641,284	75,819		2,717,103
Total capital assets, being depreciated	5,121,535	128,896	3,923	5,246,508
Less accumulated depreciation for:				
Buildings and improvements	485,435	60,529	56	545,908
Vehicles	341,966	61,754		403,720
Machinery and other equipment	212,172	33,085		245,257
Infrastructure (e.g. streets)	1,317,248	34,286		1,351,534
Total accumulated depreciation	2,356,821	189,654	56	2,546,419
Total capital assets, being depreciated, net	2,764,714	(60,758)	3,867	2,700,089
Governmental activities capital assets, net	\$ 3,058,607	\$ (60,758)	\$ 8,442	\$ 2,989,407

Governmental Activities:

Government buildings	\$ 26,639
Public safety	70,441
Streets and highways	78,196
Culture and recreation	14,378

Total depreciation expense - governmental activities \$ 189,654

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	4,444		4,444	
Total capital assets, not being depreciated	172,558		4,444	168,114
Capital assets, being depreciated:				
Buildings and improvements	4,808,534			4,808,534
Machinery and other equipment	296,560	50,437		346,997
Vehicles	52,807			52,807
Infrastructure (e.g. utilities)	3,119,741	88,944		3,208,685
Total capital assets, being depreciated	8,277,642	139,381		8,417,023
Less accumulated depreciation for:				
Buildings and improvements	1,349,867	179,329		1,529,196
Machinery and other equipment	66,521	8,238		74,759
Vehicles	52,807			52,807
Infrastructure (e.g. utilities)	974,009	77,771		1,051,780
Total accumulated depreciation	2,443,204	265,338		2,708,542
Total capital assets, being depreciated, net	5,834,438	(125,957)		5,708,481
Business-type activities capital assets, net	\$6,006,996	\$ (125,957)	\$ 4,444	\$5,876,595

Depreciation expense was charged to functions/programs as follows:

Business-Type Activities:

Water	\$ 16,274
Sewer	81,913
Electric	39,218
Heritage Grove	108,911
Storm Water	19,022

Total depreciation expense - business-type activities	<u>\$ 265,338</u>
---	-------------------

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. 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. These bonds are payable primarily from ad valorem tax levies and special assessments 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 2008 Economic Development Authority Housing Refunding Bonds were issued to refund the 2001 EDA Housing Bonds. These bonds are payable solely from revenues generated from rental income from the senior living facility and are backed by the full faith and credit of the City.

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 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 Building Improvement Projects. These notes are payable from revenues generated from energy-efficiency savings and ad valorem tax levies.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Long-Term Debt (Continued)

A summary of interest rates, maturities and December 31, 2009 balances is as follows:

	Range of Interest Rates	Final Maturity	Balance December 31, 2009
General Obligation Improvement Bonds			
Series 2002B Refunding and Improvement	2.00 - 4.30%	2013	\$ 200,000
Series 2003 Refunding	1.55 - 3.50%	2010	38,000
Series 2004A Refunding and Improvement	3.15%	2011	45,000
General Obligation Revenue Notes			
Series 1993 - PFA	3.34%	2014	339,196
Series 2004 - PFA	1.00%	2023	475,000
General Obligation Revenue Bonds			
Series 2002A Water and Sewer	2.00 - 4.30%	2013	180,000
2008 EDA Housing Refunding Bonds	4.10 - 4.60%	2026	2,480,000
General Obligation Tax Increment Bonds			
Series 2004A Refunding and Improvement	3.15%	2010	60,000
Other			
Promissory Note - USDA	4.375%	2019	113,915
Promissory Note - USDA	4.25%	2019	54,981
Promissory Note - USDA	4.50%	2024	246,000
Total			<u>\$ 4,232,092</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, 2009 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	\$ 250,000	\$	\$ 50,000	\$	\$ 200,000	\$ 50,000
Series 2003 Refunding	77,000		39,000		38,000	38,000
Series 2004A Refunding	115,000		70,000		45,000	40,000
General Obligation Tax Increment Bonds:						
Series 2004A	120,000		60,000		60,000	60,000
Other:						
Promissory Note - USDA	122,850		8,935		113,915	9,326
Promissory Note - USDA	59,325		4,344		54,981	4,528
Promissory Note - USDA		246,000			246,000	11,838
Compensated Absences	47,481			1,436	46,045	
Governmental Activities Long-term Liabilities	791,656	246,000	232,279	1,436	803,941	213,692
BUSINESS-TYPE ACTIVITIES						
General Obligation Revenue Notes:						
Series 1993 - PFA	409,970		70,774		339,196	73,157
Series 2004 - PFA	507,000		32,000		475,000	32,000
General Obligation Revenue Bonds:						
Series 2002A Water and Sewer	225,000		45,000		180,000	45,000
2008 EDA Housing Refunding Bonds	2,580,000		100,000		2,480,000	105,000
Compensated Absences	29,846			640	29,206	
Unamortized Discount and Issue Costs	(108,058)			(5,841)	(102,217)	
Business-type Activities Long-term Liabilities	3,643,758		247,774	(5,201)	3,401,185	255,157
Total	\$ 4,435,414	\$ 246,000	\$ 480,053	\$ (3,765)	\$ 4,205,126	\$ 468,849

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, 2009 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>								
2010	\$ 128,000	\$ 8,013	\$ 60,000	\$ 945			\$ 25,692	\$ 18,391
2011	55,000	5,304					26,826	17,257
2012	50,000	3,188					28,008	16,075
2013	50,000	1,075					29,245	14,839
2014							30,535	13,549
2015-2019							174,057	46,314
2020-2024							100,533	13,967
Totals	\$ 283,000	\$ 17,580	\$ 60,000	\$ 945			\$ 414,896	\$ 140,390

Business-Type Activities

2010	\$ 255,157	\$ 127,769
2011	257,620	118,880
2012	265,167	109,841
2013	273,800	100,444
2014	184,452	91,875
2015-2019	850,000	373,843
2020-2024	988,000	209,430
2025-2029	400,000	27,636
Totals	\$ 3,474,196	\$ 1,159,718

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, 2009 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, 2009, 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, 2009 were as follows:

Funds	Transfers In	Transfers Out
General Fund:	\$ 44,334	\$ 290,436
Special Revenue:		
Ambulance		27,492
Park	37,996	2,004
Library	62,004	
Fire	23,496	9,996
Arts	6,000	
EDA	90,000	
Capital Projects:		
Capital Projects	140,484	42,500
TIF #1		27,800
Community Center		9,342
Enterprise:		
Water		84,492
Sewer	84,436	589,828
Garbage		996
Electric	27,800	18,000
Storm Water	586,336	
Total Transfers	\$ 1,102,886	\$ 1,102,886

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, 2009, at the individual fund level are summarized below:

	Due From Other Funds	Due To Other Funds
General Fund	\$ 95,890	\$
Special Revenue:		
Fire		72,618
Revolving Loan	12,622	
Small Cities Grant		2,555
Capital Projects:		
TIF #5		69,327
Enterprise Fund:		
Electric	49,117	
Heritage Grove		12,622
Storm Water		507
	<u>\$ 157,629</u>	<u>\$ 157,629</u>

At December 31, 2009 the following funds have deficit fund equity:

Special Revenue:	
Fire	\$ 69,737
Small Cities Grant	2,555
Capital Projects:	
TIF #5	69,327
Enterprise Fund:	
Heritage Grove	159,664

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

Excess of expenditures over appropriations at the individual fund level during 2009 are as follows:

Special Revenue:	
Ambulance Fund	\$ 13,810

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, 2009 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	\$ 9,986	\$	\$ 34,076	\$ 152,778	\$ 196,840
Taxes receivable	20,383		7,077	5,659	33,119
Loans receivable		257,000		18,208	275,208
Total	\$ 30,369	\$ 257,000	\$ 41,153	\$ 176,645	\$ 505,167

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, 2009 as follows:

Reserved for Debt Service

Debt Service Funds

1994 G.O. Fire Station Bonds	\$ 40,147
2002 G.O. Improvement Bonds	51,148
2004 G.O. Increment and Improvement Refund	50,971

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 9.1% and 6.0%, respectively, of their annual covered salary in 2009. PEPFF members were required to contribute 9.4% of their annual covered salary in 2009. The City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 6.75% for Coordinated Plan PERF Members, and 14.1% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2009, 2008, and 2007 were \$26,890, \$24,538, and \$20,599, 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 2009.

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 2009. 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
COMBINING AND INDIVIDUAL FUND STATEMENTS
DECEMBER 31, 2009

CITY OF HARMONY, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2009
With Comparative Totals for December 31, 2008

	Special Revenue						
	251 Park	211 Library	222 Fire	202 Small Cities Grant	201 Revolving Loan	261 Arts	620 EDA
ASSETS							
Cash and investments	\$ 32,894	\$ 11,561	\$	\$	\$ 102,589	\$ 10,001	\$ 74,793
Accounts receivable			3,100				2,100
Taxes receivable - delinquent							
Special assessments receivable							
Deferred							
Delinquent							
Loan receivable				71,449	185,551		
Due from other funds					12,622		
Due from other governmental units							
Prepaid items	622	131	1,367				17
TOTAL ASSETS	\$ 33,516	\$ 11,692	\$ 4,467	\$ 71,449	\$ 300,762	\$ 10,001	\$ 76,910
LIABILITIES AND FUND BALANCE							
Liabilities:							
Accounts payable	\$ 5,137	\$ 1,922	\$ 1,586	\$	\$ 595	\$	\$ 11
Accrued liabilities	18	899					145
Due to other funds			72,618	2,555			
Due to other governments							
Deferred revenue				71,449	185,551		
Total Liabilities	5,155	2,821	74,204	74,004	186,146		156
Fund Balance:							
Reserved for small cities grant				(2,555)			
Reserved for debt service							
Unreserved:							
Designated							
Undesignated	28,361	8,871	(69,737)		114,616	10,001	76,754
Total Fund Balance	28,361	8,871	(69,737)	(2,555)	114,616	10,001	76,754
TOTAL LIABILITIES AND FUND BALANCE	\$ 33,516	\$ 11,692	\$ 4,467	\$ 71,449	\$ 300,762	\$ 10,001	\$ 76,910

Capital Project			Debt Service			Total Nonmajor Governmental Funds 2009
401 Capital Projects	405 TIF #1	418 TIF #5	306 2003 G.O. Refunding Bonds	312 2002 G.O. Improvement Bonds	313 2004 G.O. Tax Increment and Improvement Refunding	
\$ 277,062	\$ 155,666	\$	\$ 39,514	\$ 50,507	\$ 50,234	\$ 804,821
	5,659		2,232	2,240	2,605	5,200
						12,736
	144,736			29,790	3,732	178,258
	8,042			554		8,596
	18,208					275,208
						12,622
	1,619		633	641	737	3,630
						2,137
<u>\$ 277,062</u>	<u>\$ 333,930</u>	<u>\$</u>	<u>\$ 42,379</u>	<u>\$ 83,732</u>	<u>\$ 57,308</u>	<u>\$ 1,303,208</u>
\$	\$ 405	\$	\$	\$	\$	\$ 9,656
		69,327				1,062
						144,500
	176,645		2,232	32,584	6,337	474,798
	177,050	69,327	2,232	32,584	6,337	630,016
						(2,555)
			40,147	51,148	50,971	142,266
277,062						277,062
	156,880	(69,327)				256,419
<u>277,062</u>	<u>156,880</u>	<u>(69,327)</u>	<u>40,147</u>	<u>51,148</u>	<u>50,971</u>	<u>673,192</u>
<u>\$ 277,062</u>	<u>\$ 333,930</u>	<u>\$</u>	<u>\$ 42,379</u>	<u>\$ 83,732</u>	<u>\$ 57,308</u>	<u>\$ 1,303,208</u>

CITY OF HARMONY, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2009
With Comparative Totals for the Year Ended December 31, 2008

	Special Revenue						
	251 Park	211 Library	222 Fire	202 Small Cities Grant	201 Revolving Loan	261 Arts	620 EDA
REVENUES							
General property taxes	\$	\$	\$	\$	\$	\$	\$
Tax increment							
Special assessments							
Intergovernmental revenues		26,800	36,216			2,411	
Charges for services	1,387	1,566	11,800				
Investment income	558	221			7,687	172	918
Miscellaneous revenues	4,298	270	45,791	1,659	18,111	6,146	14,001
TOTAL REVENUES	6,243	28,857	93,807	1,659	25,798	8,729	14,919
EXPENDITURES							
Public safety			86,566				
Library		92,817					
Park and recreation	38,912					14,594	
Economic development				69	54,537		61,558
Debt service							
Unallocated							
TOTAL EXPENDITURES	38,912	92,817	86,566	69	54,537	14,594	61,558
Excess (deficiency) of revenues over (under) expenditures	(32,669)	(63,960)	7,241	1,590	(28,739)	(5,865)	(46,639)
OTHER FINANCING SOURCES (USES)							
Transfers In	37,996	62,004	23,496			6,000	90,000
Transfers out	(2,004)		(9,996)				
Total other financing sources (uses)	35,992	62,004	13,500			6,000	90,000
Net change in fund balances	3,323	(1,956)	20,741	1,590	(28,739)	135	43,361
Fund Balance - Beginning	25,038	10,827	(90,478)	(4,145)	143,355	9,866	33,393
Fund Balance - Ending	\$ 28,361	\$ 8,871	\$ (69,737)	\$ (2,555)	\$ 114,616	\$ 10,001	\$ 76,754

Capital Projects			Debt Service			Total Nonmajor Governmental Funds 2009
401 Capital Projects	405 TIF #1	418 TIF #5	306 2003 G.O. Refunding Bonds	312 2002 G.O. Improvement Bonds	313 2004 G.O. Tax Increment and Improvement Refunding	
\$	\$	\$	\$ 40,095	\$ 40,613	\$ 46,690	\$ 127,398
	111,034					111,034
	22,517			9,843	3,979	36,339
	1,173		5,587	5,658	6,504	84,349
						14,753
4,343	2,213		235	281	340	16,968
	46,212					136,488
4,343	183,149		45,917	56,395	57,513	527,329
						86,566
						92,817
						53,506
	94,027	31,729				241,920
	62,835		40,954	60,968	72,520	237,277
	153					153
	157,015	31,729	40,954	60,968	72,520	712,239
4,343	26,134	(31,729)	4,963	(4,573)	(15,007)	(184,910)
140,484						359,980
(42,500)	(27,800)					(82,300)
97,984	(27,800)					277,680
102,327	(1,666)	(31,729)	4,963	(4,573)	(15,007)	92,770
174,735	158,546	(37,598)	35,184	55,721	65,978	580,422
\$ 277,062	\$ 156,880	\$ (69,327)	\$ 40,147	\$ 51,148	\$ 50,971	\$ 673,192

(This Page is Left Blank Intentionally)

CITY OF HARMONY, MINNESOTA

SUPPLEMENTAL INFORMATION

DECEMBER 31, 2009

SCHEDULE 1

CITY OF HARMONY, MINNESOTA
WATER FUND
Statement of Revenues, Expenses
and Changes in Fund Net Assets
For the Year Ended December 31, 2009
With Comparative Totals for the Year Ended December 31, 2008

	2009	2008
Operating Revenue		
Sales and rentals	\$ 152,659	\$ 152,948
Operating Expenses		
Salaries and wages	40,698	40,544
Service contracts	800	750
Materials and supplies	15,134	13,685
Utilities	11,827	15,677
Repairs and maintenance	6,207	64,070
Travel and training	1,615	
Professional services	1,375	
Miscellaneous	1,265	1,733
Insurance	2,557	2,192
Depreciation/amortization	16,274	15,251
Total Operating Expenses	97,752	153,902
Operating Income (Loss)	54,907	(954)
Nonoperating Revenues (Expenses)		
Special assessments		
Investment income	1,621	2,894
Other revenue	47	11,946
Total Nonoperating Revenues (Expenses)	1,668	14,840
INCOME BEFORE TRANSFERS	56,575	13,886
Transfers in		60,000
Transfers out	(84,492)	(62,496)
Change in net assets	(27,917)	11,390
Net Assets - Beginning of Year	677,405	666,015
Net Assets - End of Year	\$ 649,488	\$ 677,405

SCHEDULE 2

CITY OF HARMONY, MINNESOTA
SEWER FUND
Statement of Revenues, Expenses
and Changes in Fund Net Assets
For the Year Ended December 31, 2009
With Comparative Totals for the Year Ended December 31, 2008

	2009	2008
Operating Revenue		
Sales and rentals	\$ 282,805	\$ 282,416
Operating Expenses		
Salaries and wages	46,823	45,420
Service contracts	1,058	2,721
Materials and supplies	3,789	7,785
Utilities	50,815	50,870
Repairs and maintenance	16,487	11,532
Travel and training	2,490	135
Professional fees	11,271	8,673
Miscellaneous	1,877	1,618
Insurance	1,648	455
Depreciation/amortization	81,913	99,221
Total Operating Expenses	<u>218,171</u>	<u>228,430</u>
Operating Income	<u>64,634</u>	<u>53,986</u>
Nonoperating Revenues (Expenses)		
Special assessments	7,363	522
Investment income	1,696	2,089
Other revenue	30	2,114
Interest expense and fiscal charges	(25,441)	(29,577)
Total Nonoperating Revenues (Expenses)	<u>(16,352)</u>	<u>(24,852)</u>
INCOME BEFORE TRANSFERS	48,282	29,134
Transfers in	84,436	66,936
Transfers out	<u>(589,828)</u>	<u>(2,496)</u>
Change in net assets	(457,110)	93,574
Net Assets - Beginning of Year	<u>1,502,106</u>	<u>1,408,532</u>
Net Assets - End of Year	<u>\$ 1,044,996</u>	<u>\$ 1,502,106</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, 2009
With Comparative Totals for the Year Ended December 31, 2008

	2009	2008
Operating Revenue		
Sales and rentals	\$ 831,032	\$ 799,335
Operating Expenses		
Salaries and wages	24,958	27,618
Purchased power	676,922	663,449
Materials and supplies	3,380	3,497
Utilities	13,123	12,732
Repairs and maintenance	30,228	15,392
Professional fees	2,990	
Miscellaneous	2,117	15,679
Insurance	6,807	6,030
Depreciation/amortization	39,218	38,025
Total Operating Expenses	799,743	782,422
Operating Income	31,289	16,913
Nonoperating Revenues (Expenses)		
Special assessments	2,187	
Investment income	9,521	24,177
Other revenue	15,572	21,811
Total Nonoperating Revenues (Expenses)	27,280	45,988
INCOME BEFORE TRANSFERS	58,569	62,901
Transfers in	27,800	
Transfers out	(18,000)	(176,004)
Change in net assets	68,369	(113,103)
Net Assets - Beginning of Year	1,166,035	1,279,138
Net Assets - End of Year	\$ 1,234,404	\$ 1,166,035

SCHEDULE 4

CITY OF HARMONY, MINNESOTA
HERITAGE GROVE FUND
Statement of Revenues, Expenses
and Changes in Fund Net Assets
For the Year Ended December 31, 2009
With Comparative Totals for the Year Ended December 31, 2008

	2009	2008
Operating Revenue		
Sales and rentals	\$ 786,537	\$ 774,830
Operating Expenses		
Salaries and wages	294,415	295,717
Service contracts	39,283	38,322
Materials and supplies	50,425	54,592
Utilities	42,172	46,648
Repairs and maintenance	18,205	18,913
Travel and training	317	765
Professional fees	6,338	2,454
Miscellaneous	36,748	62,152
Insurance	59,561	58,208
Depreciation/amortization	114,752	115,741
Total Operating Expenses	<u>662,216</u>	<u>693,512</u>
Operating Income	<u>124,321</u>	<u>81,318</u>
Nonoperating Revenues (Expenses)		
Investment income	1,287	2,525
Interest expense and fiscal charges	<u>(110,218)</u>	<u>(143,469)</u>
Total Nonoperating Revenues (Expenses)	<u>(108,931)</u>	<u>(140,944)</u>
Change in net assets	15,390	(59,626)
Net Assets - Beginning of Year	<u>(175,054)</u>	<u>(115,428)</u>
Net Assets - End of Year	<u>\$ (159,664)</u>	<u>\$ (175,054)</u>

SCHEDULE 5

CITY OF HARMONY, MINNESOTA
GARBAGE FUND
Statement of Revenues, Expenses
and Changes in Fund Net Assets
For the Year Ended December 31, 2009
With Comparative Totals for the Year Ended December 31, 2008

	2009	2008
Operating Revenue		
Sales and rentals	\$ 52,593	\$ 52,563
Operating Expenses		
Salaries and wages	12,173	10,755
Service contracts	30,032	29,102
Materials and supplies	1,233	1,117
Professional services	1,375	
Miscellaneous	666	1,837
Total Operating Expenses	45,479	42,811
Operating Income	7,114	9,752
Nonoperating Revenues (Expenses)		
Investment income	336	305
Other revenue		1,866
Total Nonoperating Revenues (Expenses)	336	2,171
INCOME BEFORE TRANSFERS	7,450	11,923
Transfers out	(996)	
Change in net assets	6,454	11,923
Net Assets - Beginning of Year	15,748	3,825
Net Assets - End of Year	\$ 22,202	\$ 15,748

CITY OF HARMONY, MINNESOTA
STORM WATER FUND
Statement of Revenues, Expenses
and Changes in Fund Net Assets
For the Year Ended December 31, 2009
With Comparative Totals for the Year Ended December 31, 2008

	2009	2008
Operating Revenue		
Sales and rentals	\$ 6,467	\$
Operating Expenses		
Salaries and wages	4,415	
Materials and supplies	123	
Repairs and maintenance	2,625	
Depreciation/amortization	19,022	
Total Operating Expenses	26,185	
Operating Income	(19,718)	
Nonoperating Revenues (Expenses)		
Interest expense	(24)	
INCOME BEFORE TRANSFERS	(19,742)	
Transfers in	586,336	
Change in net assets	566,594	
Net Assets - Beginning of Year		
Net Assets - End of Year	\$ 566,594	\$

AUDITOR'S REPORT ON COMPLIANCE

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

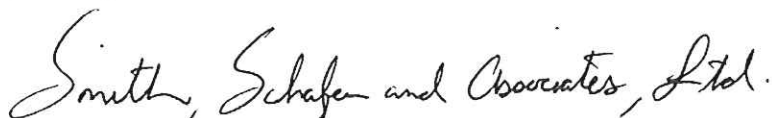
We have audited the financial statements of the City of Harmony, Minnesota as of and for the year ended December 31, 2009 and have issued our report thereon dated April 2, 2010.

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 seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. 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.



Rochester, Minnesota
April 2, 2010

