

CITY OF HARMONY, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2010

CITY OF HARMONY, MINNESOTA

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CITY OF HARMONY, MINNESOTA

INTRODUCTORY SECTION

DECEMBER 31, 2010

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CITY OF HARMONY, MINNESOTA

CITY OFFICIALS

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

December 31, 2010

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

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CITY OF HARMONY, MINNESOTA

FINANCIAL SECTION

DECEMBER 31, 2010

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INDEPENDENT AUDITOR'S REPORT

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

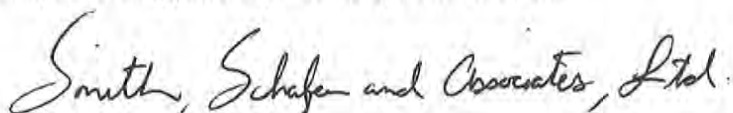
We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Harmony, Minnesota, as of and for the year ended December 31, 2010, which collectively comprise the City of Harmony, 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 2009 financial statements and, in our report dated April 2, 2010 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, 2010, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund and the Major Special Revenue Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Harmony, Minnesota's basic financial statements. The introductory section, 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
March 29, 2011

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, 2010. 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 \$7,940,775 (*net assets*). Of this amount, \$2,753,256 (*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 \$1,443,931, of which 92 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 \$606,833, or 123 percent of total general fund expenditures.
- The City of Harmony decreased the existing debt principal by \$468,849 during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The statement of net assets presents 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, parks and recreation, economic development authority. The business-type activities of the City of Harmony include water, sewer, garbage and 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.

CITY OF HARMONY, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

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

The City of Harmony maintains 17 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, fire fund, ambulance fund, and TIF#1 fund. Data from the other 13 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds are provided in the form of combining statements elsewhere in this report.

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

The basic governmental funds financial statements can be found on pages 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 and recycling, electric, and senior living (Heritage Grove) operations. The water, sewer, garbage and recycling, storm water, electric, and senior living are reported as major funds.

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

The proprietary fund financial statements can be found on pages 27-32 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 34-55 of this report.

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

Other Information. The combining statements referred to earlier in connection with non-major governmental funds are presented herewith. Combining and individual financial statements and schedules can be found on pages 56-59.

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 \$7,940,775 at the close of the fiscal year, with \$4,461,066 of these net assets from governmental activities and \$3,479,709 from proprietary funds.

A significant portion of the City of Harmony's net assets \$5,073,626 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	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 2,146,056	\$ 2,081,828	\$ 1,037,787	\$ 1,037,164	\$ 3,183,843	\$ 3,118,992
Capital assets	3,190,181	2,989,407	5,753,912	5,876,595	8,944,093	8,866,002
Total assets	<u>\$ 5,336,237</u>	<u>\$ 5,071,235</u>	<u>\$ 6,791,699</u>	<u>\$ 6,913,759</u>	<u>\$12,127,936</u>	<u>\$11,984,994</u>
Long-term liabilities outstanding	\$ 747,804	\$ 757,896	\$ 3,122,663	\$ 3,371,979	\$ 3,870,467	\$ 4,129,875
Other liabilities	127,367	111,913	189,327	183,760	316,694	295,673
Total liabilities	<u>875,171</u>	<u>869,809</u>	<u>3,311,990</u>	<u>3,555,739</u>	<u>4,187,161</u>	<u>4,425,548</u>
Net assets:						
Invested in capital assets, net of related debt	2,442,377	2,231,511	2,631,249	2,504,616	5,073,626	4,736,127
Restricted	113,893	179,548			113,893	179,548
Unrestricted	1,904,796	1,790,367	848,460	853,404	2,753,256	2,643,771
Total Net Assets	<u>4,461,066</u>	<u>4,201,426</u>	<u>3,479,709</u>	<u>3,358,020</u>	<u>7,940,775</u>	<u>7,559,446</u>
Total Liabilities & Net Assets	<u>\$ 5,336,237</u>	<u>\$ 5,071,235</u>	<u>\$ 6,791,699</u>	<u>\$ 6,913,759</u>	<u>\$12,127,936</u>	<u>\$11,984,994</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**

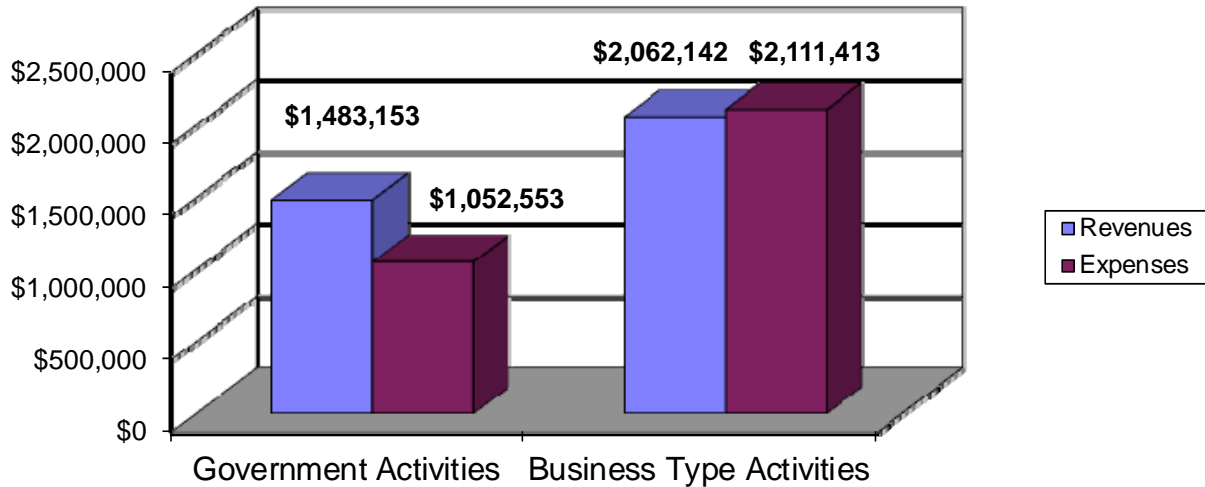
City of Harmony's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues						
Charges for services	\$ 278,774	\$ 287,668	\$ 2,039,299	\$ 2,112,093	\$ 2,318,073	\$ 2,399,761
Operating grants and contributions	36,689	44,719			36,689	44,719
Capital grants and contributions	101,300	91,230			101,300	91,230
General revenues:						
Taxes	651,920	637,211			651,920	637,211
Intergovernmental revenue	374,983	434,059			374,983	434,059
Unrestricted investment earnings	24,545	23,518	8,265	14,461	32,810	37,979
Other	14,942	47,196	14,578	25,199	29,520	72,395
Total revenues	1,483,153	1,565,601	2,062,142	2,151,753	3,545,295	3,717,354
Expenses:						
General government	112,832	105,096			112,832	105,096
Public safety	363,480	325,910			363,480	325,910
Highway and streets	174,444	213,383			174,444	213,383
Library	94,117	92,817			94,117	92,817
General government buildings	144,067	161,655			144,067	161,655
Parks and recreation	57,423	60,479			57,423	60,479
Economic development authority	63,956	36,524			63,956	36,524
Bond interest and fiscal charges	16,916	1,937			16,916	1,937
Other	25,318	28,789			25,318	28,789
Water			159,928	97,752	159,928	97,752
Sewer			257,853	243,612	257,853	243,612
Electric			869,183	799,743	869,183	799,743
Senior living			752,073	772,434	752,073	772,434
Garbage and recycling			48,172	45,479	48,172	45,479
Storm water			24,204	26,209	24,204	26,209
Total expenses	1,052,553	1,026,590	2,111,413	1,985,229	3,163,966	3,011,819
Increase in net assets before transfers and other items	430,600	539,011	(49,271)	166,524	381,329	705,535
Transfers	(170,960)	(5,256)	170,960	5,256		
Change in net assets	259,640	533,755	121,689	171,780	381,329	705,535
Net Assets – January 1	4,201,426	3,667,671	3,358,020	3,186,240	7,559,446	6,853,911
Net Assets – December 31	\$ 4,461,066	\$ 4,201,426	\$ 3,479,709	\$ 3,358,020	\$ 7,940,775	\$ 7,559,446

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

The following graph shows 2010 revenues and expenses for both government activities and business-type activities.

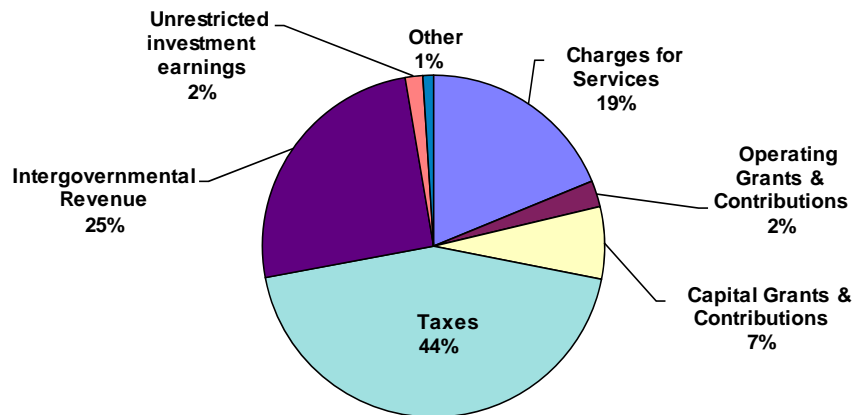
City of Harmony's Revenues & Expenses



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 \$259,640 for the year ended December 31, 2010. The total revenues for governmental activities amounted to \$1,483,153 while total expenses were \$1,052,553 and transfers out were \$170,960, which is illustrated in the chart above.

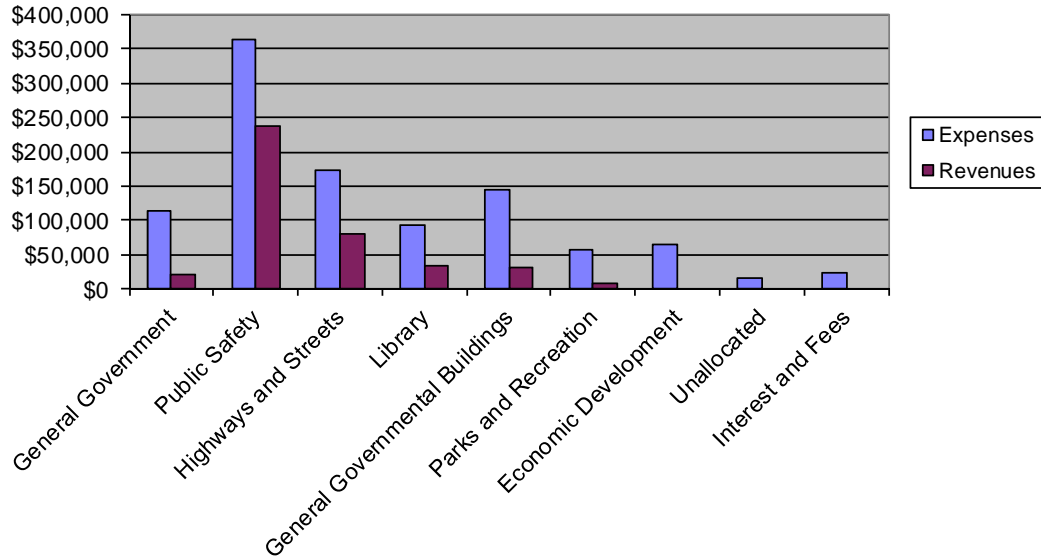
Government Activities Revenues



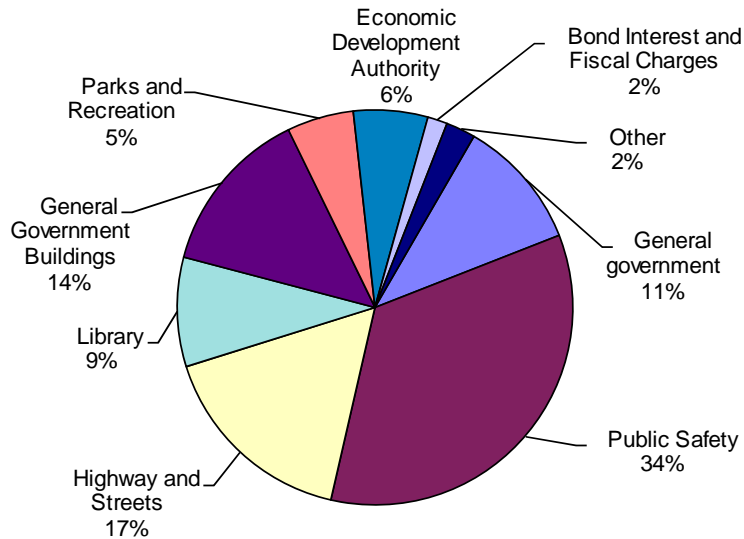
- Charges for Services decreased during the year, resulting from decreased ambulance and fire calls.
- Taxes increased due to increase in city's tax levy to cover necessary expenditures and loss of LGA.
- Intergovernmental Revenue decreased due to LGA (Local Government Aid) unallotment.

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

Expenses and Program Revenues-Governmental Activities



Government Activities Expenses

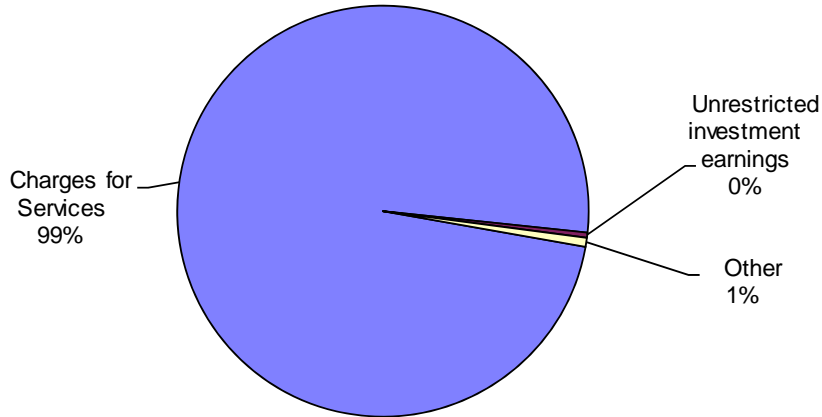


- Public safety increased, which was due to a new ambulance which was ordered in 2009 and was paid and delivered in 2010. A new fire truck was ordered in 2010 and will be delivered in 2011.
- Highway and streets decreased which was due to seal coating done in 2009, but not in 2010.
- Increase in the economic development authority was due to the success of the commercial rehab program.
- General government buildings decreased in 2010 due to less repairs and maintenance for the community center and visitor center.

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

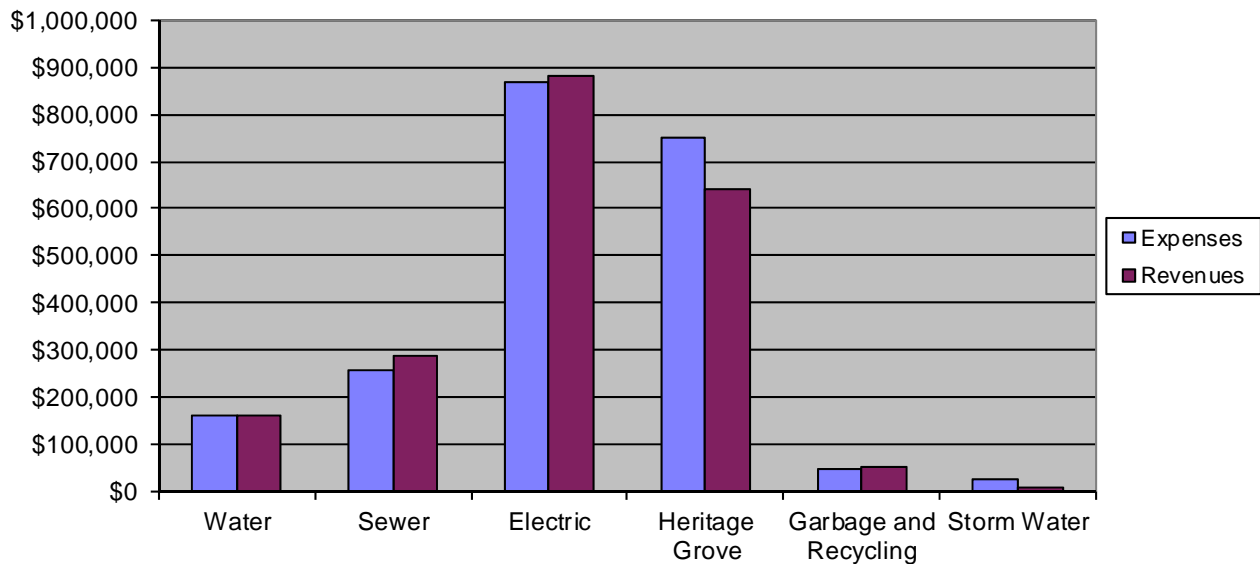
Business-type activities. Business-type activities increased the City of Harmony net assets \$121,689 for the year ended December 31, 2010. Business-type activities revenues and expenses are illustrated in the charts below.

Business-Type Activities Revenue



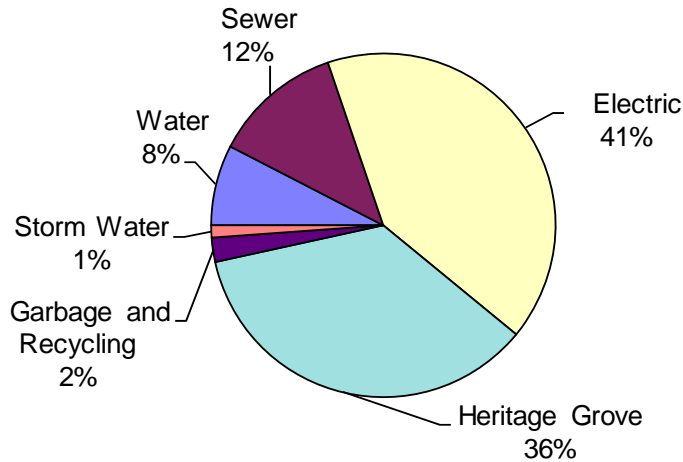
- Charges for services increased for consumption of water as well as water rate changes.
- Charges for services increased for sewer due to sewer rate changes.
- Charges for services increased due to electric rate changes and increase in consumption.
- Charges for services decreased for senior living facility due to a decrease 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 because of increase in electrical consumption due to warmer summer weather. The city is also changing electric meters to radio read meters, which contributed to higher material costs.
- The sewer fund had increase repairs and maintenance costs due to the age of the equipment at the wastewater treatment plant.
- Heritage Grove had decreased expenses due to decreased occupancy.
- The water fund had increased expenses due to well repairs and maintenance. The city is also changing water meters to radio read meters, which contributed to higher material costs.

Financial Analysis of the City's Funds

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

At the end of the current fiscal year, the City of Harmony's governmental funds reported combined ending fund balances of \$1,443,931.

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 \$606,833.

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

The fund balance of the City of Harmony's general fund increased by \$58,942 during the current year. Key factors in this change are as follows:

- Market Value Homestead Credit (MVHC) decreased by \$31,000 in 2010 due to the unallotment from the State of Minnesota due to their budget deficit issues regarding the global recession. Unspent budgeted expenditures as well as excess funds levied in 2010 were used to offset most of the revenue reduction.
- With the recent debt reductions, the city was able to capture those levy dollars without changing the tax rate, to utilize funds for possible future LGA and MVHC reductions.
- Since the community center building improvements were completed, it has resulted in energy savings of \$12,500.
- New HVAC equipment was installed at the visitor center at a cost of \$12,000.
- The occupancy at Heritage Grove Senior Living Facility struggled throughout 2010, causing a cash shortfall, in which the general fund transferred \$25,000 to meet the facilities operating expenditures.

The debt service funds have a total fund balance of \$76,054, 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	\$68,369
Sewer	\$164,026
Garbage and Recycling	\$26,324
Electric	\$577,947
Heritage Grove	\$10,501
Storm Water	\$1,293

General Fund Budgetary Highlights. After the 2010 budget was developed, the council approved installing new HVAC equipment at the visitor center and the purchase of a new UTV for parks and streets. They also purchased cleaning equipment for the community center.

Capital Asset Administration. The City of Harmony's investment in capital assets for its governmental and business type activities as of December 31, 2010 amounts to \$8,944,093 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, furniture, and infrastructure.

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

- \$12,000 HVAC Equipment. Replaced the furnace and air conditioner at the Visitor Center because of their age and maintenance concerns.
- \$96,000 Ambulance. The City of Harmony traded the old ambulance for a new ambulance for patient transport and care.
- \$27,750 Downtown Electrical and Street Lights. Installed decorative streets lights in the downtown as well as extending conduit for future electrical upgrades.
- \$27,500 Electrical Upgrades. Installed new electric service for a new business in the industrial park.
- \$54,250 Well. The City of Harmony installed a new submersible well pump by the water tower due to ongoing maintenance concerns. The electric service was expanded for the new pump as well.
- \$23,000 Electrical Changes. There were electrical changes done for the Third Street Southwest Construction Project.
- \$263,000 Street Reconstruction. Third Street Southwest was reconstructed in 2010. The final lift of blacktop will be done in 2011, at which time the capital asset will be converted from work-in-progress.

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

City of Harmony's Capital Assets

	Government Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 289,318	\$ 289,318	\$ 168,114	\$ 168,114	\$ 457,432	\$ 457,432
Building and Improvements	1,214,545	1,208,836	4,808,534	4,808,534	6,023,079	6,017,370
Vehicles	940,152	904,233	52,807	52,807	992,959	957,040
Machinery and Other Equipment	462,934	416,336	391,052	346,997	853,986	763,333
Infrastructure	2,725,471	2,717,103	3,313,173	3,208,685	6,038,644	5,925,788
Work-In-Progress	263,084				263,084	
Total assets	5,895,504	5,535,826	8,733,680	8,585,137	14,629,184	14,120,963
Less: Accumulated Depreciation	(2,705,323)	(2,546,419)	(2,979,768)	(2,708,542)	(5,685,091)	(5,254,961)
Net Capital Assets	\$3,190,181	\$2,989,407	\$5,753,912	\$5,876,595	\$8,944,093	\$8,866,002

More detailed information on the City of Harmony's capital assets is presented in the Notes to the Financial Statements on page 45-46.

Long-Term Debt. At the end of the fiscal year, the City of Harmony had long-term debt of \$3,966,843. General obligation debt outstanding of \$2,375,000 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 \$709,039 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	
	2010	2009	2010	2009	2010	2009
General Obligation Bonds	\$ 353,600	\$ 238,000	\$	\$	\$ 353,600	\$ 238,000
General Obligation Improvement	5,000	45,000			5,000	45,000
General Obligation Tax Increment		60,000				60,000
USDA Promissory Note	389,204	414,896			389,204	414,896
General Obligation Note			709,039	814,196	709,039	814,196
General Obligation Revenue			2,510,000	2,660,000	2,510,000	2,660,000
Total assets	\$ 747,804	\$ 757,896	\$3,219,039	\$3,474,196	\$3,966,843	\$4,232,092

Additional information on the City of Harmony's long-term debt can be found in the Notes to the Financial Statements on pages 47-50.

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 USDA Rural Development loan funds to finance the project. The City of Harmony has utilized some of the energy-efficiency savings to finance the annual debt payment on the USDA loan.

CITY OF HARMONY, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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 and will see 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 2010. A current Tax Increment Financing (TIF) District was utilized to help finance the project.

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. Given the age of the water and sewer infrastructure, the rates for water and sewer were increased in 2010. There was a rate increase in electric rates to offset the higher wholesale power costs. The City of Harmony has hired an engineer to conduct a water study to review the water distribution system, given the age of the water lines as well as the municipal wells. It is anticipated that future improvements will be necessary.

The City of Harmony's senior living facility continues to operate well, however, occupancy struggled in 2010. The operations of the facility unfortunately did not finance the daily operations including the debt service for 2010. A new management company was hired for 2011, to assist in increasing occupancy and to match the long-term goals of the City of Harmony not owning the facility. The City of Harmony continues to monitor the operations and finances of the facility.

With the State of Minnesota budget deficit, there will most likely be future Local Government Aid (LGA) and Market Value Homestead Credit (MVHC) reductions, due to the global recession. The City of Harmony was fortunate through the 2010 and 2011 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 and MVHC deductions with even the possibility of elimination.

The City of Harmony is in good financial situation long term due to debt retirements in 2011-2014 coupled with an old TIF district that will expire at the end of 2012. The expiration of the TIF District will result in the increase of property values within that TIF District to current market value. The TIF District contains most parcels within the commercial downtown district. The other debt retirements are for street projects and a PFA Note for the wastewater treatment plant in which tax levies were partially funding.

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, 2010

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CITY OF HARMONY, MINNESOTA
STATEMENT OF NET ASSETS

December 31, 2010

With Comparative Totals for December 31, 2009

	Governmental Activities	Business-Type Activities	Totals	
			2010	2009
Assets				
Cash and investments	\$ 1,371,667	\$ 584,379	\$ 1,956,046	\$ 2,319,935
Receivables	353,004	179,086	532,090	463,338
Internal balances	(225,727)	225,727		
Due from other governmental units	6,618		6,618	9,700
Inventory		36,695	36,695	32,273
Loans receivable	345,737		345,737	275,208
Deposit on fire truck	286,094		286,094	
Prepaid expenses	8,663	11,900	20,563	18,538
Capital assets:				
Nondepreciable	552,402	168,114	720,516	457,432
Depreciable, net	2,637,779	5,585,798	8,223,577	8,408,570
Total Assets	5,336,237	6,791,699	12,127,936	11,984,994
Liabilities and Net Assets				
Liabilities				
Accounts payable	54,634	97,146	151,780	151,354
Deposits payable		25,295	25,295	24,995
Compensated absences	53,288	33,601	86,889	75,251
Accrued liabilities	9,582	17,620	27,202	20,952
Accrued interest payable	4,863	15,665	20,528	23,121
Deferred revenue	5,000		5,000	
Noncurrent liabilities:				
Due within one year	81,826	257,620	339,446	468,849
Due in more than one year	665,978	2,865,043	3,531,021	3,661,026
Total Liabilities	875,171	3,311,990	4,187,161	4,425,548
Net Assets				
Invested in capital assets, net of related debt	2,442,377	2,631,249	5,073,626	4,736,127
Restricted for:				
Small city grant	(1,998)		(1,998)	(2,555)
Debt Service	115,891		115,891	182,103
Unrestricted	1,904,796	848,460	2,753,256	2,643,771
Total Net Assets	4,461,066	3,479,709	7,940,775	7,559,446
Total Liabilities and Net Assets	\$ 5,336,237	\$ 6,791,699	\$ 12,127,936	\$ 11,984,994

See Notes to Financial Statements

CITY OF HARMONY, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2010
With Comparative Totals for December 31, 2009

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 112,832	\$ 18,037	\$	\$ 4,705
Public safety	363,480	223,717	925	12,391
Streets and highways	174,444	777		80,304
Library	94,117	2,101	27,594	3,900
Government buildings	144,067	32,932		
Park and recreation	57,423	1,210	8,170	
Economic development	63,956			
Interest on long-term debt	16,916			
Unallocated	25,318			
Total governmental activities	1,052,553	278,774	36,689	101,300
Business-Type activities:				
Water	159,928	162,348		
Sewer	257,853	288,682		
Electric	869,183	882,453		
Heritage Grove	752,073	643,109		
Garbage	48,172	53,017		
Storm Water	24,204	9,690		
Total business-type activities	2,111,413	2,039,299		
Total	3,163,966	2,318,073	36,689	101,300

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	
		2010	2009
\$ (90,090)	\$	\$ (90,090)	\$ (84,368)
(126,447)		(126,447)	(43,192)
(93,363)		(93,363)	(210,988)
(60,522)		(60,522)	(64,451)
(111,135)		(111,135)	(114,484)
(48,043)		(48,043)	(51,173)
(63,956)		(63,956)	9,688
(16,916)		(16,916)	(15,216)
(25,318)		(25,318)	(28,789)
<u>(635,790)</u>		<u>(635,790)</u>	<u>(602,973)</u>
	2,420	2,420	54,907
	30,829	30,829	39,193
	13,270	13,270	31,289
	(108,964)	(108,964)	14,103
	4,845	4,845	7,114
	<u>(14,514)</u>	<u>(14,514)</u>	<u>(19,742)</u>
	<u>(72,114)</u>	<u>(72,114)</u>	<u>126,864</u>
<u>(635,790)</u>	<u>(72,114)</u>	<u>(707,904)</u>	<u>(476,109)</u>
540,843		540,843	526,177
111,077		111,077	111,034
374,983		374,983	434,059
24,545	8,265	32,810	37,979
14,942	14,578	29,520	72,395
<u>(170,960)</u>	<u>170,960</u>		
<u>895,430</u>	<u>193,803</u>	<u>1,089,233</u>	<u>1,181,644</u>
259,640	121,689	381,329	705,535
<u>4,201,426</u>	<u>3,358,020</u>	<u>7,559,446</u>	<u>6,853,911</u>
<u>\$ 4,461,066</u>	<u>\$ 3,479,709</u>	<u>\$ 7,940,775</u>	<u>\$ 7,559,446</u>

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CITY OF HARMONY, MINNESOTA

FUND FINANCIAL STATEMENTS

DECEMBER 31, 2010

CITY OF HARMONY, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2010
With Comparative Totals for December 31, 2009

	101 General	Special Revenue		405 TIF #1	Other Governmental Funds	Total Governmental Funds	
		222 Fire	223 Ambulance			2010	2009
ASSETS							
Cash and investments	\$ 518,626	\$	\$ 202,612	\$ 153,505	\$ 496,924	\$ 1,371,667	\$ 1,532,009
Accounts receivable	6,348	8,204	49,179		2,100	65,831	63,516
Taxes receivable - delinquent	31,835			8,789	3,926	44,550	33,119
Special assessments receivable:							
Deferred	9,504			140,957	80,172	230,633	188,244
Delinquent				10,722	1,267	11,989	8,596
Note receivable				68,395	277,342	345,737	275,208
Due from other funds	164,435				10,047	174,482	108,512
Due from other governmental units	5,721			448	451	6,620	9,700
Deposit on fire truck		286,094				286,094	
Prepaid items	5,421	1,512	939		790	8,662	7,424
TOTAL ASSETS	\$ 741,890	\$ 295,810	\$ 252,730	\$ 382,816	\$ 873,019	\$ 2,546,265	\$ 2,226,328
LIABILITIES AND FUND BALANCE							
Liabilities							
Accounts payable	\$ 45,669	\$ 2,291	\$ 1,702	\$	\$ 4,972	\$ 54,634	\$ 54,601
Accrued liabilities	8,212		269		1,101	9,582	5,926
Due to other funds		242,284			157,925	400,209	144,500
Deferred revenue	41,339	5,000		228,863	362,707	637,909	505,167
Total Liabilities	95,220	249,575	1,971	228,863	526,705	1,102,334	710,194
Fund Balance							
Reserved for:							
Small cities grant					(1,998)	(1,998)	(2,555)
Debt service	39,837				76,054	115,891	182,103
Unreserved, designated	300,000			153,953	253,408	707,361	577,062
Unreserved, undesignated, reported in:							
General fund	306,833					306,833	247,891
Special revenue fund		46,235	250,759		18,850	315,844	511,633
Total Fund Balance	646,670	46,235	250,759	153,953	346,314	1,443,931	1,516,134
TOTAL LIABILITIES AND FUND BALANCE	\$ 741,890	\$ 295,810	\$ 252,730	\$ 382,816	\$ 873,019	\$ 2,546,265	\$ 2,226,328

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

For the Year Ended December 31, 2010
With Comparative Totals for the Year Ended December 31, 2009

	101 General	Special Revenue		405 TIF #1	Other Governmental Funds	Total Governmental Funds	
		222 Fire	223 Ambulance			2010	2009
REVENUES							
General property taxes	\$ 489,087	\$	\$	\$	\$ 40,325	\$ 529,412	\$ 517,745
Tax increments				103,957	7,120	111,077	111,034
Special assessments	1,897			2,734	29,890	34,521	44,732
Licenses and permits	7,480					7,480	6,965
Fines and forfeits	1,492					1,492	2,395
Intergovernmental revenues	370,759	40,232	19,130	1,198	34,520	465,839	516,205
Charges for services	33,407	6,722	159,833		3,311	203,273	213,904
Investment income	8,641		1,914	1,311	12,890	24,756	23,518
Refunds and reimbursements	10,082					10,082	9,058
Miscellaneous revenues	20,268	10,311	7,193		31,375	69,147	184,506
Total Revenues	943,113	57,265	188,070	109,200	159,431	1,457,079	1,630,062
EXPENDITURES							
General government	104,073					104,073	106,356
Public safety	97,920	46,000	225,033			368,953	301,316
Street and highways	104,150				263,084	367,234	135,187
Library					103,792	103,792	92,817
Government buildings	164,391					164,391	135,016
Park and recreation					58,616	58,616	53,506
Economic development				51,182	114,260	165,442	241,920
Debt service				60,945	140,848	201,793	237,277
Unallocated	23,945				83	24,028	28,789
Total Expenditures	494,479	46,000	225,033	112,127	680,683	1,558,322	1,332,184
Excess (deficiency) of revenues over (under) expenditures	448,634	11,265	(36,963)	(2,927)	(521,252)	(101,243)	297,878
OTHER FINANCING SOURCES (USES)							
Bond proceeds					200,000	200,000	246,000
Transfers in	4,992	129,703	60,000		397,976	592,671	404,314
Transfers out	(394,684)	(24,996)	(27,492)		(316,459)	(763,631)	(409,570)
Total Other Financing Sources (Uses)	(389,692)	104,707	32,508		281,517	29,040	240,744
Net change in fund balances	58,942	115,972	(4,455)	(2,927)	(239,735)	(72,203)	538,622
Fund Balance - Beginning	587,728	(69,737)	255,214	156,880	586,049	1,516,134	977,512
Fund Balance - Ending	\$ 646,670	\$ 46,235	\$ 250,759	\$ 153,953	\$ 346,314	\$ 1,443,931	\$ 1,516,134

See Notes to Financial Statements

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, 2010

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

Total governmental fund balances (page 17)	\$		1,443,931
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			
Governmental funds - capital assets	\$	5,895,504	
Less: Accumulated depreciation		<u>(2,705,323)</u>	
			3,190,181
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			
Delinquent property taxes	\$	44,550	
Deferred and delinquent special assessments		242,622	
Notes receivable		<u>345,737</u>	
			632,909
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	\$	(801,092)	
Accrued interest		<u>(4,863)</u>	
			<u>(805,955)</u>
Net assets of governmental activities (page 14)	\$		<u><u>4,461,066</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, 2010

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

Net change in fund balances - total governmental funds (page 18)	\$	(72,203)
<p>Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay	\$ 420,227	
Depreciation expense	<u>(189,179)</u>	231,048
<p>The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net assets</p>		
		(30,274)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Deferred revenue, December 31, 2010	\$ 632,909	
Deferred revenue, December 31, 2009	<u>(505,167)</u>	127,742
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
Principal retirement on long-term debt	\$ 213,692	
Proceeds from issuance of notes payable	(203,600)	
Change in compensated absences	(7,243)	
Change in accrued interest	<u>478</u>	3,327
<p>Change in net assets of governmental activities (pages 15 and 16)</p>		
	\$	<u><u>259,640</u></u>

CITY OF HARMONY, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2010

With Comparative Totals for the Year Ended December 31, 2009

	Budgeted Amounts		2010 Actual Amounts	Variance with Final Budget - Positive (Negative)	2009 Actual Amounts
	Original	Final			
REVENUES					
Property Tax Levy					
Property tax collected	\$ 494,151	\$ 494,151	\$ 489,087	\$ (5,064)	\$ 390,347
Special Assessments	1,500	1,500	1,897	397	8,393
Intergovernmental Revenues					
Local government aid	320,299	320,299	320,299		349,843
Market value credit	72,849	72,849	38,685	(34,164)	53,577
Fire state aid	10,000	10,000	10,911	911	8,442
PERA rate increase aid	864	864	864		864
Total Intergovernmental	404,012	404,012	370,759	(33,253)	412,726
Licenses and Permits	6,775	6,775	7,480	705	6,965
Fines and Forfeits	1,050	1,050	1,492	442	2,395
Charges for Services					
Rental income - community center and visitor center	31,800	31,800	33,407	1,607	33,892
Investment Income	10,000	10,000	8,641	(1,359)	2,994
Refunds and Reimbursements	5,000	5,000	10,082	5,082	9,058
Miscellaneous Revenues					
Lodging tax	5,000	5,000	4,488	(512)	4,183
Loan principal					3,588
Cable TV franchise fee	3,500	3,500	3,976	476	7,927
Other	3,400	3,400	11,804	8,404	17,820
Total Miscellaneous Revenues	11,900	11,900	20,268	8,368	33,518
TOTAL REVENUES	\$ 966,188	\$ 966,188	\$ 943,113	\$ (23,075)	\$ 900,288

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, 2010
With Comparative Totals for the Year Ended December 31, 2009

	Budgeted Amounts		2010 Actual Amounts	Variance with Final Budget - Positive (Negative)	2009 Actual Amounts
	Original	Final			
EXPENDITURES					
General Government					
Mayor and Council					
Employee services	\$ 7,350	\$ 7,350	\$ 7,240	\$ 110	\$ 7,240
Printing and publication	550	550	603	(53)	765
Insurance	425	425		425	335
Dues	1,000	1,000	1,142	(142)	1,085
Total Mayor and Council	<u>9,325</u>	<u>9,325</u>	<u>8,985</u>	<u>340</u>	<u>9,425</u>
Elections	<u>3,610</u>	<u>3,610</u>	<u>1,243</u>	<u>2,367</u>	
Finance and Administration					
Employee services	73,811	73,811	71,372	2,439	70,110
Materials and supplies	5,600	5,600	4,027	1,573	4,042
Printing and publication	1,750	1,750	1,410	340	1,359
Training	1,400	1,400	540	860	620
Repairs and maintenance	750	750	1,247	(497)	1,313
Professional fees	8,750	8,750	7,964	786	10,051
Miscellaneous	3,429	3,429	2,494	935	2,235
Total Finance and Administration	<u>95,490</u>	<u>95,490</u>	<u>89,054</u>	<u>6,436</u>	<u>89,730</u>
Professional Services					
Legal	<u>7,500</u>	<u>7,500</u>	<u>4,791</u>	<u>2,709</u>	<u>7,201</u>
Total General Government	<u>\$ 115,925</u>	<u>\$ 115,925</u>	<u>\$ 104,073</u>	<u>\$ 11,852</u>	<u>\$ 106,356</u>
Government Buildings					
Community Center					
Employee services	\$ 34,765	\$ 34,765	\$ 26,384	\$ 8,381	\$ 27,492
Materials and supplies	6,750	6,750	6,850	(100)	6,818
Insurance	9,530	9,530	12,483	(2,953)	8,785
Repairs and maintenance	8,500	8,500	2,329	6,171	11,888
Utilities	37,250	37,250	25,150	12,100	26,280
Miscellaneous	790	790	609	181	2,049
Capital outlay			10,611	(10,611)	
Debt service	41,175	41,175	44,083	(2,908)	21,175
Total Community Center	<u>138,760</u>	<u>138,760</u>	<u>128,499</u>	<u>10,261</u>	<u>104,487</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, 2010
With Comparative Totals for the Year Ended December 31, 2009

	Budgeted Amounts		2010 Actual Amounts	Variance with Final Budget - Positive (Negative)	2009 Actual Amounts
	Original	Final			
EXPENDITURES (Continued)					
Government Buildings (Continued)					
Visitor Center					
Employee services	10,254	10,254	9,779	475	8,320
Materials and supplies	2,750	2,750	3,362	(612)	2,589
Insurance	1,518	1,518	1,332	186	1,548
Repairs and maintenance	1,750	1,750	2,932	(1,182)	10,317
Capital outlay			12,079	(12,079)	
Utilities	9,800	9,800	6,408	3,392	7,755
Total Visitor Center	<u>26,072</u>	<u>26,072</u>	<u>35,892</u>	<u>(9,820)</u>	<u>30,529</u>
Total Government Buildings	<u>164,832</u>	<u>164,832</u>	<u>164,391</u>	<u>441</u>	<u>135,016</u>
Public Safety					
Police Protection					
Contractual services	73,000	73,000	70,678	2,322	70,480
Vehicle expense	4,500	4,500	2,634	1,866	1,913
Materials and supplies	600	600	187	413	85
Insurance	484	484	427	57	442
Repairs and maintenance	1,000	1,000	898	102	471
Miscellaneous	750	750	709	41	625
Total Police Protection	<u>80,334</u>	<u>80,334</u>	<u>75,533</u>	<u>4,801</u>	<u>74,016</u>
Fire Protection					
Firemen's relief	<u>17,000</u>	<u>17,000</u>	<u>15,911</u>	<u>1,089</u>	<u>13,442</u>
Animal Control	<u>5,090</u>	<u>5,090</u>	<u>3,587</u>	<u>1,503</u>	<u>4,819</u>
Pest Control	<u>5,000</u>	<u>5,000</u>	<u>1,373</u>	<u>3,627</u>	
Civil Defense	<u>1,103</u>	<u>1,103</u>	<u>1,516</u>	<u>(413)</u>	<u>1,182</u>
Total Public Safety	<u>\$ 108,527</u>	<u>\$ 108,527</u>	<u>\$ 97,920</u>	<u>\$ 10,607</u>	<u>\$ 93,459</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, 2010
With Comparative Totals for the Year Ended December 31, 2009

	Budgeted Amounts		2010 Actual Amounts	Variance with Final Budget - Positive (Negative)	2009 Actual Amounts
	Original	Final			
EXPENDITURES (Continued)					
Streets and Highway					
Employee services	\$ 24,505	\$ 24,505	\$ 17,746	\$ 6,759	\$ 18,036
Vehicle expense	4,000	4,000	2,714	1,286	3,461
Materials and supplies	10,750	10,750	10,489	261	8,227
Insurance	3,131	3,131	2,941	190	2,789
Repairs and maintenance	14,500	14,500	13,577	923	57,161
Snow and ice	29,265	29,265	28,908	357	25,430
Building maintenance	21,188	21,188	22,452	(1,264)	20,083
Capital outlay			5,323	(5,323)	
Total Streets and Highway	107,339	107,339	104,150	3,189	135,187
Unallocated					
Insurance	6,296	6,296	5,627	669	5,784
Lodging tax	5,000	5,000	4,038	962	3,975
Community events	5,000	5,000	6,512	(1,512)	6,608
Community development	13,000	13,000	7,768	5,232	12,269
Total Unallocated	29,296	29,296	23,945	5,351	28,636
TOTAL EXPENDITURES	525,919	525,919	494,479	31,440	498,654
Excess of revenues over expenditures	440,269	440,269	448,634	8,365	401,634
Other Financing Sources (Uses)					
Transfers in	5,000	5,000	4,992	(8)	44,334
Transfers out	(369,690)	(369,690)	(394,684)	(24,994)	(290,436)
Total Other Financing Sources (Uses)	(364,690)	(364,690)	(389,692)	(25,002)	(246,102)
Net change in fund balance	75,579	75,579	58,942	(16,637)	155,532
FUND BALANCE - Beginning	587,728	587,728	587,728		432,196
FUND BALANCE - Ending	\$ 663,307	\$ 663,307	\$ 646,670	\$ (16,637)	\$ 587,728

See Notes to Financial Statements

CITY OF HARMONY, MINNESOTA
FIRE FUND
Schedule of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2010
With Comparative Totals for the Year Ended December 31, 2009

	Budgeted Amounts		2010 Actual Amounts	Variance with Final Budget Positive (Negative)	2009 Actual Amounts
	Original	Final			
REVENUES					
Charges for Services					
Service fees	\$ 5,000	\$ 5,000	\$ 6,722	\$ 1,722	\$ 11,800
Intergovernmental					
Contracts	35,000	35,000	38,032	3,032	36,216
Grants			2,200	2,200	27,126
Total Intergovernmental	35,000	35,000	40,232	5,232	63,342
Miscellaneous					
Donations	3,500	3,500	10,191	6,691	17,892
Other			120	120	773
Total Miscellaneous	3,500	3,500	10,311	6,811	18,665
TOTAL REVENUES	43,500	43,500	57,265	13,765	93,807
EXPENDITURES					
Public Safety					
Salaries and wages	12,389	12,389	12,373	16	14,542
Insurance	5,451	5,451	5,003	448	5,003
Repair and maintenance	7,200	7,200	2,720	4,480	11,180
Utilities	7,950	7,950	5,621	2,329	5,997
Supplies	10,850	10,850	6,344	4,506	8,343
Miscellaneous	6,650	6,650	6,779	(129)	4,353
Capital outlay			7,160	(7,160)	37,148
TOTAL EXPENDITURES	50,490	50,490	46,000	4,490	86,566
EXCESS (DEFICIT) REVENUES OVER (UNDER) EXPENDITURES	(6,990)	(6,990)	11,265	18,255	7,241
Other Financing Sources					
Transfers in	44,250	44,250	129,703	(85,453)	23,496
Transfers out	(35,000)	(35,000)	(24,996)	10,004	(9,996)
Total Other Financing Sources	9,250	9,250	104,707	(75,449)	13,500
NET CHANGE IN FUND BALANCE	2,260	2,260	115,972	(57,194)	20,741
FUND BALANCE, JANUARY 1	(69,737)	(69,737)	(69,737)		(90,478)
FUND BALANCE, DECEMBER 31	\$ (67,477)	\$ (67,477)	\$ 46,235	\$ (57,194)	\$ (69,737)

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, 2010
With Comparative Totals for the Year Ended December 31, 2009

	Budgeted Amounts		2010 Actual Amounts	Variance with Final Budget Positive (Negative)	2009 Actual Amounts
	Original	Final			
REVENUES					
Charges for Services					
Service fees	\$ 125,000	\$ 125,000	\$ 159,833	\$ 34,833	\$ 165,259
Intergovernmental Revenues	19,130	19,130	19,130		19,130
Miscellaneous					
Investment income			1,914	1,914	3,556
Contributions			194	194	2,205
Other	5,700	5,700	6,999	1,299	12,295
Total Miscellaneous	5,700	5,700	9,107	3,407	18,056
TOTAL REVENUES	149,830	149,830	188,070	38,240	202,445
EXPENDITURES					
Public Safety					
Salaries and wages	48,064	48,064	58,367	(10,303)	56,880
Insurance	3,790	3,790	3,967	(177)	3,354
Repair and maintenance	11,250	11,250	9,131	2,119	10,646
Travel, schools, conferences	4,575	4,575	4,849	(274)	4,630
Miscellaneous	9,000	9,000	7,449	1,551	9,821
Medicare write-offs	35,000	35,000	44,802	(9,802)	28,442
Capital outlay	61,500	61,500	96,468	(34,968)	7,518
TOTAL EXPENDITURES	173,179	173,179	225,033	(51,854)	121,291
EXCESS (DEFICIT) REVENUES OVER (UNDER) EXPENDITURES	(23,349)	(23,349)	(36,963)	(13,614)	81,154
Other Financing Sources					
Transfers in	60,000	60,000	60,000		
Transfers out	(27,500)	(27,500)	(27,492)	8	(27,492)
Total Other Financing Sources	32,500	32,500	32,508	8	(27,492)
NET CHANGE IN FUND BALANCE	9,151	9,151	(4,455)	(13,606)	53,662
FUND BALANCE, JANUARY 1	255,214	255,214	255,214		201,552
FUND BALANCE, DECEMBER 31	\$ 264,365	\$ 264,365	\$ 250,759	\$ (13,606)	\$ 255,214

See Notes to Financial Statements

CITY OF HARMONY, MINNESOTA
PROPRIETARY FUNDS
Statement of Net Assets
December 31, 2010
With Comparative Totals for December 31, 2009

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>601</u> Water Fund	<u>602</u> Sewer Fund	<u>604</u> Electric Fund
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 53,739	\$ 159,571	\$ 319,246
Accounts receivable	16,094	28,432	90,400
Special assessments		6,627	2,006
Due from other funds			235,774
Prepaid expense	867	991	1,399
Inventory	11,409		25,286
Total Current Assets	<u>82,109</u>	<u>195,621</u>	<u>674,111</u>
Noncurrent Assets:			
Capital assets:			
Nondepreciable	1,150	14,400	5,000
Depreciable	773,651	2,600,842	1,519,426
Less: Accumulated depreciation	(184,080)	(784,036)	(855,740)
Net capital assets	<u>590,721</u>	<u>1,831,206</u>	<u>668,686</u>
Total Assets	<u>672,830</u>	<u>2,026,827</u>	<u>1,342,797</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	2,136	11,358	74,341
Accrued liabilities	846	745	4,685
Due to other funds			
Customer deposits			10,895
Accrued interest payable		7,213	
Accrued compensated absences	10,758	12,279	6,243
Current maturities of bonds payable		<u>152,620</u>	
Total Current Liabilities	<u>13,740</u>	<u>184,215</u>	<u>96,164</u>
Noncurrent Liabilities:			
Bonds payable, net of current maturities, discount, and issuance costs		<u>691,419</u>	
Total Liabilities	<u>13,740</u>	<u>875,634</u>	<u>96,164</u>
NET ASSETS			
Invested in capital assets, net of related debt	590,721	987,167	668,686
Unrestricted	<u>68,369</u>	<u>164,026</u>	<u>577,947</u>
Total Net Assets	<u>\$ 659,090</u>	<u>\$ 1,151,193</u>	<u>\$ 1,246,633</u>

See Notes to Financial Statements

Business-Type Activities - Enterprise Funds

621 Heritage Grove	603 Garbage and Recycling Fund	605 Storm Water Fund	TOTALS	
			2010	2009
\$ 25,248	\$ 25,022	\$ 1,553	\$ 584,379	\$ 787,926
29,691	5,083	753	170,453	160,313
			8,633	9,550
			235,774	49,117
8,454	33	156	11,900	11,114
			36,695	32,273
<u>63,393</u>	<u>30,138</u>	<u>2,462</u>	<u>1,047,834</u>	<u>1,050,293</u>
147,564			168,114	168,114
2,910,763		760,884	8,565,566	8,417,023
(943,319)		(212,593)	(2,979,768)	(2,708,542)
<u>2,115,008</u>		<u>548,291</u>	<u>5,753,912</u>	<u>5,876,595</u>
<u>2,178,401</u>	<u>30,138</u>	<u>550,753</u>	<u>6,801,746</u>	<u>6,926,888</u>
9,011	300		97,146	96,753
10,982	335	27	17,620	15,026
10,047			10,047	13,129
14,400			25,295	24,995
8,452			15,665	17,780
	3,179	1,142	33,601	29,206
<u>105,000</u>			<u>257,620</u>	<u>255,157</u>
<u>157,892</u>	<u>3,814</u>	<u>1,169</u>	<u>456,994</u>	<u>452,046</u>
<u>2,173,624</u>			<u>2,865,043</u>	<u>3,116,822</u>
<u>2,331,516</u>	<u>3,814</u>	<u>1,169</u>	<u>3,322,037</u>	<u>3,568,868</u>
(163,616)		548,291	2,631,249	2,504,616
<u>10,501</u>	<u>26,324</u>	<u>1,293</u>	<u>848,460</u>	<u>853,404</u>
<u>\$ (153,115)</u>	<u>\$ 26,324</u>	<u>\$ 549,584</u>	<u>\$ 3,479,709</u>	<u>\$ 3,358,020</u>

**CITY OF HARMONY, MINNESOTA
 PROPRIETARY FUNDS
 Statement of Revenues, Expenses and
 Changes in Fund Net Assets**

For the Year Ended December 31, 2010

With Comparative Totals for the Year Ended December 31, 2009

	Business-Type Activities - Enterprise Funds		
	601 Water Fund	602 Sewer Fund	604 Electric Fund
Operating Revenues			
Sales and rentals	\$ 162,348	\$ 288,682	\$ 882,453
Operating Expenses			
Salaries and wages	44,496	44,691	26,714
Service contracts	750	956	
Purchased power			722,518
Materials and supplies	34,468	9,431	4,873
Utilities	12,696	55,481	13,905
Repairs and maintenance	39,949	27,201	45,415
Travel and training	2,595	2,499	
Professional fees	1,625	8,144	3,819
Miscellaneous	2,161	1,656	3,915
Insurance	2,857	3,421	6,785
Depreciation/amortization	18,331	83,656	41,239
Total Operating Expenses	<u>159,928</u>	<u>237,136</u>	<u>869,183</u>
Operating Income (Loss)	<u>2,420</u>	<u>51,546</u>	<u>13,270</u>
Nonoperating Revenues (Expenses)			
Special assessments		2,822	581
Investment income	531	1,206	5,742
Other revenue (expense)	143	396	10,636
Interest expense and fiscal charges		(20,717)	
Total Nonoperating Revenues (Expenses)	<u>674</u>	<u>(16,293)</u>	<u>16,959</u>
Income (Loss) Before Transfers	3,094	35,253	30,229
Transfers in	70,000	74,436	
Transfers out	<u>(63,492)</u>	<u>(3,492)</u>	<u>(18,000)</u>
Change in net assets	9,602	106,197	12,229
Total Net Assets - Beginning of Year	<u>649,488</u>	<u>1,044,996</u>	<u>1,234,404</u>
Total Net Assets - End of Year	<u>\$ 659,090</u>	<u>\$ 1,151,193</u>	<u>\$ 1,246,633</u>

Business-Type Activities - Enterprise Funds

621 Heritage Grove	603 Garbage and Recycling Fund	605 Storm Water Fund	TOTALS	
			2010	2009
\$ 643,109	\$ 53,017	\$ 9,690	\$ 2,039,299	\$ 2,112,093
296,331	13,796	3,799	429,827	423,482
32,044	30,944		64,694	71,173
			722,518	676,922
45,624	1,513	375	96,284	74,084
38,901			120,983	117,937
26,231		400	139,196	73,752
257			5,351	4,422
3,067	1,625		18,280	23,349
32,177	294		40,203	42,673
56,542		603	70,208	70,573
114,819		19,022	277,067	271,179
<u>645,993</u>	<u>48,172</u>	<u>24,199</u>	<u>1,984,611</u>	<u>1,849,546</u>
(2,884)	4,845	(14,509)	54,688	262,547
			3,403	9,550
513	273		8,265	14,461
			11,175	15,649
<u>(106,080)</u>		<u>(5)</u>	<u>(126,802)</u>	<u>(135,683)</u>
<u>(105,567)</u>	<u>273</u>	<u>(5)</u>	<u>(103,959)</u>	<u>(96,023)</u>
(108,451)	5,118	(14,514)	(49,271)	166,524
115,000			259,436	698,572
	(996)	(2,496)	(88,476)	(693,316)
6,549	4,122	(17,010)	121,689	171,780
<u>(159,664)</u>	<u>22,202</u>	<u>566,594</u>	<u>3,358,020</u>	<u>3,186,240</u>
<u>\$ (153,115)</u>	<u>\$ 26,324</u>	<u>\$ 549,584</u>	<u>\$ 3,479,709</u>	<u>\$ 3,358,020</u>

CITY OF HARMONY, MINNESOTA
PROPRIETARY FUNDS
Statement of Cash Flows
For the Year Ended December 31, 2010
With Comparative Totals for the Year Ended December 31, 2009

	Business-Type Activities - Enterprise Funds		
	601 Water Fund	602 Sewer Fund	604 Electric Fund
Cash Flows From Operating Activities			
Cash received from customers	\$ 158,851	\$ 286,873	\$ 883,519
Cash payments to suppliers	(99,033)	(107,288)	(797,379)
Cash payments to employees or on their behalf	(43,149)	(44,835)	(25,638)
Other cash payments			900
Net Cash Provided By Operating Activities	<u>16,669</u>	<u>134,750</u>	<u>61,402</u>
Cash Flows From Capital and Related Financing Activities			
Acquisition and construction of capital assets	(38,784)	(3,913)	(104,488)
Principal payments on bonds		(150,157)	
Interest paid on bonds		(20,717)	
Due to/from other funds			(186,657)
Special assessments received		2,822	762
Net Cash Used In Capital and Related Financing Activities	<u>(38,784)</u>	<u>(171,965)</u>	<u>(290,383)</u>
Cash Flows From Non-Capital Financing Activities			
Transfers in (out) to other funds	6,508	70,944	(18,000)
Other income (expense)	143	396	10,636
Net Cash Used In Non-Capital Financing Activities	<u>6,651</u>	<u>71,340</u>	<u>(7,364)</u>
Cash Flows From Investing Activities			
Investment earnings received	531	1,206	5,742
Net Increase (Decrease) in Cash and Cash Equivalents	(14,933)	35,331	(230,603)
Cash and Cash Equivalents, Beginning of Year	<u>68,672</u>	<u>124,240</u>	<u>549,849</u>
Cash and Cash Equivalents, End of Year	<u>\$ 53,739</u>	<u>\$ 159,571</u>	<u>\$ 319,246</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	\$ 2,420	\$ 51,546	\$ 13,270
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	18,331	83,656	41,239
(Increase) Decrease In:			
Accounts receivable	(2,093)	(1,405)	4,060
Prepaid expenses	(32)	(404)	56
Inventory	(1,372)		(3,050)
Increase (Decrease) In:			
Accounts payable	(2,682)	2,302	3,851
Accrued interest payable		(1,757)	
Accrued liabilities	2,097	812	1,076
Customer deposits			900
Net Cash Provided By Operating Activities	<u>\$ 16,669</u>	<u>\$ 134,750</u>	<u>\$ 61,402</u>

See Notes to Financial Statements

Business-Type Activities - Enterprise Funds				
621 Heritage Grove	603 Garbage and Recycling Fund	605 Storm Water Fund	TOTALS	
			2010	2009
\$ 633,058	\$ 52,847	\$ 9,539	\$ 2,024,687	\$ 2,101,794
(206,919)	(3,348)	(1,378)	(1,215,345)	(1,092,299)
(326,307)	(44,003)	(3,600)	(487,532)	(500,609)
			900	(426)
<u>99,832</u>	<u>5,496</u>	<u>4,561</u>	<u>322,710</u>	<u>508,460</u>
(1,358)			(148,543)	(134,936)
(105,000)			(255,157)	(247,774)
(106,080)		(5)	(126,802)	(135,682)
(2,575)		(507)	(189,739)	
			3,584	7,363
<u>(215,013)</u>		<u>(512)</u>	<u>(716,657)</u>	<u>(511,029)</u>
115,000	(996)	(2,496)	170,960	5,763
			11,175	15,648
<u>115,000</u>	<u>(996)</u>	<u>(2,496)</u>	<u>182,135</u>	<u>21,411</u>
513	273		8,265	14,461
332	4,773	1,553	(203,547)	33,303
<u>24,916</u>	<u>20,249</u>		<u>787,926</u>	<u>754,623</u>
<u>\$ 25,248</u>	<u>\$ 25,022</u>	<u>\$ 1,553</u>	<u>\$ 584,379</u>	<u>\$ 787,926</u>

Business-Type Activities - Enterprise Funds				
621 Heritage Grove	603 Garbage Fund	605 Storm Water Fund	TOTALS	
			2010	2009
\$ (2,884)	\$ 4,845	\$ (14,509)	\$ 54,688	\$ 262,547
114,819		19,022	277,067	271,179
(9,805)	(166)	5	(9,404)	(23,256)
(246)	(4)	(156)	(786)	(1,408)
			(4,422)	(1,733)
(3,162)	84		393	(4,765)
(358)			(2,115)	(2,022)
2,068	737	199	6,989	(5,954)
(600)			300	250
<u>\$ 99,832</u>	<u>\$ 5,496</u>	<u>\$ 4,561</u>	<u>\$ 322,710</u>	<u>\$ 494,838</u>

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CITY OF HARMONY, MINNESOTA
Statement of Fiduciary Net Assets
 December 31, 2010
With Comparative Totals for December 31, 2009

	2010	2009
Assets		
Cash and cash equivalents	\$ 14,032	\$ 13,753
Net Assets		
Unrestricted	\$ 14,032	\$ 13,753

CITY OF HARMONY, MINNESOTA
Statement of Changes in Fiduciary Net Assets
 For the Year Ended December 31, 2010
With Comparative Totals for the Year Ended December 31, 2009

	2010	2009
Additions to		
Investment income	\$ 279	\$ 199
Increase in Net Assets	279	199
Net Assets - Beginning of Year	13,753	13,554
Net Assets - End of Year	\$ 14,032	\$ 13,753

See Notes to Financial Statements

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CITY OF HARMONY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The City of Harmony, Minnesota was first incorporated in 1896. The City operates under the "optional Plan A" form of government as defined by Minnesota State Statutes which prescribes a Mayor-Council form of government. Four Council members are elected to four year terms and the Mayor is elected to two year terms.

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, Minnesota.

Component Units - Component units are legally separate organizations for which the elected officials of the City are financially accountable or for which the nature or significance of their relationship with the City 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, Minnesota.

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.

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.

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)

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 *Fire fund* accounts for the activities for the fire service.

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

The *TIF #1 fund* accounts for the activities related to TIF #1 district.

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

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.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

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, Minnesota.

Reclassifications

Certain amounts in the 2009 financial statements have been reclassified to conform to the 2010 presentation.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments

Summary of Cash and Investments

As of December 31, 2010, 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	377,751
Money Market Mutual Funds	None	N/A	277,930
Non-Negotiable CD's	January - December 2011	Unrated	<u>1,300,000</u>
Cash and Investments per Statement of Net Assets			<u>\$ 1,956,046</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, Minnesota 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, 2010 is \$215,682.

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, 2010 is \$10,047.

4. Due From Other Governmental Units

Amounts due from other governmental units at December 31, 2010 are as follows:

<u>Fund</u>	<u>Fillmore County</u>
General	\$ 5,721
Debt Service	451
Capital Projects	<u>448</u>
	<u>\$ 6,620</u>

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Capital Assets

Capital asset activity for the year ended December 31, 2010 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 289,318	\$	\$	\$ 289,318
Construction in progress		263,084		263,084
Total capital assets, not being depreciated	289,318	263,084		552,402
Capital assets, being depreciated:				
Buildings and improvements	1,208,836	5,709		1,214,545
Vehicles	904,233	96,468	60,549	940,152
Machinery and other equipment	416,336	46,598		462,934
Infrastructure (e.g. streets)	2,717,103	8,368		2,725,471
Total capital assets, being depreciated	5,246,508	157,143	60,549	5,343,102
Less accumulated depreciation for:				
Buildings and improvements	545,908	61,129		607,037
Vehicles	403,720	58,249	30,275	431,694
Machinery and other equipment	245,257	35,006		280,263
Infrastructure (e.g. streets)	1,351,534	34,795		1,386,329
Total accumulated depreciation	2,546,419	189,179	30,275	2,705,323
Total capital assets, being depreciated, net	2,700,089	(32,036)	30,274	2,637,779
Governmental activities capital assets, net	\$ 2,989,407	\$ 231,048	\$ 30,274	\$ 3,190,181

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
Government buildings	\$ 28,058
Public safety	70,954
Streets and highways	75,617
Culture and recreation	14,550
Total depreciation expense - governmental activities	\$ 189,179

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
Total capital assets, not being depreciated	168,114			168,114
Capital assets, being depreciated:				
Buildings and improvements	4,808,534			4,808,534
Machinery and other equipment	346,997	44,055		391,052
Vehicles	52,807			52,807
Infrastructure (e.g. utilities)	3,208,685	104,488		3,313,173
Total capital assets, being depreciated	8,417,023	148,543		8,565,566
Less accumulated depreciation for:				
Buildings and improvements	1,529,196	179,395		1,708,591
Machinery and other equipment	74,759	11,884		86,643
Vehicles	52,807			52,807
Infrastructure (e.g. utilities)	1,051,780	79,947		1,131,727
Total accumulated depreciation	2,708,542	271,226		2,979,768
Total capital assets, being depreciated, net	5,708,481	(122,683)		5,585,798
Business-type activities capital assets, net	\$ 5,876,595	\$ (122,683)	\$	\$ 5,753,912

Depreciation expense was charged to functions/programs as follows:

Business-Type Activities:	
Water	\$ 18,331
Sewer	83,656
Electric	41,239
Heritage Grove	108,978
Storm Water	19,022
Total depreciation expense - business-type activities	\$ 271,226

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. The 2010A Improvement Bonds were issued to finance the Third St. Project. 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, 2010 balances is as follows:

	Range of Interest Rates	Final Maturity	Balance December 31, 2010
General Obligation Improvement Bonds			
Series 2002B Refunding and Improvement	2.00 - 4.30%	2013	\$ 150,000
Series 2004A Refunding and Improvement	3.15%	2011	5,000
Series 2010A Improvement	3.25%	2018	203,600
General Obligation Revenue Notes			
Series 1993 - PFA	3.34%	2014	266,039
Series 2004 - PFA	1.00%	2023	443,000
General Obligation Revenue Bonds			
Series 2002A Water and Sewer	2.00 - 4.30%	2013	135,000
2008 EDA Housing Refunding Bonds	4.10 - 4.60%	2026	2,375,000
Other			
Promissory Note - USDA	4.375%	2019	104,589
Promissory Note - USDA	4.25%	2019	50,453
Promissory Note - USDA	4.50%	2024	234,162
Total			<u>\$ 3,966,843</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, 2010 are as follows:

	Beginning Balance	Additions	Debt Reductions	Other Additions / Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES						
General Obligation Improvement Bonds:						
Series 2002B Refunding and Improvement	\$ 200,000	\$	\$ 50,000	\$	\$ 150,000	\$ 50,000
Series 2003 Refunding	38,000		38,000			
Series 2004A Refunding	45,000		40,000		5,000	5,000
Series 2010A Improvement		203,600			203,600	
General Obligation Tax Increment Bonds:						
Series 2004A	60,000		60,000			
Other:						
Promissory Note - USDA	113,915		9,326		104,589	9,734
Promissory Note - USDA	54,981		4,528		50,453	4,721
Promissory Note - USDA	246,000		11,838		234,162	12,371
Compensated Absences	46,045			7,243	53,288	
Governmental Activities Long-term Liabilities	803,941	203,600	213,692	7,243	801,092	81,826
BUSINESS-TYPE ACTIVITIES						
General Obligation Revenue Notes:						
Series 1993 - PFA	339,196		73,157		266,039	75,620
Series 2004 - PFA	475,000		32,000		443,000	32,000
General Obligation Revenue Bonds:						
Series 2002A Water and Sewer	180,000		45,000		135,000	45,000
2008 EDA Housing Refunding Bonds	2,480,000		105,000		2,375,000	105,000
Compensated Absences	29,206			4,395	33,601	
Unamortized Discount and Issue Costs	(102,217)			(5,841)	(96,376)	
Business-type Activities Long-term Liabilities	3,401,185		255,157	(1,446)	3,156,264	257,620
Total	\$ 4,205,126	\$ 203,600	\$ 468,849	\$ 5,797	\$ 3,957,356	\$ 339,446

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, 2010 are summarized below.

Years	General Obligation		General Obligation Revenue		Other	
	Principal	Interest	Principal	Interest	Principal	Interest
<u>Governmental Activities</u>						
2011	\$ 65,600	\$ 11,921			\$ 26,826	\$ 17,257
2012	77,000	9,249			28,008	16,075
2013	78,000	6,243			29,245	14,838
2014	30,000	4,241			30,535	13,548
2015	30,000	3,266			31,881	12,202
2016-2020	78,000	3,851			160,560	38,636
2021-2036					82,149	9,443
Totals	<u>\$ 358,600</u>	<u>\$ 38,771</u>			<u>\$ 389,204</u>	<u>\$ 121,999</u>
<u>Business-Type Activities</u>						
2011			\$ 257,620	\$ 118,880		
2012			265,167	109,842		
2013			273,800	100,444		
2014			184,452	91,875		
2015			158,000	86,100		
2016-2020			882,000	344,113		
2021-2025			993,000	171,266		
2025-2030			205,000	9,430		
Totals			<u>\$ 3,219,039</u>	<u>\$ 1,031,950</u>		

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, 2010 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, Minnesota issued \$12,000,000 of Housing Revenue Bonds during 1996. It has also entered into a joint-powers agreement with other participating cities in Minnesota. During 1997, the 1996 Bonds were refunded by three series of Housing Revenue Refunding Bonds. These bonds are special limited obligations of the City, payable solely from rental income sources of the non-profit corporation. The bonds do not constitute a debt of pledge of the faith and credit of the City, and accordingly have not been reported in the accompanying financial statements.

At December 31, 2010, the Housing Revenue Refunding Bonds outstanding aggregated \$8,615,000.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Individual Fund Disclosures

Transfers during the year ended December 31, 2010 were as follows:

Funds	Transfers In	Transfers Out
General Fund:	\$ 4,992	\$ 394,684
Special Revenue:		
Ambulance	60,000	27,492
Park	46,496	6,000
Library	65,004	
Fire	129,703	24,996
Arts	6,000	
EDA	90,000	90,000
Debt Service:		
2003 GO Refunding Bonds		2,759
Capital Projects:		
Capital Projects	190,476	217,700
Enterprise:		
Water	70,000	63,492
Sewer	74,436	3,492
Garbage and recycling		996
Electric		18,000
Storm Water		2,496
Heritage Grove	115,000	
Total Transfers	\$ 852,107	\$ 852,107

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, 2010, at the individual fund level are summarized below:

	Due From Other Funds	Due To Other Funds
General Fund	\$ 164,435	\$
Special Revenue:		
Fire		242,284
Revolving Loan	10,047	
Small Cities Grant		1,998
Capital Projects:		
TIF #5		65,927
Third St. Project		90,000
Enterprise Fund:		
Electric	235,774	
Heritage Grove		10,047
	<u>\$ 410,256</u>	<u>\$ 410,256</u>

At December 31, 2010 the following funds have deficit fund equity:

Special Revenue:		
Small Cities Grant		\$ 1,998
Capital Projects:		
TIF #5		65,927
Third St. Project		63,055
Enterprise Fund:		
Heritage Grove		153,115

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

Excess of expenditures over appropriations at the individual fund level during 2010 are as follows:

Special Revenue:		
Ambulance Fund		\$ 51,854

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, 2010 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	\$ 9,504	\$	\$ 81,439	\$ 151,679	\$ 242,622
Taxes receivable	31,835		3,926	8,789	44,550
Loans receivable		277,342		68,395	345,737
Grants		5,000			5,000
Total	\$ 41,339	\$ 282,342	\$ 85,365	\$ 228,863	\$ 637,909

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, 2010 as follows:

Reserved for Debt Service

Debt Service Funds	
2002 G.O. Improvement Bonds	\$ 43,295
2004 G.O. Increment and Improvement Refund	15,762
2010 G.O. Improvement Bonds	16,997

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, Minnesota are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

GERF 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 GERF 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 GERF. That report may be obtained on the web at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

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. GERS Basic Plan members and Coordinated Plan members are required to contribute 9.1% and 6.0%, respectively, of their annual covered salary in 2010. PEPFF members were required to contribute 9.4% of their annual covered salary in 2010. The City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERS members and 7% for Coordinated Plan GERS Members, and 14.1% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2010, 2009, and 2008 were \$27,887, \$26,890, and \$24,538, 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 2010.

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 2010. 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, 2010

**CITY OF HARMONY, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

December 31, 2010

With Comparative Totals for December 31, 2009

	Special Revenue					
	251 Park	211 Library	202 Small Cities Grant	201 Revolving Loan	261 Arts	620 EDA
ASSETS						
Cash and investments	\$ 21,291	\$ 7,181	\$	\$ 78,822	\$ 16,087	\$ 15,500
Accounts receivable						2,100
Taxes receivable - delinquent						
Special assessments receivable						
Deferred						
Delinquent						
Loan receivable			61,660	215,682		
Due from other funds				10,047		
Due from other governmental units						
Prepaid items	636	139				15
TOTAL ASSETS	\$ 21,927	\$ 7,320	\$ 61,660	\$ 304,551	\$ 16,087	\$ 17,615
LIABILITIES AND FUND BALANCE						
Liabilities:						
Accounts payable	\$ 723	\$ 1,973	\$	\$	\$	\$ 189
Accrued liabilities	36	870				195
Due to other funds			1,998			
Deferred revenue			61,660	215,682		
Total Liabilities	759	2,843	63,658	215,682		384
Fund Balance:						
Reserved for small cities grant			(1,998)			
Reserved for debt service						
Unreserved:						
Designated						
Undesignated	21,168	4,477		88,869	16,087	17,231
Total Fund Balance	21,168	4,477	(1,998)	88,869	16,087	17,231
TOTAL LIABILITIES AND FUND BALANCE	\$ 21,927	\$ 7,320	\$ 61,660	\$ 304,551	\$ 16,087	\$ 17,615

Capital Project			Debt Service				Total Nonmajor Governmental Funds 2010
401 Capital Projects	419 Third St. Project	418 TIF #5	306 2003 G.O. Refunding Bonds	312 2002 G.O. Improvement Bonds	313 2004 G.O. Tax Increment and Improvement Refunding	314 2010 G.O. Improvement Bonds	
\$ 253,408	\$ 29,032	\$	\$	\$ 42,844	\$ 15,762	\$ 16,997	\$ 496,924
				2,733	1,193		2,100
				21,668		58,504	3,926
				1,267			80,172
							1,267
							277,342
							10,047
				451			451
							790
<u>\$ 253,408</u>	<u>\$ 29,032</u>	<u>\$</u>	<u>\$</u>	<u>\$ 68,963</u>	<u>\$ 16,955</u>	<u>\$ 75,501</u>	<u>\$ 873,019</u>
\$	\$ 2,087	\$	\$	\$	\$	\$	\$ 4,972
	90,000	65,927					1,101
				25,668	1,193	58,504	157,925
							362,707
	92,087	65,927		25,668	1,193	58,504	526,705
							(1,998)
				43,295	15,762	16,997	76,054
253,408	(63,055)	(65,927)					253,408
							18,850
<u>253,408</u>	<u>(63,055)</u>	<u>(65,927)</u>		<u>43,295</u>	<u>15,762</u>	<u>16,997</u>	<u>346,314</u>
<u>\$ 253,408</u>	<u>\$ 29,032</u>	<u>\$</u>	<u>\$</u>	<u>\$ 68,963</u>	<u>\$ 16,955</u>	<u>\$ 75,501</u>	<u>\$ 873,019</u>

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

For the Year Ended December 31, 2010

With Comparative Totals for the Year Ended December 31, 2009

	Special Revenue					
	251	211	202	201	261	620
	Park	Library	Small Cities Grant	Revolving Loan	Arts	EDA
REVENUES						
General property taxes	\$	\$	\$	\$	\$	\$
Tax increment						
Special assessments						
Intergovernmental revenues		31,494				
Charges for services	1,210	2,101				
Investment income	332	90		7,381	162	892
Miscellaneous revenues	8,392	709	557	19,217	1,000	1,500
TOTAL REVENUES	9,934	34,394	557	26,598	1,162	2,392
EXPENDITURES						
Streets and highways						
Library		103,792				
Park and recreation	57,540				1,076	
Economic development				52,345		61,915
Debt service						
Unallocated	83					
TOTAL EXPENDITURES	57,623	103,792		52,345	1,076	61,915
Excess (deficiency) of revenues over (under) expenditures	(47,689)	(69,398)	557	(25,747)	86	(59,523)
OTHER FINANCING SOURCES (USES)						
Bond proceeds						
Transfers In	46,496	65,004			6,000	90,000
Transfers out	(6,000)					(90,000)
Total other financing sources (uses)	40,496	65,004			6,000	
Net change in fund balances	(7,193)	(4,394)	557	(25,747)	6,086	(59,523)
Fund Balance - Beginning	28,361	8,871	(2,555)	114,616	10,001	76,754
Fund Balance - Ending	\$ 21,168	\$ 4,477	\$ (1,998)	\$ 88,869	\$ 16,087	\$ 17,231

Capital Projects			Debt Service				Total Nonmajor Governmental Funds 2010
401 Capital Projects	419 Third St. Project	418 TIF #5	306 2003 G.O. Refunding Bonds	312 2002 G.O. Improvement Bonds	313 2004 G.O. Tax Increment and Improvement Refunding	314 2010 G.O. Improvement Bonds	
\$	\$	\$	\$ 1,212	\$ 37,701	\$ 1,412	\$	\$ 40,325
		7,120		8,932	3,978	16,980	7,120
				3,026			29,890
3,570	29	21	65	142	189	17	34,520
							3,311
							12,890
							31,375
<u>3,570</u>	<u>29</u>	<u>7,141</u>	<u>1,277</u>	<u>49,801</u>	<u>5,579</u>	<u>16,997</u>	<u>159,431</u>
	263,084						263,084
							103,792
							58,616
		3,741	38,665	57,654	40,788		114,260
							140,848
							83
	<u>263,084</u>	<u>3,741</u>	<u>38,665</u>	<u>57,654</u>	<u>40,788</u>		<u>680,683</u>
3,570	(263,055)	3,400	(37,388)	(7,853)	(35,209)	16,997	(521,252)
	200,000						200,000
190,476							397,976
(217,700)			(2,759)				(316,459)
(27,224)	200,000		(2,759)				281,517
(23,654)	(63,055)	3,400	(40,147)	(7,853)	(35,209)	16,997	(239,735)
277,062		(69,327)	40,147	51,148	50,971		586,049
<u>\$ 253,408</u>	<u>\$ (63,055)</u>	<u>\$ (65,927)</u>	<u>\$</u>	<u>\$ 43,295</u>	<u>\$ 15,762</u>	<u>\$ 16,997</u>	<u>\$ 346,314</u>

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CITY OF HARMONY, MINNESOTA

SUPPLEMENTAL INFORMATION

DECEMBER 31, 2010

SCHEDULE 1

**CITY OF HARMONY, MINNESOTA
WATER FUND**

**Statement of Revenues, Expenses
and Changes in Fund Net Assets**

For the Year Ended December 31, 2010

With Comparative Totals for the Year Ended December 31, 2009

	2010	2009
Operating Revenue		
Sales and rentals	\$ 162,348	\$ 152,659
Operating Expenses		
Salaries and wages	44,496	40,698
Service contracts	750	800
Materials and supplies	34,468	15,134
Utilities	12,696	11,827
Repairs and maintenance	39,949	6,207
Travel and training	2,595	1,615
Professional services	1,625	1,375
Miscellaneous	2,161	1,265
Insurance	2,857	2,557
Depreciation/amortization	18,331	16,274
Total Operating Expenses	<u>159,928</u>	<u>97,752</u>
Operating Income	<u>2,420</u>	<u>54,907</u>
Nonoperating Revenues (Expenses)		
Investment income	531	1,621
Other revenue	143	47
Total Nonoperating Revenues (Expenses)	<u>674</u>	<u>1,668</u>
INCOME BEFORE TRANSFERS	3,094	56,575
Transfers in	70,000	
Transfers out	<u>(63,492)</u>	<u>(84,492)</u>
Change in net assets	9,602	(27,917)
Net Assets - Beginning of Year	<u>649,488</u>	<u>677,405</u>
Net Assets - End of Year	<u>\$ 659,090</u>	<u>\$ 649,488</u>

SCHEDULE 2

CITY OF HARMONY, MINNESOTA
SEWER FUND

Statement of Revenues, Expenses
and Changes in Fund Net Assets

For the Year Ended December 31, 2010

With Comparative Totals for the Year Ended December 31, 2009

	2010	2009
Operating Revenue		
Sales and rentals	\$ 288,682	\$ 282,805
Operating Expenses		
Salaries and wages	44,691	46,823
Service contracts	956	1,058
Materials and supplies	9,431	3,789
Utilities	55,481	50,815
Repairs and maintenance	27,201	16,487
Travel and training	2,499	2,490
Professional fees	8,144	11,271
Miscellaneous	1,656	1,877
Insurance	3,421	1,648
Depreciation/amortization	83,656	81,913
Total Operating Expenses	<u>237,136</u>	<u>218,171</u>
Operating Income	<u>51,546</u>	<u>64,634</u>
Nonoperating Revenues (Expenses)		
Special assessments	2,822	7,363
Investment income	1,206	1,696
Other revenue	396	30
Interest expense and fiscal charges	(20,717)	(25,441)
Total Nonoperating Revenues (Expenses)	<u>(16,293)</u>	<u>(16,352)</u>
INCOME BEFORE TRANSFERS	35,253	48,282
Transfers in	74,436	84,436
Transfers out	<u>(3,492)</u>	<u>(589,828)</u>
Change in net assets	106,197	(457,110)
Net Assets - Beginning of Year	<u>1,044,996</u>	<u>1,502,106</u>
Net Assets - End of Year	<u>\$ 1,151,193</u>	<u>\$ 1,044,996</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, 2010
With Comparative Totals for the Year Ended December 31, 2009

	2010	2009
Operating Revenue		
Sales and rentals	\$ 882,453	\$ 831,032
Operating Expenses		
Salaries and wages	26,714	24,958
Purchased power	722,518	676,922
Materials and supplies	4,873	3,380
Utilities	13,905	13,123
Repairs and maintenance	45,415	30,228
Professional fees	3,819	2,990
Miscellaneous	3,915	2,117
Insurance	6,785	6,807
Depreciation/amortization	41,239	39,218
Total Operating Expenses	<u>869,183</u>	<u>799,743</u>
Operating Income	<u>13,270</u>	<u>31,289</u>
Nonoperating Revenues (Expenses)		
Special assessments	581	2,187
Investment income	5,742	9,521
Other revenue	10,636	15,572
Total Nonoperating Revenues (Expenses)	<u>16,959</u>	<u>27,280</u>
INCOME BEFORE TRANSFERS	30,229	58,569
Transfers in		27,800
Transfers out	<u>(18,000)</u>	<u>(18,000)</u>
Change in net assets	12,229	68,369
Net Assets - Beginning of Year	<u>1,234,404</u>	<u>1,166,035</u>
Net Assets - End of Year	<u>\$ 1,246,633</u>	<u>\$ 1,234,404</u>

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, 2010

With Comparative Totals for the Year Ended December 31, 2009

	2010	2009
Operating Revenue		
Sales and rentals	\$ 643,109	\$ 786,537
Operating Expenses		
Salaries and wages	296,331	294,415
Service contracts	32,044	39,283
Materials and supplies	45,624	50,425
Utilities	38,901	42,172
Repairs and maintenance	26,231	18,205
Travel and training	257	317
Professional fees	3,067	6,338
Miscellaneous	32,177	36,748
Insurance	56,542	59,561
Depreciation/amortization	114,819	114,752
Total Operating Expenses	<u>645,993</u>	<u>662,216</u>
Operating Income (Loss)	<u>(2,884)</u>	<u>124,321</u>
Nonoperating Revenues (Expenses)		
Investment income	513	1,287
Interest expense and fiscal charges	<u>(106,080)</u>	<u>(110,218)</u>
Total Nonoperating Revenues (Expenses)	<u>(105,567)</u>	<u>(108,931)</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>(108,451)</u>	<u>15,390</u>
Transfers in	<u>115,000</u>	
Change in net assets	6,549	15,390
Net Assets - Beginning of Year	<u>(159,664)</u>	<u>(175,054)</u>
Net Assets - End of Year	<u>\$ (153,115)</u>	<u>\$ (159,664)</u>

SCHEDULE 5

CITY OF HARMONY, MINNESOTA
 GARBAGE AND RECYCLING FUND
 Statement of Revenues, Expenses
 and Changes in Fund Net Assets

For the Year Ended December 31, 2010

With Comparative Totals for the Year Ended December 31, 2009

	2010	2009
Operating Revenue		
Sales and rentals	\$ 53,017	\$ 52,593
Operating Expenses		
Salaries and wages	13,796	12,173
Service contracts	30,944	30,032
Materials and supplies	1,513	1,233
Professional services	1,625	1,375
Miscellaneous	294	666
Total Operating Expenses	<u>48,172</u>	<u>45,479</u>
Operating Income	<u>4,845</u>	<u>7,114</u>
Nonoperating Revenues (Expenses)		
Investment income	<u>273</u>	<u>336</u>
INCOME BEFORE TRANSFERS	5,118	7,450
Transfers out	<u>(996)</u>	<u>(996)</u>
Change in net assets	4,122	6,454
Net Assets - Beginning of Year	<u>22,202</u>	<u>15,748</u>
Net Assets - End of Year	<u>\$ 26,324</u>	<u>\$ 22,202</u>

CITY OF HARMONY, MINNESOTA
STORM WATER FUND
Statement of Revenues, Expenses
and Changes in Fund Net Assets
For the Year Ended December 31, 2010
With Comparative Totals for the Year Ended December 31, 2009

	2010	2009
Operating Revenue		
Sales and rentals	\$ 9,690	\$ 6,467
Operating Expenses		
Salaries and wages	3,799	4,415
Materials and supplies	375	123
Repairs and maintenance	400	2,625
Insurance	603	
Depreciation/amortization	19,022	19,022
Total Operating Expenses	<u>24,199</u>	<u>26,185</u>
Operating Loss	<u>(14,509)</u>	<u>(19,718)</u>
Nonoperating Revenues (Expenses)		
Interest expense	<u>(5)</u>	<u>(24)</u>
LOSS BEFORE TRANSFERS	<u>(14,514)</u>	<u>(19,742)</u>
Transfers in		586,336
Transfers out	<u>(2,496)</u>	
Change in net assets	<u>(17,010)</u>	566,594
Net Assets - Beginning of Year	<u>566,594</u>	
Net Assets - End of Year	<u>\$ 549,584</u>	<u>\$ 566,594</u>

AUDITOR'S REPORT ON COMPLIANCE

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

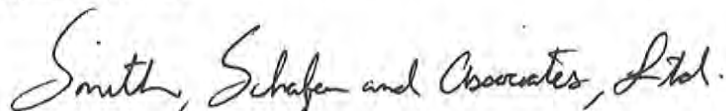
We have audited the financial statements of the City of Harmony, Minnesota as of and for the year ended December 31, 2010 and have issued our report thereon dated March 29, 2011.

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
March 29, 2011

