

CITY OF HARMONY, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2011

CITY OF HARMONY, MINNESOTA

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CITY OF HARMONY, MINNESOTA

INTRODUCTORY SECTION

DECEMBER 31, 2011

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CITY OF HARMONY, MINNESOTA

CITY OFFICIALS

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

December 31, 2011

Steve Donney	Mayor
Dan Tieffenbacher	Council Member
Gerald Shuck	Council Member
Jim Bakken	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, 2011

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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, 2011, 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 2010 financial statements and, in our report dated March 29, 2011 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, 2011, 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.

As discussed in the notes to the financial statements, City of Harmony, Minnesota adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of and for the year ended December 31, 2011. This statement results in the City reporting non-spendable, restricted, committed, assigned and unassigned fund balances in its governmental funds.

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, 2012

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, 2011. 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 \$8,191,737 (*net assets*). Of this amount, \$2,645,031 (*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 \$1,344,729, of which 77 percent is available for use with the City's designations.
- As the end of the fiscal year, unrestricted fund balance of the general fund was \$638,963, or 122 percent of total general fund expenditures.
- The City of Harmony decreased its existing debt principal by \$350,046 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. The government-wide financial statements can be found on pages 14-16 of this report.

CITY OF HARMONY, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, implemented this year have redefined the fund balance classifications. Fund balance is now classified as non-spendable, restricted, committed, assigned or unassigned according to the following definitions:

Non-spendable – representing that portion of fund balance that is not in a spendable form. Included in this category are advances to other funds, prepaid items and inventory.

Restricted – reports resources that have external constraints placed upon their use.

Committed – reports those resources for a specific purpose by Council action. The constraints cannot be changed or removed without Council action.

Assigned – represents the portion of fund balance that reflects the amounts the City intends to use for a specific purpose.

Unassigned – comparable to the old unreserved, undesignated classification of fund balance, this represents the amount available for any purpose. However, only the General Fund may report a positive fund balance. Fund balance in other governmental funds will fall into one or more of the categories listed above, unless a fund has a negative fund balance.

Detailed information regarding the fund balance classifications are found in Note 9 in the Notes to Financial Statements.

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

The City of Harmony maintains 16 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, fire fund, ambulance fund, and TIF#1 fund. Data from the other 12 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.

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

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 34-56 of this report.

Other Information. The combining statements referred to earlier in connection with non-major governmental funds can be found on pages 57-60.

Financial Analysis of the City

As noted earlier, net assets may serve, over time, as a useful indicator of a city's financial position. In the case of the City of Harmony, assets exceeded liabilities by \$8,191,737 at the close of the fiscal year, with \$4,575,468 of these net assets from governmental activities and \$3,616,269 from proprietary funds.

City of Harmony 's Net Assets

	Government Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 1,970,254	\$ 2,146,056	\$ 1,065,608	\$ 1,047,834	\$ 3,035,862	\$ 3,193,890
Capital assets	3,369,176	3,190,181	5,634,092	5,753,912	9,003,268	8,944,093
Total assets	<u>\$ 5,339,430</u>	<u>\$ 5,336,237</u>	<u>\$ 6,699,700</u>	<u>\$ 6,801,746</u>	<u>\$ 12,039,130</u>	<u>\$ 12,137,983</u>
Long-term liabilities outstanding	\$ 655,378	\$ 747,804	\$ 2,870,884	\$ 3,122,663	\$ 3,526,262	\$ 3,870,467
Other liabilities	108,584	127,367	212,547	199,374	321,131	326,741
Total liabilities	<u>763,962</u>	<u>875,171</u>	<u>3,083,431</u>	<u>3,322,037</u>	<u>3,847,393</u>	<u>4,197,208</u>
Net assets:						
Invested in capital assets, net of related debt	2,713,798	2,442,377	2,763,208	2,631,249	5,477,006	5,073,626
Restricted	69,700	115,891			69,700	115,891
Unrestricted	1,791,970	1,902,798	853,061	848,460	2,645,031	2,751,258
Total Net Assets	<u>4,575,468</u>	<u>4,461,066</u>	<u>3,616,269</u>	<u>3,479,709</u>	<u>8,191,737</u>	<u>7,940,775</u>
Total Liabilities & Net Assets	<u>\$ 5,339,430</u>	<u>\$ 5,336,237</u>	<u>\$ 6,699,700</u>	<u>\$ 6,801,746</u>	<u>\$ 12,039,130</u>	<u>\$ 12,137,983</u>

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

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.

A significant portion of the City of Harmony's net assets \$5,477,006 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.

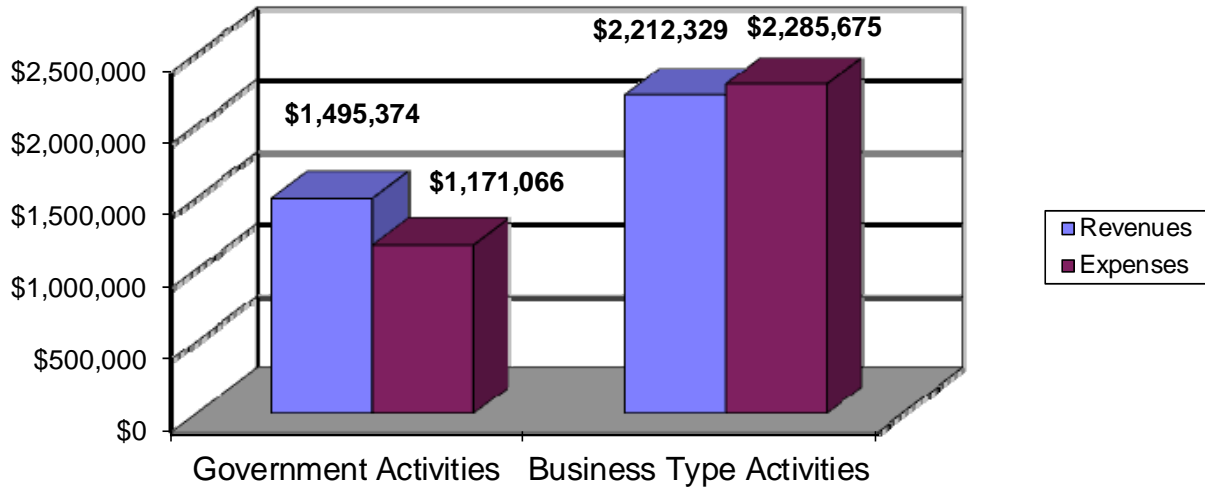
City of Harmony's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues						
Charges for services	\$ 267,191	278,774	\$ 2,117,021	\$ 2,039,299	\$ 2,384,212	\$ 2,318,073
Operating grants and contributions	32,241	36,689			32,241	36,689
Capital grants and contributions	72,005	101,300	70,440		142,445	101,300
General revenues:						
Taxes	658,193	651,920			658,193	651,920
Intergovernmental revenue	376,134	374,983			376,134	374,983
Unrestricted investment earnings	16,623	24,545	3,110	8,265	19,733	32,810
Other	72,987	14,942	21,758	14,578	94,745	29,520
Total revenues	1,495,374	1,483,153	2,212,329	2,062,142	3,707,703	3,545,295
Expenses:						
General government	103,225	112,832			103,225	112,832
Public safety	479,309	363,480			479,309	363,480
Highway and streets	129,833	174,444			129,833	174,444
Library	101,532	94,117			101,532	94,117
General government buildings	149,199	144,067			149,199	144,067
Parks and recreation	54,530	57,423			54,530	57,423
Economic development authority	117,973	63,956			117,973	63,956
Bond interest and fiscal charges	19,379	16,916			19,379	16,916
Other	16,086	25,318			16,086	25,318
Water			211,749	159,928	211,749	159,928
Sewer			244,197	257,853	244,197	257,853
Electric			897,350	869,183	897,350	869,183
Senior living			856,098	752,073	856,098	752,073
Garbage and recycling			51,006	48,172	51,006	48,172
Storm water			25,275	24,204	25,275	24,204
Total expenses	1,171,066	1,052,553	2,285,675	2,111,413	3,456,741	3,163,966
Increase in net assets before transfers and other items	324,308	430,600	(73,346)	(49,271)	250,962	381,329
Transfers	(209,906)	(170,960)	209,906	170,960		
Change in net assets	114,402	259,640	136,560	121,689	250,962	381,329
Net Assets – January 1	4,461,066	4,201,426	3,479,709	3,358,020	7,940,775	7,559,446
Net Assets – December 31	\$ 4,575,468	\$ 4,461,066	\$ 3,616,269	\$ 3,479,709	\$ 8,191,737	\$ 7,940,775

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

The following graph shows 2011 revenues and expenses for both government activities and business-type activities.

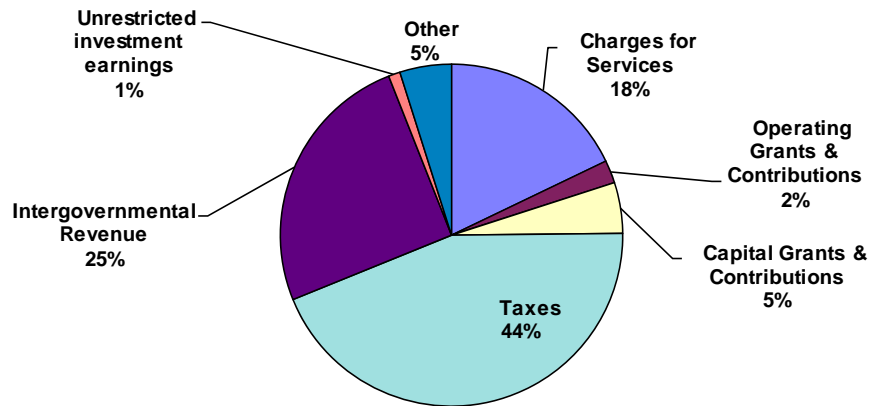
City of Harmony's Revenues & Expenses



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 \$114,402 for the year ended December 31, 2011. The total revenues for governmental activities amounted to \$1,495,374 while total expenses were \$1,171,066 and transfers out were \$209,906, which is illustrated in the chart above.

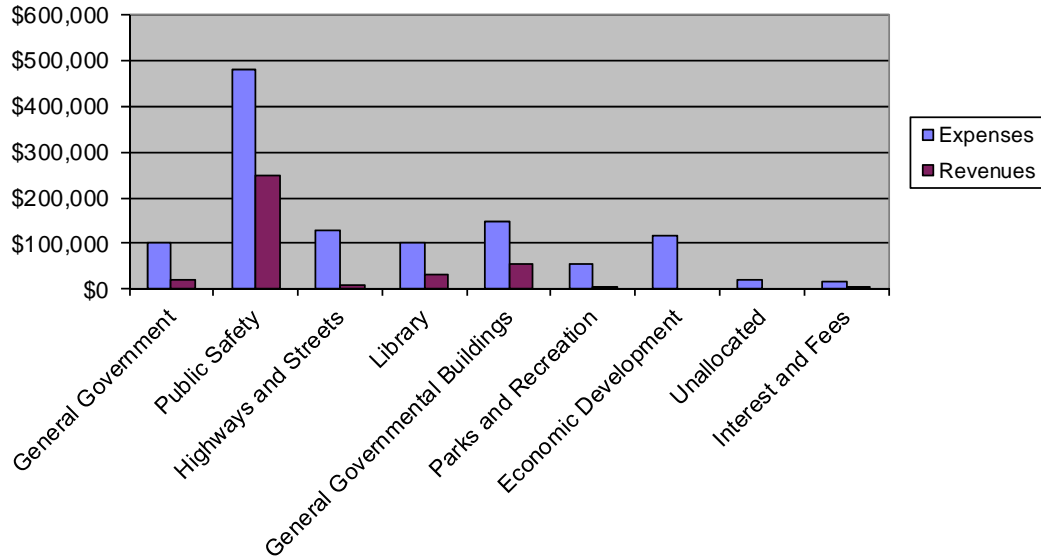
Government Activities Revenues



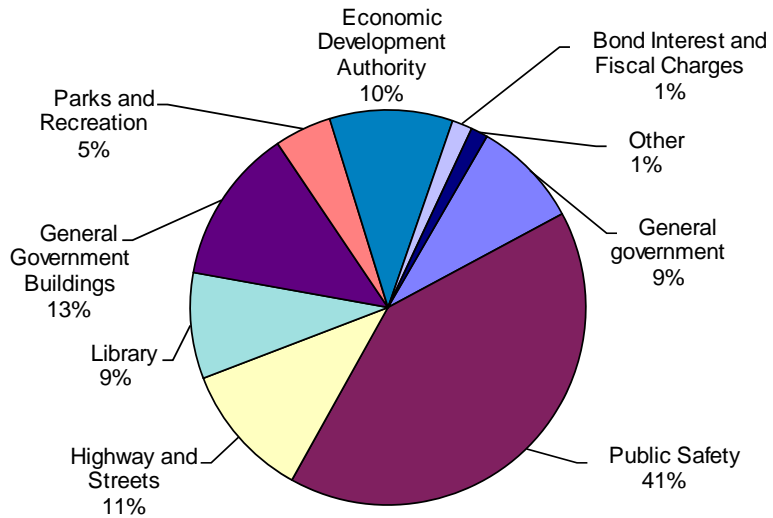
- Charges for Services decreased during the year, resulting from decreased ambulance calls.
- Taxes increased due to increase in city's tax levy to cover necessary expenditures.
- Other revenue increased due to receiving a lighting grant for lighting improvements to the community center, visitor center, and maintenance shop.

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

Expenses and Program Revenues-Governmental Activities



Government Activities Expenses

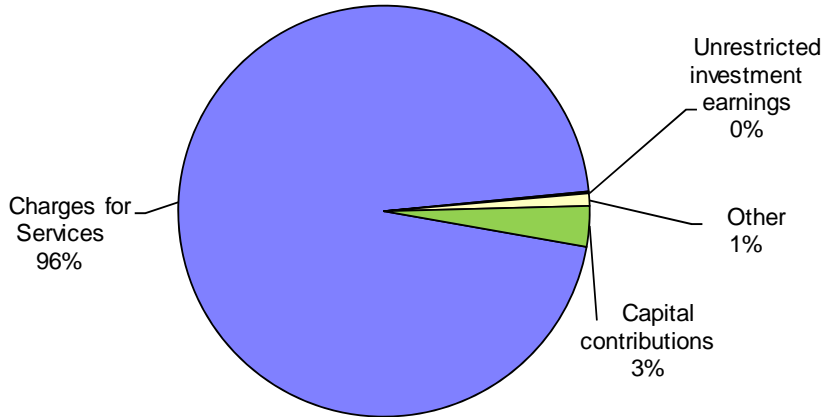


- Public safety increase due to a new fire truck that was ordered in 2010 and was delivered in 2011.
- Highway and streets decreased due to Third Street Southwest Reconstruction Project being completed in 2010.
- Increase in the economic development authority was due to the success of the commercial rehab program.

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

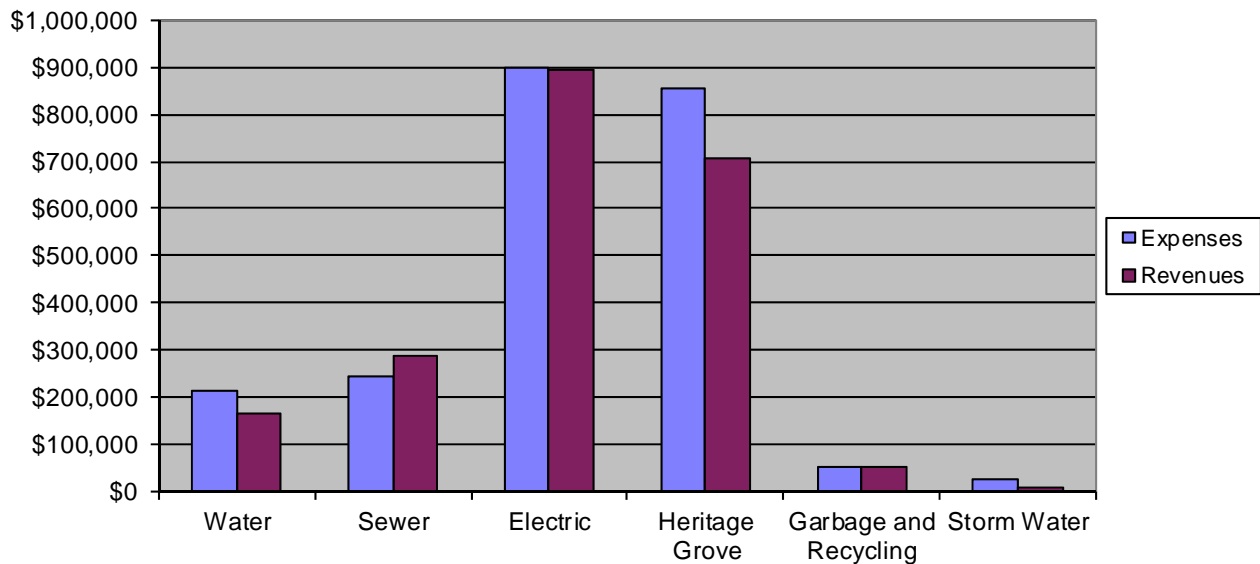
Business-type activities. Business-type activities increased the City of Harmony net assets \$136,560 for the year ended December 31, 2011. Business-type activities revenues and expenses are illustrated in the charts below.

Business-Type Activities Revenue



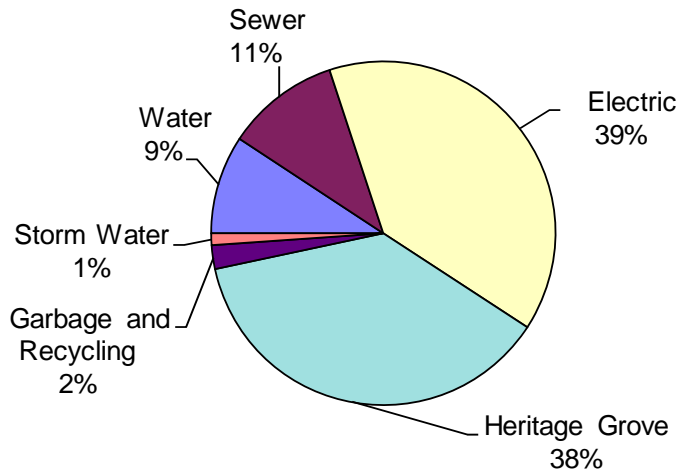
- Charges for services increased for water due to water rate changes.
- Charges for services increased for sewer due to sewer rate changes.
- Charges for services increased due to electric rate changes and increase in consumption.
- Charges for services increased for senior living facility due to a increase in occupancy.

Expenses and Program Revenues-Business Type-Activities



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

Business-Type Activities Expenses



- The wholesale electric power costs increased 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.
- Heritage Grove had increased expenses due to management company changeover.
- 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, unrestricted 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 \$1,344,729.

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, committed, assigned and unassigned fund balance of the general fund was \$638,963.

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

The fund balance of the City of Harmony's general fund increased by \$9,965 during the current year. Key factors in this change are as follows:

- Market Value Homestead Credit (MVHC) decreased by \$36,000 in 2011 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 2011 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.
- The City of Harmony upgraded the lighting in the community center, visitor center, and maintenance shop. A grant was received for 50% of the project.
- Utilities were lower to due a milder winter.
- The occupancy at Heritage Grove Senior Living Facility stabilized throughout 2011, however management company changeover increased expenses causing the general fund to transfer \$65,000 to meet the facilities operating expenditures.

The debt service funds have a total fund balance of \$69,700, 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	\$19,085
Sewer	\$209,807
Garbage and Recycling	\$27,115
Electric	\$601,500
Heritage Grove	(\$6,673)
Storm Water	\$2,227

General Fund Budgetary Highlights. After the 2011 budget was developed, the council approved installing new lighting for the visitor center, community center, and maintenance shop. They also purchased a snow blower for the UTV.

Capital Asset Administration. The City of Harmony's investment in capital assets for its governmental and business type activities as of December 31, 2011 amounts to \$9,003,268 (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:

- \$59,000 Lighting Improvements. Replaced the lighting at the Visitor Center, Community Center, and Maintenance Shop. Incidentally, a grant was received to offset half of the cost.
- \$300,000 Fire Truck. The City of Harmony received a new fire truck. It can perform the tasks of pumper, tanker, and rescue.
- \$58,950 Downtown Electrical. Completed the electrical upgrades on the west alley for the commercial businesses.
- \$13,800 Electrical Upgrades. Upgraded electric service for a church that is upgrading their HVAC system.
- \$300,000 Street Reconstruction. Third Street Southwest was reconstructed in 2010. The final lift of blacktop was done in 2011. A portion of capital asset was converted from work-in-progress. The project consisted of new water lines, curb and gutter, and street.
- \$25,000 Jaws of Life. New jaws of life was purchased to assist with fire rescue operations and equipped on the new truck.

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

City of Harmony's Capital Assets

	Government Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 289,318	\$ 289,318	\$ 168,114	\$ 168,114	\$ 457,432	\$ 457,432
Building and Improvements	1,214,545	1,214,545	4,809,441	4,808,534	6,023,986	6,023,079
Vehicles	1,197,967	940,152	52,807	52,807	1,250,774	992,959
Machinery and Other Equipment	538,298	462,934	394,009	391,052	932,307	853,986
Infrastructure	3,018,068	2,725,471	3,464,138	3,313,173	6,482,206	6,038,644
Work-In-Progress		263,084				263,084
Total assets	6,258,196	5,895,504	8,888,509	8,733,680	15,146,705	14,629,184
Less: Accumulated Depreciation	(2,889,020)	(2,705,323)	(3,254,417)	(2,979,768)	(6,143,437)	(5,685,091)
Net Capital Assets	\$3,369,176	\$3,190,181	\$5,634,092	\$5,753,912	\$9,003,268	\$8,944,093

More detailed information on the City of Harmony's capital assets is presented in the Notes to the Financial Statements on page 46-47.

Long-Term Debt. At the end of the fiscal year, the City of Harmony had long-term debt of \$3,616,797. General obligation debt outstanding of \$2,270,000 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 \$601,419 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	
	2011	2010	2011	2010	2011	2010
General Obligation Bonds	\$ 293,000	\$ 353,600	\$	\$	\$ 293,000	\$ 353,600
General Obligation Improvement		5,000				5,000
USDA Promissory Note	362,378	389,204			362,378	389,204
General Obligation Note			601,419	709,039	601,419	709,039
General Obligation Revenue			2,360,000	2,510,000	2,360,000	2,510,000
Total assets	\$ 655,378	\$ 747,804	\$2,961,419	\$3,219,039	\$3,616,797	\$3,966,843

Additional information on the City of Harmony's long-term debt can be found in the Notes to the Financial Statements on pages 48-51.

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 with the lighting being the most recent to be upgraded. 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. Unfortunately due to the economic recession, limited housing growth, and foreclosure, the agreement has been voided releasing the City of Harmony of any obligations.

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.

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 going into 2012. There was a rate increase in electric rates to offset the higher wholesale power costs. The City of Harmony 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. The water study has shown future improvements are necessary.

The City of Harmony's senior living facility continues to operate well, however, expenses increased due to a new management company changeover in 2011. The operations of the facility unfortunately did not finance the daily operations including the debt service for 2011. 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.

There may be future Local Government Aid (LGA) reductions. 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 State of Minnesota did eliminate the Market Value Homestead Credit (MVHC) program and creating a Market Value Exclusion Program causing fluctuation shifts of tax burden across the community.

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. Thus, the City of Harmony has hired a financial consultant to prepare a capital improvement plan to assist with planning and financing for future projects to manage tax rate, assessments, utility rates and debt levels.

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, 2011

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CITY OF HARMONY, MINNESOTA
STATEMENT OF NET ASSETS

December 31, 2011

With Comparative Totals for December 31, 2010

	Governmental Activities	Business-Type Activities	Totals	
			2011	2010
Assets				
Cash and investments	\$ 1,513,237	\$ 620,852	\$ 2,134,089	\$ 1,956,046
Receivables	303,412	173,970	477,382	532,090
Internal balances	(212,179)	212,179		
Due from other governmental units	15,795		15,795	6,618
Inventory		36,362	36,362	36,695
Loans receivable	323,501		323,501	345,737
Deposit on fire truck				286,094
Prepaid expenses	26,488	22,245	48,733	20,563
Capital assets:				
Nondepreciable	289,318	168,114	457,432	720,516
Depreciable, net	3,079,858	5,465,978	8,545,836	8,223,577
Total Assets	5,339,430	6,699,700	12,039,130	12,127,936
Liabilities and Net Assets				
Liabilities				
Accounts payable	39,087	126,690	165,777	151,780
Deposits payable		25,495	25,495	25,295
Compensated absences	53,713	33,355	87,068	86,889
Accrued liabilities	5,545	13,128	18,673	27,202
Accrued interest payable	10,239	13,879	24,118	20,528
Deferred revenue				5,000
Noncurrent liabilities:				
Due within one year	106,008	265,167	371,175	339,446
Due in more than one year	549,370	2,605,717	3,155,087	3,531,021
Total Liabilities	763,962	3,083,431	3,847,393	4,187,161
Net Assets				
Invested in capital assets, net of related debt	2,713,798	2,763,208	5,477,006	5,073,626
Restricted for:				
Debt Service	69,700		69,700	115,891
Unrestricted	1,791,970	853,061	2,645,031	2,751,258
Total Net Assets	4,575,468	3,616,269	8,191,737	7,940,775
Total Liabilities and Net Assets	\$ 5,339,430	\$ 6,699,700	\$ 12,039,130	\$ 12,127,936

See Notes to Financial Statements

CITY OF HARMONY, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2011
With Comparative Totals for December 31, 2010

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 103,225	\$ 20,943	\$	\$
Public safety	479,309	215,052	1,925	29,538
Streets and highways	129,833	1,070		8,638
Library	101,532	1,413	27,594	1,300
Government buildings	149,199	27,997		27,219
Park and recreation	54,530	716	2,722	
Economic development	117,973			
Interest on long-term debt	19,379			
Unallocated	16,086			5,310
Total governmental activities	<u>1,171,066</u>	<u>267,191</u>	<u>32,241</u>	<u>72,005</u>
Business-Type activities:				
Water	211,749	165,457		60,798
Sewer	244,197	286,524		6,426
Electric	897,350	895,170		
Heritage Grove	856,098	707,595		
Garbage	51,006	52,633		
Storm Water	25,275	9,642		3,216
Total business-type activities	<u>2,285,675</u>	<u>2,117,021</u>		<u>70,440</u>
Total	<u>3,456,741</u>	<u>2,384,212</u>	<u>32,241</u>	<u>142,445</u>

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

Change in net assets

Net assets - beginning

Net assets - ending

See Notes to Financial Statements

FORM A-2

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Totals	
		2011	2010
\$ (82,282)	\$	\$ (82,282)	\$ (90,090)
(232,794)		(232,794)	(126,447)
(120,125)		(120,125)	(93,363)
(71,225)		(71,225)	(60,522)
(93,983)		(93,983)	(111,135)
(51,092)		(51,092)	(48,043)
(117,973)		(117,973)	(63,956)
(19,379)		(19,379)	(16,916)
(10,776)		(10,776)	(25,318)
<u>(799,629)</u>		<u>(799,629)</u>	<u>(635,790)</u>
	14,506	14,506	2,420
	48,753	48,753	30,829
	(2,180)	(2,180)	13,270
	(148,503)	(148,503)	(108,964)
	1,627	1,627	4,845
	<u>(12,417)</u>	<u>(12,417)</u>	<u>(14,514)</u>
	<u>(98,214)</u>	<u>(98,214)</u>	<u>(72,114)</u>
<u>(799,629)</u>	<u>(98,214)</u>	<u>(897,843)</u>	<u>(707,904)</u>
545,263		545,263	540,843
112,930		112,930	111,077
376,134		376,134	374,983
16,623	3,110	19,733	32,810
72,987	21,758	94,745	29,520
<u>(209,906)</u>	<u>209,906</u>		
<u>914,031</u>	<u>234,774</u>	<u>1,148,805</u>	<u>1,089,233</u>
114,402	136,560	250,962	381,329
<u>4,461,066</u>	<u>3,479,709</u>	<u>7,940,775</u>	<u>7,559,446</u>
<u>\$ 4,575,468</u>	<u>\$ 3,616,269</u>	<u>\$ 8,191,737</u>	<u>\$ 7,940,775</u>

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CITY OF HARMONY, MINNESOTA

FUND FINANCIAL STATEMENTS

DECEMBER 31, 2011

CITY OF HARMONY, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2011
With Comparative Totals for December 31, 2010

	101 General	Special Revenue		405 TIF #1	Other Governmental Funds	Total Governmental Funds	
		222 Fire	223 Ambulance			2011	2010
ASSETS							
Cash and investments	\$ 597,418	\$	\$ 230,517	\$ 80,854	\$ 604,448	\$ 1,513,237	\$ 1,371,667
Accounts receivable	2,413	3,900	37,707		2,000	46,020	65,831
Taxes receivable - delinquent	32,378			7,797	3,461	43,636	44,550
Special assessments receivable:							
Deferred	8,255			136,951	65,987	211,193	230,633
Delinquent					2,563	2,563	11,989
Note receivable				83,278	240,223	323,501	345,737
Due from other funds	64,212				7,365	71,577	174,482
Due from other governmental units	10,266			4,071	1,458	15,795	6,620
Deposit on fire truck							286,094
Prepaid items	17,672	4,943	1,400		2,473	26,488	8,662
TOTAL ASSETS	\$ 732,614	\$ 8,843	\$ 269,624	\$ 312,951	\$ 929,978	\$ 2,254,010	\$ 2,546,265
LIABILITIES AND FUND BALANCE							
Liabilities							
Accounts payable	\$ 31,376	\$ 1,319	\$ 1,496	\$	\$ 4,896	\$ 39,087	\$ 54,634
Accrued liabilities	3,970		374		1,201	5,545	9,582
Due to other funds		221,632			62,124	283,756	400,209
Deferred revenue	40,633			228,026	312,234	580,893	637,909
Total Liabilities	75,979	222,951	1,870	228,026	380,455	909,281	1,102,334
Fund Balance							
Non-spendable	17,672	4,943	1,400		2,473	26,488	8,662
Restricted							
Grantors					128,949	128,949	88,869
Creditors (debt covenants)					69,700	69,700	115,891
Imposed by law				84,925		84,925	153,953
Committed	259,850				360,845	620,695	515,908
Assigned			266,354		49,318	315,672	390,216
Unassigned	379,113	(219,051)			(61,762)	98,300	170,432
Total Fund Balance	656,635	(214,108)	267,754	84,925	549,523	1,344,729	1,443,931
TOTAL LIABILITIES AND FUND BALANCE	\$ 732,614	\$ 8,843	\$ 269,624	\$ 312,951	\$ 929,978	\$ 2,254,010	\$ 2,546,265

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

For the Year Ended December 31, 2011

With Comparative Totals for the Year Ended December 31, 2010

	101 General	Special Revenue		405 TIF #1	Other Governmental Funds	Total Governmental Funds	
		222 Fire	223 Ambulance			2011	2010
REVENUES							
General property taxes	\$ 233,904	\$ 40,752	\$	\$	\$ 271,521	\$ 546,177	\$ 529,412
Tax increments				106,155	6,775	112,930	111,077
Special assessments	1,816			17,118	16,844	35,778	34,521
Licenses and permits	8,192					8,192	7,480
Fines and forfeits	1,840					1,840	1,492
Intergovernmental revenues	398,925	58,933	19,130	1,165	33,883	512,036	465,839
Charges for services	28,472	10,750	148,585		2,129	189,936	203,273
Investment income	3,913		1,361	1,144	10,169	16,587	24,756
Refunds and reimbursements	12,276					12,276	10,082
Miscellaneous revenues	18,813	13,530	17,452		39,561	89,356	69,147
Total Revenues	708,151	123,965	186,528	125,582	380,882	1,525,108	1,457,079
EXPENDITURES							
General government	105,836					105,836	104,073
Public safety	102,937	386,804	142,041			631,782	368,953
Street and highways	100,856				39,639	140,495	367,234
Library					101,532	101,532	103,792
Government buildings	197,762					197,762	164,391
Park and recreation					44,148	44,148	58,616
Economic development				32,704	63,988	96,692	165,442
Debt service					79,603	79,603	201,793
Unallocated	16,161			266	127	16,554	24,028
Total Expenditures	523,552	386,804	142,041	32,970	329,037	1,414,404	1,558,322
Excess (deficiency) of revenues over (under) expenditures	184,599	(262,839)	44,487	92,612	51,845	110,704	(101,243)
OTHER FINANCING SOURCES (USES)							
Bond proceeds							200,000
Transfers in	15,802	27,492			298,174	341,468	592,671
Transfers out	(190,436)	(24,996)	(27,492)	(161,640)	(146,810)	(551,374)	(763,631)
Total Other Financing Sources (Uses)	(174,634)	2,496	(27,492)	(161,640)	151,364	(209,906)	29,040
Net change in fund balances	9,965	(260,343)	16,995	(69,028)	203,209	(99,202)	(72,203)
Fund Balance - Beginning	646,670	46,235	250,759	153,953	346,314	1,443,931	1,516,134
Fund Balance - Ending	\$ 656,635	\$ (214,108)	\$ 267,754	\$ 84,925	\$ 549,523	\$ 1,344,729	\$ 1,443,931

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, 2011

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

Total governmental fund balances (page 17)	\$	1,344,729
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$	6,258,196
Less: Accumulated depreciation		<u>(2,889,020)</u>
		3,369,176
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Delinquent property taxes	\$	43,636
Deferred and delinquent special assessments		213,756
Notes receivable		<u>323,501</u>
		580,893
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	\$	(709,091)
Accrued interest		<u>(10,239)</u>
		<u>(719,330)</u>
Net assets of governmental activities (page 14)	\$	<u><u>4,575,468</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, 2011

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

Net change in fund balances - total governmental funds (page 18)	\$	(99,202)
<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	\$ 396,308	
Depreciation expense	<u>(217,313)</u>	
		178,995
<p>The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net assets</p>		
<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, 2011	\$ 580,893	
Deferred revenue, December 31, 2010	<u>(632,909)</u>	
		(52,016)
<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	\$ 92,426	
Change in compensated absences	(425)	
Change in accrued interest	<u>(5,376)</u>	
		<u>86,625</u>
Change in net assets of governmental activities (pages 15 and 16)	\$	<u><u>114,402</u></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, 2011
With Comparative Totals for the Year Ended December 31, 2010

	Budgeted Amounts		2011 Actual Amounts	Variance with Final Budget - Positive (Negative)	2010 Actual Amounts
	Original	Final			
REVENUES					
Property Tax Levy					
Property tax collected	\$ 216,586	\$ 216,586	\$ 233,904	\$ 17,318	\$ 244,839
Special Assessments	1,500	1,500	1,816	316	1,897
Intergovernmental Revenues					
Local government aid	320,299	320,299	320,299		320,299
Market value credit	73,666	73,666	36,907	(36,759)	38,685
Fire state aid	9,000	9,000	11,910	2,910	10,911
Other state aid			28,945	28,945	
PERA rate increase aid	864	864	864		864
Total Intergovernmental	403,829	403,829	398,925	(4,904)	370,759
Licenses and Permits	6,775	6,775	8,192	1,417	7,480
Fines and Forfeits	1,300	1,300	1,840	540	1,492
Charges for Services					
Rental income - community center and visitor center	29,000	29,000	28,472	(528)	33,407
Investment Income	5,000	5,000	3,913	(1,087)	8,641
Refunds and Reimbursements	5,000	5,000	12,276	7,276	10,082
Miscellaneous Revenues					
Lodging tax	5,000	5,000	4,416	(584)	4,488
Cable TV franchise fee	3,500	3,500	4,142	642	3,976
Other	4,100	4,100	10,255	6,155	11,804
Total Miscellaneous Revenues	12,600	12,600	18,813	6,213	20,268
TOTAL REVENUES	\$ 681,590	\$ 681,590	\$ 708,151	\$ 26,561	\$ 698,865

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, 2011
With Comparative Totals for the Year Ended December 31, 2010

	Budgeted Amounts		2011 Actual Amounts	Variance with Final Budget - Positive (Negative)	2010 Actual Amounts
	Original	Final			
EXPENDITURES					
General Government					
Mayor and Council					
Employee services	\$ 7,350	\$ 7,350	\$ 7,321	\$ 29	\$ 7,240
Printing and publication	550	550	69	481	603
Insurance	425	425		425	
Dues	1,000	1,000	1,034	(34)	1,142
Total Mayor and Council	<u>9,325</u>	<u>9,325</u>	<u>8,424</u>	<u>901</u>	<u>8,985</u>
Elections					<u>1,243</u>
Finance and Administration					
Employee services	77,429	77,429	76,151	1,278	71,372
Materials and supplies	8,100	8,100	3,571	4,529	4,027
Printing and publication	1,750	1,750	1,047	703	1,410
Training	1,400	1,400	350	1,050	540
Repairs and maintenance	750	750	1,166	(416)	1,247
Professional fees	8,750	8,750	5,549	3,201	7,964
Miscellaneous	3,445	3,445	1,813	1,632	2,494
Total Finance and Administration	<u>101,624</u>	<u>101,624</u>	<u>89,647</u>	<u>11,977</u>	<u>89,054</u>
Professional Services					
Legal	<u>7,500</u>	<u>7,500</u>	<u>7,765</u>	<u>(265)</u>	<u>4,791</u>
Total General Government	<u>\$ 118,449</u>	<u>\$ 118,449</u>	<u>\$ 105,836</u>	<u>\$ 12,613</u>	<u>\$ 104,073</u>
Government Buildings					
Community Center					
Employee services	\$ 36,334	\$ 36,334	\$ 27,573	\$ 8,761	\$ 26,384
Materials and supplies	6,750	6,750	6,648	102	6,850
Insurance	14,693	14,693	13,179	1,514	12,483
Repairs and maintenance	8,500	8,500	3,244	5,256	2,329
Utilities	32,250	32,250	26,444	5,806	25,150
Miscellaneous	287	287	131	156	609
Capital outlay			43,281	(43,281)	10,611
Debt service	44,083	44,083	44,083		44,083
Total Community Center	<u>142,897</u>	<u>142,897</u>	<u>164,583</u>	<u>(21,686)</u>	<u>128,499</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, 2011
With Comparative Totals for the Year Ended December 31, 2010

	Budgeted Amounts		2011 Actual Amounts	Variance with Final Budget - Positive (Negative)	2010 Actual Amounts
	Original	Final			
EXPENDITURES (Continued)					
Government Buildings (Continued)					
Visitor Center					
Employee services	12,128	12,128	7,323	4,805	9,779
Materials and supplies	2,800	2,800	2,406	394	3,362
Insurance	1,460	1,460	1,321	139	1,332
Repairs and maintenance	3,250	3,250	3,922	(672)	2,932
Capital outlay			12,297	(12,297)	12,079
Utilities	8,300	8,300	5,910	2,390	6,408
Total Visitor Center	<u>27,938</u>	<u>27,938</u>	<u>33,179</u>	<u>(5,241)</u>	<u>35,892</u>
Total Government Buildings	<u>170,835</u>	<u>170,835</u>	<u>197,762</u>	<u>(26,927)</u>	<u>164,391</u>
Public Safety					
Police Protection					
Contractual services	75,000	75,000	74,830	170	70,678
Vehicle expense	2,000	2,000	2,887	(887)	2,634
Materials and supplies	600	600	138	462	187
Insurance	466	466	412	54	427
Repairs and maintenance	1,000	1,000	659	341	898
Miscellaneous	750	750	698	52	709
Total Police Protection	<u>79,816</u>	<u>79,816</u>	<u>79,624</u>	<u>192</u>	<u>75,533</u>
Fire Protection					
Firemen's relief	<u>17,000</u>	<u>17,000</u>	<u>16,910</u>	<u>90</u>	<u>15,911</u>
Animal Control	<u>5,412</u>	<u>5,412</u>	<u>4,428</u>	<u>984</u>	<u>3,587</u>
Pest Control	<u>5,000</u>	<u>5,000</u>		<u>5,000</u>	<u>1,373</u>
Civil Defense	<u>1,812</u>	<u>1,812</u>	<u>1,975</u>	<u>(163)</u>	<u>1,516</u>
Total Public Safety	<u>\$ 109,040</u>	<u>\$ 109,040</u>	<u>\$ 102,937</u>	<u>\$ 6,103</u>	<u>\$ 97,920</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, 2011
With Comparative Totals for the Year Ended December 31, 2010

	Budgeted Amounts		2011 Actual Amounts	Variance with Final Budget - Positive (Negative)	2010 Actual Amounts
	Original	Final			
EXPENDITURES (Continued)					
Streets and Highway					
Employee services	\$ 22,028	\$ 22,028	\$ 16,023	\$ 6,005	\$ 17,746
Vehicle expense	4,000	4,000	2,907	1,093	2,714
Materials and supplies	9,550	9,550	9,346	204	10,489
Insurance	2,861	2,861	2,503	358	2,941
Repairs and maintenance	13,950	13,950	14,696	(746)	13,577
Snow and ice	26,372	26,372	29,864	(3,492)	28,908
Building maintenance	21,634	21,634	22,065	(431)	22,452
Capital outlay			3,452	(3,452)	5,323
Total Streets and Highway	100,395	100,395	100,856	(461)	104,150
Unallocated					
Insurance	6,171	6,171	4,730	1,441	5,627
Lodging tax	5,000	5,000	4,194	806	4,038
Community events	6,000	6,000	6,579	(579)	6,512
Community development	13,000	13,000	658	12,342	7,768
Total Unallocated	30,171	30,171	16,161	14,010	23,945
TOTAL EXPENDITURES	528,890	528,890	523,552	5,338	494,479
Excess of revenues over expenditures	152,700	152,700	184,599	31,899	204,386
Other Financing Sources (Uses)					
Transfers in	13,500	13,500	15,802	2,302	4,992
Transfers out	(125,440)	(125,440)	(190,436)	(64,996)	(150,436)
Total Other Financing Sources (Uses)	(111,940)	(111,940)	(174,634)	(62,694)	(145,444)
Net change in fund balance	40,760	40,760	9,965	(30,795)	58,942
FUND BALANCE - Beginning	646,670	646,670	646,670		587,728
FUND BALANCE - Ending	\$ 687,430	\$ 687,430	\$ 656,635	\$ (30,795)	\$ 646,670

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, 2011
With Comparative Totals for the Year Ended December 31, 2010

	Budgeted Amounts		2011 Actual Amounts	Variance with Final Budget Positive (Negative)	2010 Actual Amounts
	Original	Final			
REVENUES					
Property Tax Levy					
Property tax collected	\$ 40,750	\$ 40,750	\$ 40,752	\$ 2	\$ 41,748
Charges for Services					
Service fees	5,000	5,000	10,750	5,750	6,722
Intergovernmental					
Contracts	35,000	35,000	36,587	1,587	38,032
Grants			22,346	22,346	2,200
Total Intergovernmental	35,000	35,000	58,933	23,933	40,232
Miscellaneous					
Donations	3,500	3,500	7,192	3,692	10,191
Other			6,338	6,338	120
Total Miscellaneous	3,500	3,500	13,530	10,030	10,311
TOTAL REVENUES	84,250	84,250	123,965	39,715	99,013
EXPENDITURES					
Public Safety					
Salaries and wages	12,990	12,990	15,838	(2,848)	12,373
Insurance	5,514	5,514	5,416	98	5,003
Repair and maintenance	7,700	7,700	7,442	258	2,720
Utilities	6,950	6,950	5,807	1,143	5,621
Supplies	11,350	11,350	9,323	2,027	6,344
Miscellaneous	6,750	6,750	6,332	418	6,779
Capital outlay	285,000	285,000	336,646	(51,646)	7,160
TOTAL EXPENDITURES	336,254	336,254	386,804	(50,550)	46,000
EXCESS (DEFICIT) REVENUES OVER (UNDER) EXPENDITURES	(252,004)	(252,004)	(262,839)	(10,835)	53,013
Other Financing Sources					
Transfers in	287,500	287,500	27,492	260,008	87,955
Transfers out	(35,000)	(35,000)	(24,996)	10,004	(24,996)
Total Other Financing Sources	252,500	252,500	2,496	270,012	62,959
NET CHANGE IN FUND BALANCE	496	496	(260,343)	259,177	115,972
FUND BALANCE, JANUARY 1	46,235	46,235	46,235		(69,737)
FUND BALANCE, DECEMBER 31	\$ 46,731	\$ 46,731	\$ (214,108)	\$ 259,177	\$ 46,235

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, 2011
With Comparative Totals for the Year Ended December 31, 2010

	Budgeted Amounts		2011 Actual Amounts	Variance with Final Budget Positive (Negative)	2010 Actual Amounts
	Original	Final			
REVENUES					
Charges for Services					
Service fees	\$ 140,000	\$ 140,000	\$ 148,585	\$ 8,585	\$ 159,833
Intergovernmental Revenues	19,130	19,130	19,130		19,130
Miscellaneous					
Investment income			1,361	1,361	1,914
Contributions			3,950	3,950	194
Other	8,000	8,000	13,502	5,502	6,999
Total Miscellaneous	8,000	8,000	18,813	10,813	9,107
TOTAL REVENUES	167,130	167,130	186,528	19,398	188,070
EXPENDITURES					
Public Safety					
Salaries and wages	51,492	51,492	59,198	(7,706)	58,367
Insurance	4,487	4,487	3,993	494	3,967
Repair and maintenance	11,750	11,750	13,450	(1,700)	9,131
Travel, schools, conferences	4,575	4,575	7,052	(2,477)	4,849
Miscellaneous	9,000	9,000	8,049	951	7,449
Medicare write-offs	38,000	38,000	34,561	3,439	44,802
Capital outlay	1,500	1,500	15,738	(14,238)	96,468
TOTAL EXPENDITURES	120,804	120,804	142,041	(21,237)	225,033
EXCESS (DEFICIT) REVENUES OVER (UNDER) EXPENDITURES	46,326	46,326	44,487	(1,839)	(36,963)
Other Financing Sources					
Transfers in					60,000
Transfers out	(27,500)	(27,500)	(27,492)	8	(27,492)
Total Other Financing Sources	(27,500)	(27,500)	(27,492)	8	32,508
NET CHANGE IN FUND BALANCE	18,826	18,826	16,995	(1,831)	(4,455)
FUND BALANCE, JANUARY 1	250,759	250,759	250,759		255,214
FUND BALANCE, DECEMBER 31	\$ 269,585	\$ 269,585	\$ 267,754	\$ (1,831)	\$ 250,759

See Notes to Financial Statements

**CITY OF HARMONY, MINNESOTA
PROPRIETARY FUNDS**

Statement of Net Assets

December 31, 2011

With Comparative Totals for December 31, 2010

	Business-Type Activities - Enterprise Funds		
	601 Water Fund	602 Sewer Fund	604 Electric Fund
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 5,623	\$ 201,864	\$ 365,483
Accounts receivable	14,269	24,884	83,089
Special assessments		5,890	2,833
Due from other funds			219,544
Prepaid expense	2,405	2,847	5,026
Inventory	11,650		24,712
Total Current Assets	33,947	235,485	700,687
Noncurrent Assets:			
Capital assets:			
Nondepreciable	1,150	14,400	5,000
Depreciable	834,449	2,607,268	1,599,951
Less: Accumulated depreciation	(204,312)	(867,953)	(897,860)
Net capital assets	631,287	1,753,715	707,091
Total Assets	665,234	1,989,200	1,407,778
LIABILITIES			
Current Liabilities:			
Accounts payable	3,308	6,498	78,191
Accrued liabilities	794	751	4,763
Due to other funds			
Customer deposits			10,295
Accrued interest payable		5,427	
Accrued compensated absences	10,760	13,002	5,938
Current maturities of bonds payable		155,167	
Total Current Liabilities	14,862	180,845	99,187
Noncurrent Liabilities:			
Bonds payable, net of current maturities, discount, and issuance costs		536,252	
Total Liabilities	14,862	717,097	99,187
NET ASSETS			
Invested in capital assets, net of related debt	631,287	1,062,296	707,091
Unrestricted	19,085	209,807	601,500
Total Net Assets	\$ 650,372	\$ 1,272,103	\$ 1,308,591

See Notes to Financial Statements

Business-Type Activities - Enterprise Funds

621 Heritage Grove	603 Garbage and Recycling Fund	605 Storm Water Fund	TOTALS	
			2011	2010
\$ 20,656	\$ 25,575	\$ 1,651	\$ 620,852	\$ 584,379
37,428	4,874	703	165,247	170,453
			8,723	8,633
			219,544	235,774
11,409	30	528	22,245	11,900
			36,362	36,695
<u>69,493</u>	<u>30,479</u>	<u>2,882</u>	<u>1,072,973</u>	<u>1,047,834</u>
147,564			168,114	168,114
2,914,627		764,100	8,720,395	8,565,566
<u>(1,052,636)</u>		<u>(231,656)</u>	<u>(3,254,417)</u>	<u>(2,979,768)</u>
<u>2,009,555</u>		<u>532,444</u>	<u>5,634,092</u>	<u>5,753,912</u>
<u>2,079,048</u>	<u>30,479</u>	<u>535,326</u>	<u>6,707,065</u>	<u>6,801,746</u>
38,693			126,690	97,146
6,456	333	31	13,128	17,621
7,365			7,365	10,046
15,200			25,495	25,295
8,452			13,879	15,665
	3,031	624	33,355	33,601
<u>110,000</u>			<u>265,167</u>	<u>257,620</u>
<u>186,166</u>	<u>3,364</u>	<u>655</u>	<u>485,079</u>	<u>456,994</u>
<u>2,069,465</u>			<u>2,605,717</u>	<u>2,865,043</u>
<u>2,255,631</u>	<u>3,364</u>	<u>655</u>	<u>3,090,796</u>	<u>3,322,037</u>
(169,910)		532,444	2,763,208	2,631,249
<u>(6,673)</u>	<u>27,115</u>	<u>2,227</u>	<u>853,061</u>	<u>848,460</u>
<u>\$ (176,583)</u>	<u>\$ 27,115</u>	<u>\$ 534,671</u>	<u>\$ 3,616,269</u>	<u>\$ 3,479,709</u>

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

For the Year Ended December 31, 2011
With Comparative Totals for the Year Ended December 31, 2010

	Business-Type Activities - Enterprise Funds		
	601 Water Fund	602 Sewer Fund	604 Electric Fund
Operating Revenues			
Sales and rentals	\$ 165,457	\$ 286,524	\$ 895,170
Operating Expenses			
Salaries and wages	44,897	50,686	24,680
Service contracts	850	150	
Purchased power			748,351
Materials and supplies	62,259	9,109	35,745
Utilities	15,479	51,164	14,259
Repairs and maintenance	57,331	14,034	16,646
Travel and training	2,376	2,276	
Professional fees	2,350	11,476	4,591
Miscellaneous	2,974	1,569	3,774
Insurance	3,001	3,713	7,184
Depreciation/amortization	20,232	83,917	42,120
Total Operating Expenses	<u>211,749</u>	<u>228,094</u>	<u>897,350</u>
Operating Income (Loss)	<u>(46,292)</u>	<u>58,430</u>	<u>(2,180)</u>
Nonoperating Revenues (Expenses)			
Special assessments		331	1,157
Investment income	97	882	1,936
Other revenue (expense)	171		20,099
Interest expense and fiscal charges		(16,103)	
Total Nonoperating Revenues (Expenses)	<u>268</u>	<u>(14,890)</u>	<u>23,192</u>
Income (Loss) Before Transfers	(46,024)	43,540	21,012
Capital contributions	60,798	6,426	
Transfers in	40,000	74,436	58,946
Transfers out	<u>(63,492)</u>	<u>(3,492)</u>	<u>(18,000)</u>
Change in net assets	(8,718)	120,910	61,958
Total Net Assets - Beginning of Year	<u>659,090</u>	<u>1,151,193</u>	<u>1,246,633</u>
Total Net Assets - End of Year	<u>\$ 650,372</u>	<u>\$ 1,272,103</u>	<u>\$ 1,308,591</u>

Business-Type Activities - Enterprise Funds

621 Heritage Grove	603 Garbage and Recycling Fund	605 Storm Water Fund	TOTALS	
			2011	2010
\$ 707,595	\$ 52,633	\$ 9,642	\$ 2,117,021	\$ 2,039,299
349,424	14,630	2,242	486,559	429,827
48,850	32,094		81,944	64,694
			748,351	722,518
67,943	1,551	738	177,345	119,390
41,478			122,380	120,983
40,617		2,501	131,129	116,090
904			5,556	5,351
3,192	2,350		23,959	18,280
28,465	381		37,163	40,203
58,200		741	72,839	70,209
115,158		19,063	280,490	277,066
<u>754,231</u>	<u>51,006</u>	<u>25,285</u>	<u>2,167,715</u>	<u>1,984,611</u>
(46,636)	1,627	(15,643)	(50,694)	54,688
			1,488	3,403
35	160		3,110	8,265
			20,270	11,175
(101,867)		10	(117,960)	(126,802)
<u>(101,832)</u>	<u>160</u>	<u>10</u>	<u>(93,092)</u>	<u>(103,959)</u>
(148,468)	1,787	(15,633)	(143,786)	(49,271)
		3,216	70,440	
125,000		(2,496)	298,382	259,436
	(996)		(88,476)	(88,476)
(23,468)	791	(14,913)	136,560	121,689
(153,115)	26,324	549,584	3,479,709	3,358,020
<u>\$ (176,583)</u>	<u>\$ 27,115</u>	<u>\$ 534,671</u>	<u>\$ 3,616,269</u>	<u>\$ 3,479,709</u>

**CITY OF HARMONY, MINNESOTA
PROPRIETARY FUNDS
Statement of Cash Flows**

For the Year Ended December 31, 2011
With Comparative Totals for the Year Ended December 31, 2010

	Business-Type Activities - Enterprise Funds		
	601 Water Fund	602 Sewer Fund	604 Electric Fund
Cash Flows From Operating Activities			
Cash received from customers	\$ 165,503	\$ 288,953	\$ 899,428
Cash payments to suppliers	(144,598)	(99,987)	(826,700)
Cash payments to employees or on their behalf	(45,797)	(50,107)	(24,907)
Other cash payments			(600)
Net Cash Provided By Operating Activities	<u>(24,892)</u>	<u>138,859</u>	<u>47,221</u>
Cash Flows From Capital and Related Financing Activities			
Acquisition and construction of capital assets			(80,525)
Principal payments on bonds		(152,620)	
Interest paid on bonds		(16,103)	
Due to/from other funds			16,230
Special assessments received		331	330
Net Cash Used In Capital and Related Financing Activities		<u>(168,392)</u>	<u>(63,965)</u>
Cash Flows From Non-Capital Financing Activities			
Transfers in (out) to other funds	(23,492)	70,944	40,946
Other income (expense)	171		20,099
Net Cash Used In Non-Capital Financing Activities	<u>(23,321)</u>	<u>70,944</u>	<u>61,045</u>
Cash Flows From Investing Activities			
Investment earnings received	97	882	1,936
Net Increase (Decrease) in Cash and Cash Equivalents	(48,116)	42,293	46,237
Cash and Cash Equivalents, Beginning of Year	<u>53,739</u>	<u>159,571</u>	<u>319,246</u>
Cash and Cash Equivalents, End of Year	<u>\$ 5,623</u>	<u>\$ 201,864</u>	<u>\$ 365,483</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	\$ (46,292)	\$ 58,430	\$ (2,180)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	20,232	83,917	42,120
(Increase) Decrease In:			
Accounts receivable	1,825	4,285	7,311
Prepaid expenses	(1,538)	(1,856)	(3,627)
Inventory	(241)		574
Increase (Decrease) In:			
Accounts payable	1,172	(4,860)	3,850
Accrued interest payable		(1,786)	
Accrued liabilities	(50)	729	(227)
Customer deposits			(600)
Net Cash Provided By Operating Activities	<u>\$ (24,892)</u>	<u>\$ 138,859</u>	<u>\$ 47,221</u>

See Notes to Financial Statements

FORM C-3

Business-Type Activities - Enterprise Funds				
621 Heritage Grove	603 Garbage and Recycling Fund	605 Storm Water Fund	TOTALS	
			2011	2010
\$ 696,903	\$ 52,845	\$ 9,320	\$ 2,112,952	\$ 2,024,687
(210,317)	(4,582)	(3,980)	(1,290,164)	(1,215,345)
(402,801)	(46,874)	(2,756)	(573,242)	(487,532)
			(600)	900
<u>83,785</u>	<u>1,389</u>	<u>2,584</u>	<u>248,946</u>	<u>322,710</u>
(3,864)			(84,389)	(148,543)
(105,000)			(257,620)	(255,157)
(101,867)		10	(117,960)	(126,802)
(2,681)			13,549	(189,739)
			661	3,584
<u>(213,412)</u>		<u>10</u>	<u>(445,759)</u>	<u>(716,657)</u>
125,000	(996)	(2,496)	209,906	170,960
			20,270	11,175
<u>125,000</u>	<u>(996)</u>	<u>(2,496)</u>	<u>230,176</u>	<u>182,135</u>
35	160		3,110	8,265
(4,592)	553	98	36,473	(203,547)
<u>25,248</u>	<u>25,022</u>	<u>1,553</u>	<u>584,379</u>	<u>787,926</u>
<u>\$ 20,656</u>	<u>\$ 25,575</u>	<u>\$ 1,651</u>	<u>\$ 620,852</u>	<u>\$ 584,379</u>

Business-Type Activities - Enterprise Funds				
621 Heritage Grove	603 Garbage Fund	605 Storm Water Fund	TOTALS	
			2011	2010
\$ (46,636)	\$ 1,627	\$ (15,643)	\$ (50,694)	\$ 54,688
115,158		19,063	280,490	277,067
(7,737)	209	50	5,943	(9,404)
(2,955)	3	(372)	(10,345)	(786)
			333	(4,422)
29,682	(300)		29,544	393
			(1,786)	(2,115)
(4,527)	(150)	(514)	(4,739)	6,989
800			200	300
<u>\$ 83,785</u>	<u>\$ 1,389</u>	<u>\$ 2,584</u>	<u>\$ 248,946</u>	<u>\$ 322,710</u>

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CITY OF HARMONY, MINNESOTA
Statement of Fiduciary Net Assets
December 31, 2011
With Comparative Totals for December 31, 2010

	2011	2010
Assets		
Cash and cash equivalents	\$ 14,283	\$ 14,032
Net Assets		
Unrestricted	\$ 14,283	\$ 14,032

CITY OF HARMONY, MINNESOTA
Statement of Changes in Fiduciary Net Assets
For the Year Ended December 31, 2011
With Comparative Totals for the Year Ended December 31, 2010

	2011	2010
Additions to		
Investment income	\$ 251	\$ 279
Increase in Net Assets	251	279
Net Assets - Beginning of Year	14,032	13,753
Net Assets - End of Year	\$ 14,283	\$ 14,032

See Notes to Financial Statements

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CITY OF HARMONY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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 accounting policies of the City of Harmony, Minnesota, conform to generally accepted accounting principles applicable to governmental units. The following is a summary of the more significant accounting policies:

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 and recycling fund* accounts for the provisions of garbage and recycling 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 related TIF capital project 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.

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

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.

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.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

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 2010 financial statements have been reclassified to conform to the 2011 presentation.

Net Assets / Fund Balance

In the government-wide and proprietary financial statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets”

In accordance with Governmental Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the City classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual restraints.

Restricted – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the City Council through formal action and remain binding unless removed by the City Council by subsequent formal action.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. The City Council, by majority vote, may assign fund balances to be used for specific purposes when appropriate. The Council can also delegate the power to assign fund balance.

Unassigned – includes positive fund balances within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The City uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring for dollar spending. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments

Summary of Cash and Investments

As of December 31, 2011, 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	254,800
Money Market Mutual Funds	None	N/A	277,971
Non-Negotiable CD's	January - December 2012	Unrated	<u>1,600,953</u>
Cash and Investments per Statement of Net Assets			<u>\$ 2,134,089</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, 2011 is \$179,480.

The City has made several rehab loans through its Small Cities Grant program. These interest free loans are payable over five years. These loans are offset by deferred revenue until the repayments are made. The remaining balance at December 31, 2011 is \$60,743.

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, 2011 is \$7,365.

4. Due From Other Governmental Units

Amounts due from other governmental units at December 31, 2011 are as follows:

<u>Fund</u>	<u>Fillmore County</u>
General	\$ 10,266
Debt Service	1,249
Capital Projects	4,280
	<u>\$ 15,795</u>

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Capital Assets

Capital asset activity for the year ended December 31, 2011 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	<u>552,402</u>		<u>263,084</u>	<u>289,318</u>
Capital assets, being depreciated:				
Buildings and improvements	1,214,545			1,214,545
Vehicles	940,152	286,853	29,038	1,197,967
Machinery and other equipment	462,934	79,942	4,578	538,298
Infrastructure (e.g. streets)	2,725,471	292,597		3,018,068
Total capital assets, being depreciated	<u>5,343,102</u>	<u>659,392</u>	<u>33,616</u>	<u>5,968,878</u>
Less accumulated depreciation for:				
Buildings and improvements	607,037	64,624		671,661
Vehicles	431,694	73,633	29,038	476,289
Machinery and other equipment	280,263	41,598	4,578	317,283
Infrastructure (e.g. streets)	1,386,329	37,458		1,423,787
Total accumulated depreciation	<u>2,705,323</u>	<u>217,313</u>	<u>33,616</u>	<u>2,889,020</u>
Total capital assets, being depreciated, net	<u>2,637,779</u>	<u>442,079</u>		<u>3,079,858</u>
Governmental activities capital assets, net	<u>\$ 3,190,181</u>	<u>\$ 442,079</u>	<u>\$ 263,084</u>	<u>\$ 3,369,176</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
Government buildings	\$ 33,778
Public safety	89,097
Streets and highways	78,638
Culture and recreation	15,800
	<u>217,313</u>
Total depreciation expense - governmental activities	<u>\$ 217,313</u>

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	<u>168,114</u>			<u>168,114</u>
Capital assets, being depreciated:				
Buildings and improvements	4,808,534	907		4,809,441
Machinery and other equipment	391,052	2,957		394,009
Vehicles	52,807			52,807
Infrastructure (e.g. utilities)	3,313,173	150,965		3,464,138
Total capital assets, being depreciated	<u>8,565,566</u>	<u>154,829</u>		<u>8,720,395</u>
Less accumulated depreciation for:				
Buildings and improvements	1,708,591	179,734		1,888,325
Machinery and other equipment	86,643	12,226		98,869
Vehicles	52,807			52,807
Infrastructure (e.g. utilities)	1,131,727	82,689		1,214,416
Total accumulated depreciation	<u>2,979,768</u>	<u>274,649</u>		<u>3,254,417</u>
Total capital assets, being depreciated, net	<u>5,585,798</u>	<u>(119,820)</u>		<u>5,465,978</u>
Business-type activities capital assets, net	<u>\$ 5,753,912</u>	<u>\$ (119,820)</u>	<u>\$</u>	<u>\$ 5,634,092</u>

Depreciation expense was charged to functions/programs as follows:

Business-Type Activities:	
Water	\$ 20,232
Sewer	83,917
Electric	42,120
Heritage Grove	109,317
Storm Water	19,063
	<u>274,649</u>
Total depreciation expense - business-type activities	<u>\$ 274,649</u>

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Long-Term Debt

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

General Obligation Improvement Bonds:

The 2002B G.O. Refunding and Improvement Bonds were issued to refund the 1994B G.O. Improvement Bonds and to finance construction of various improvements. The 2003 G.O. Refunding Bonds were issued to refund the 1994A G.O. Fire Station Bonds. The 2004A G.O. Tax Increment and Improvement Refunding Bonds were issued to refund the 1995A G.O. Tax Increment Bonds, the 1998 G.O. Improvement Bonds, the 2000A G.O. Improvement Bonds. 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.

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, 2011 balances is as follows:

	Range of Interest Rates	Final Maturity	Balance December 31, 2011
General Obligation Improvement Bonds			
Series 2002B Refunding and Improvement	2.00 - 4.30%	2013	\$ 100,000
Series 2010A Improvement	3.25%	2018	193,000
General Obligation Revenue Notes			
Series 1993 - PFA	3.34%	2014	190,419
Series 2004 - PFA	1.00%	2023	411,000
General Obligation Revenue Bonds			
Series 2002A Water and Sewer	2.00 - 4.30%	2013	90,000
2008 EDA Housing Refunding Bonds	4.10 - 4.60%	2026	2,270,000
Other			
Promissory Note - USDA	4.375%	2019	94,855
Promissory Note - USDA	4.25%	2019	45,732
Promissory Note - USDA	4.50%	2024	221,791
Total			<u>\$ 3,616,797</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, 2011 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	\$ 150,000	\$	\$ 50,000	\$	\$ 100,000	\$ 50,000
Series 2004A Refunding	5,000		5,000			
Series 2010A Improvement	203,600		10,600		193,000	28,000
Other:						
Promissory Note - USDA	104,589		9,734		94,855	10,160
Promissory Note - USDA	50,453		4,721		45,732	4,921
Promissory Note - USDA	234,162		12,371		221,791	12,927
Compensated Absences	53,288			425	53,713	
Governmental Activities Long-term Liabilities	<u>801,092</u>		<u>92,426</u>	<u>425</u>	<u>709,091</u>	<u>106,008</u>
BUSINESS-TYPE ACTIVITIES						
General Obligation Revenue Notes:						
Series 1993 - PFA	266,039		75,620		190,419	78,167
Series 2004 - PFA	443,000		32,000		411,000	32,000
General Obligation Revenue Bonds:						
Series 2002A Water and Sewer	135,000		45,000		90,000	45,000
2008 EDA Housing Refunding Bonds	2,375,000		105,000		2,270,000	110,000
Compensated Absences	33,601			(246)	33,355	
Unamortized Discount and Issue Costs	(96,376)			(5,841)	(90,535)	
Business-type Activities Long-term Liabilities	<u>3,156,264</u>		<u>257,620</u>	<u>(6,087)</u>	<u>2,904,239</u>	<u>265,167</u>
Total	<u>\$ 3,957,356</u>	<u>\$</u>	<u>\$ 350,046</u>	<u>\$ (5,662)</u>	<u>\$ 3,613,330</u>	<u>\$ 371,175</u>

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Long-Term Debt (Continued)

The annual requirements to amortize all long-term debt outstanding as of December 31, 2011 are summarized below.

Years	General Obligation		General Obligation Revenue		Other	
	Principal	Interest	Principal	Interest	Principal	Interest
<u>Governmental Activities</u>						
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	30,000	2,291			33,288	10,796
2017-2021	48,000	1,560			146,483	31,537
2022-2026					62,938	5,746
Totals	<u>\$ 293,000</u>	<u>\$ 26,850</u>			<u>\$ 362,378</u>	<u>\$ 104,742</u>

Business-Type Activities

2012	\$ 265,167	\$ 109,842
2013	273,800	100,444
2014	184,452	91,875
2015	158,000	86,100
2016	164,000	80,646
2017-2021	914,000	312,977
2022-2026	1,002,000	131,186
Totals	<u>\$ 2,961,419</u>	<u>\$ 913,070</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, 2011 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, 2011, the Housing Revenue Refunding Bonds outstanding aggregated \$8,105,000.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Individual Fund Disclosures

Transfers during the year ended December 31, 2011 were as follows:

Funds	Transfers In	Transfers Out
General Fund:	\$ 15,802	\$ 190,436
Special Revenue:		
Ambulance		27,492
Park	5,004	6,000
Library		
Fire	27,492	24,996
Arts		
EDA	15,000	60,000
Debt Service:		
2004 GO Tax Increment and Improvement Refunding		10,810
Capital Projects:		
Capital Projects	175,476	70,000
TIF #1		161,640
Third St. Project	102,694	
Enterprise:		
Water	40,000	63,492
Sewer	74,436	3,492
Garbage and recycling		996
Electric	58,946	18,000
Storm Water		2,496
Heritage Grove	125,000	
Total Transfers	\$ 639,850	\$ 639,850

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, 2011, at the individual fund level are summarized below:

	Due From Other Funds	Due To Other Funds
General Fund	\$ 64,212	\$
Special Revenue:		
Fire		221,632
Revolving Loan	7,365	
Small Cities Grant		1,091
Capital Projects:		
TIF #5		61,033
Enterprise Fund:		
Electric	219,544	
Heritage Grove		7,365
	<u>\$ 291,121</u>	<u>\$ 291,121</u>

At December 31, 2011 the following funds have deficit fund equity:

Special Revenue:		
Small Cities Grant		\$ 1,091
Fire		214,108
Capital Projects:		
TIF #5		60,671
Enterprise Fund:		
Heritage Grove		176,583

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

Excess of expenditures over appropriations at the individual fund level during 2011 are as follows:

Special Revenue:		
Ambulance Fund		\$ 21,237
Fire Fund		50,550

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, 2011 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	\$ 8,255	\$	\$ 68,550	\$ 136,951	\$ 213,756
Taxes receivable	32,378		3,461	7,797	43,636
Loans receivable		240,223		83,278	323,501
Total	\$ 40,633	\$ 240,223	\$ 72,011	\$ 228,026	\$ 580,893

9. Fund Equity

Committed fund balance in the fund financial statements at December 31, 2011 consists of the following:

	General	Capital Projects
Committed Fund Balance		
Cash Flow	\$ 259,850	\$
Equipment:		
Public safety		92,500
Streets and highways		163,250
Park and recreation		22,500
Utility		37,000
Interest		45,595
	\$ 259,850	\$ 360,845

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. GERP Basic Plan members and Coordinated Plan members are required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2011. PEPFF members were required to contribute 9.4% of their annual covered salary in 2011. The City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan Members, and 14.1% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2011, 2010, and 2009 were \$28,007, \$27,887, and \$26,890, 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 2011.

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 2011. 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, 2011

**CITY OF HARMONY, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2011**

	Special Revenue					
	251 Park	211 Library	202 Small Cities Grant	201 Revolving Loan	261 Arts	620 EDA
ASSETS						
Cash and investments	\$ 24,786	\$ 2,984	\$	\$ 121,584	\$ 17,514	\$ 7,221
Accounts receivable						2,000
Taxes receivable - delinquent						
Special assessments receivable						
Deferred						
Delinquent						
Loan receivable			60,743	179,480		
Due from other funds				7,365		
Due from other governmental units						
Prepaid items	2,178	280				15
TOTAL ASSETS	\$ 26,964	\$ 3,264	\$ 60,743	\$ 308,429	\$ 17,514	\$ 9,236
LIABILITIES AND FUND BALANCE						
Liabilities:						
Accounts payable	\$ 303	\$ 1,969	\$	\$	\$ 250	\$ 1,464
Accrued liabilities	21	973				207
Due to other funds			1,091			
Due to other governments						
Deferred revenue			60,743	179,480		
Total Liabilities	324	2,942	61,834	179,480	250	1,671
Fund Balance:						
Nonspendable	2,178	280				15
Restricted						
Grantors				128,949		
Creditors (debt covenants)						
Imposed by law						
Committed						
Assigned	24,462	42			17,264	7,550
Unassigned			(1,091)			
Total Fund Balance	26,640	322	(1,091)	128,949	17,264	7,565
TOTAL LIABILITIES AND FUND BALANCE	\$ 26,964	\$ 3,264	\$ 60,743	\$ 308,429	\$ 17,514	\$ 9,236

FORM E-1

Capital Project			Debt Service			Total Nonmajor Governmental Funds 2011
401 Capital Projects	419 Third St. Project	418 TIF #5	312 2002 G.O. Improvement Bonds	313 2004 G.O. Tax Increment and Improvement Refunding	314 2010 G.O. Improvement Bonds	
\$ 360,845	\$ 910	\$ 153	\$ 35,369	\$	\$ 33,082	\$ 604,448
			2,690		771	2,000
			13,213		52,774	3,461
			2,521		42	65,987
		209	812		437	2,563
						240,223
						7,365
						1,458
						2,473
<u>\$ 360,845</u>	<u>\$ 910</u>	<u>\$ 362</u>	<u>\$ 54,605</u>	<u>\$</u>	<u>\$ 87,106</u>	<u>\$ 929,978</u>
\$	\$ 910	\$	\$	\$	\$	\$ 4,896
		61,033				1,201
			18,424		53,587	62,124
						312,234
	910	61,033	18,424		53,587	380,455
						2,473
			36,181		33,519	128,949
360,845						69,700
		(60,671)				360,845
						49,318
						(61,762)
<u>360,845</u>	<u>(60,671)</u>		<u>36,181</u>		<u>33,519</u>	<u>549,523</u>
<u>\$ 360,845</u>	<u>\$ 910</u>	<u>\$ 362</u>	<u>\$ 54,605</u>	<u>\$</u>	<u>\$ 87,106</u>	<u>\$ 929,978</u>

CITY OF HARMONY, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2011

	Special Revenue					
	251 Park	211 Library	202 Small Cities Grant	201 Revolving Loan	261 Arts	620 EDA
REVENUES						
General property taxes	\$ 42,000	\$ 66,996	\$	\$	\$ 4,500	\$ 97,500
Tax increment						
Special assessments						
Intergovernmental revenues		28,894				
Charges for services	716	1,413				
Investment income	169	18		7,473	106	197
Miscellaneous revenues	3,494	56	907	33,482	872	750
TOTAL REVENUES	46,379	97,377	907	40,955	5,478	98,447
EXPENDITURES						
Streets and highways						
Library		101,532				
Park and recreation	39,847				4,301	
Economic development				875		63,113
Debt service						
Unallocated	64					
TOTAL EXPENDITURES	39,911	101,532		875	4,301	63,113
Excess (deficiency) of revenues over (under) expenditures	6,468	(4,155)	907	40,080	1,177	35,334
OTHER FINANCING SOURCES (USES)						
Transfers In	5,004					15,000
Transfers out	(6,000)					(60,000)
Total other financing sources (uses)	(996)					(45,000)
Net change in fund balances	5,472	(4,155)	907	40,080	1,177	(9,666)
Fund Balance - Beginning	21,168	4,477	(1,998)	88,869	16,087	17,231
Fund Balance - Ending	\$ 26,640	\$ 322	\$ (1,091)	\$ 128,949	\$ 17,264	\$ 7,565

Capital Projects			Debt Service			Total Nonmajor Governmental Funds 2011
401 Capital Projects	419 Third St. Project	418 TIF #5	312 2002 G.O. Improvement Bonds	313 2004 G.O. Tax Increment and Refunding	314 2010 G.O. Improvement Bonds	
\$	\$	\$	\$ 37,296	\$ 57	\$ 23,172	\$ 271,521
		6,775				6,775
		184	8,290		8,554	16,844
			2,925		1,880	33,883
		10				2,129
1,961			32	70	133	10,169
						39,561
<u>1,961</u>		<u>6,969</u>	<u>48,543</u>	<u>127</u>	<u>33,739</u>	<u>380,882</u>
	39,639					39,639
						101,532
						44,148
						63,988
		1,650	55,657	5,079	17,217	79,603
		63				127
	<u>39,639</u>	<u>1,713</u>	<u>55,657</u>	<u>5,079</u>	<u>17,217</u>	<u>329,037</u>
1,961	(39,639)	5,256	(7,114)	(4,952)	16,522	51,845
175,476	102,694					298,174
(70,000)				(10,810)		(146,810)
<u>105,476</u>	<u>102,694</u>			<u>(10,810)</u>		<u>151,364</u>
107,437	63,055	5,256	(7,114)	(15,762)	16,522	203,209
253,408	(63,055)	(65,927)	43,295	15,762	16,997	346,314
<u>\$ 360,845</u>	<u>\$ (60,671)</u>		<u>\$ 36,181</u>	<u>\$</u>	<u>\$ 33,519</u>	<u>\$ 549,523</u>

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CITY OF HARMONY, MINNESOTA

SUPPLEMENTAL INFORMATION

DECEMBER 31, 2011

SCHEDULE 1

**CITY OF HARMONY, MINNESOTA
WATER FUND**

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

For the Year Ended December 31, 2011

With Comparative Totals for the Year Ended December 31, 2010

	2011	2010
Operating Revenue		
Sales and rentals	\$ 165,457	\$ 162,348
Operating Expenses		
Salaries and wages	44,897	44,496
Service contracts	850	750
Materials and supplies	62,259	34,468
Utilities	15,479	12,696
Repairs and maintenance	57,331	39,949
Travel and training	2,376	2,595
Professional services	2,350	1,625
Miscellaneous	2,974	2,161
Insurance	3,001	2,857
Depreciation/amortization	20,232	18,331
Total Operating Expenses	<u>211,749</u>	<u>159,928</u>
Operating Income (Loss)	<u>(46,292)</u>	<u>2,420</u>
Nonoperating Revenues (Expenses)		
Investment income	97	531
Other revenue	171	143
Total Nonoperating Revenues (Expenses)	<u>268</u>	<u>674</u>
INCOME BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	(46,024)	3,094
Capital contributions	60,798	
Transfers in	40,000	70,000
Transfers out	<u>(63,492)</u>	<u>(63,492)</u>
Change in net assets	(8,718)	9,602
Net Assets - Beginning of Year	<u>659,090</u>	<u>649,488</u>
Net Assets - End of Year	<u>\$ 650,372</u>	<u>\$ 659,090</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, 2011

With Comparative Totals for the Year Ended December 31, 2010

	2011	2010
Operating Revenue		
Sales and rentals	\$ 286,524	\$ 288,682
Operating Expenses		
Salaries and wages	50,686	44,691
Service contracts	150	956
Materials and supplies	9,109	9,431
Utilities	51,164	55,481
Repairs and maintenance	14,034	27,201
Travel and training	2,276	2,499
Professional fees	11,476	8,144
Miscellaneous	1,569	1,656
Insurance	3,713	3,421
Depreciation/amortization	83,917	83,656
Total Operating Expenses	<u>228,094</u>	<u>237,136</u>
Operating Income	<u>58,430</u>	<u>51,546</u>
Nonoperating Revenues (Expenses)		
Special assessments	331	2,822
Investment income	882	1,206
Other revenue		396
Interest expense and fiscal charges	(16,103)	(20,717)
Total Nonoperating Revenues (Expenses)	<u>(14,890)</u>	<u>(16,293)</u>
INCOME BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	43,540	35,253
Capital contributions	6,426	
Transfers in	74,436	74,436
Transfers out	(3,492)	(3,492)
Change in net assets	120,910	106,197
Net Assets - Beginning of Year	<u>1,151,193</u>	<u>1,044,996</u>
Net Assets - End of Year	<u>\$ 1,272,103</u>	<u>\$ 1,151,193</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, 2011

With Comparative Totals for the Year Ended December 31, 2010

	2011	2010
Operating Revenue		
Sales and rentals	\$ 895,170	\$ 882,453
Operating Expenses		
Salaries and wages	24,680	26,714
Purchased power	748,351	722,518
Materials and supplies	35,745	27,979
Utilities	14,259	13,905
Repairs and maintenance	16,646	22,309
Professional fees	4,591	3,819
Miscellaneous	3,774	3,915
Insurance	7,184	6,787
Depreciation/amortization	42,120	41,237
Total Operating Expenses	<u>897,350</u>	<u>869,183</u>
Operating Income (Loss)	<u>(2,180)</u>	<u>13,270</u>
Nonoperating Revenues (Expenses)		
Special assessments	1,157	581
Investment income	1,936	5,742
Other revenue	20,099	10,636
Total Nonoperating Revenues (Expenses)	<u>23,192</u>	<u>16,959</u>
INCOME BEFORE TRANSFERS	21,012	30,229
Transfers in	58,946	
Transfers out	<u>(18,000)</u>	<u>(18,000)</u>
Change in net assets	61,958	12,229
Net Assets - Beginning of Year	<u>1,246,633</u>	<u>1,234,404</u>
Net Assets - End of Year	<u>\$ 1,308,591</u>	<u>\$ 1,246,633</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, 2011
With Comparative Totals for the Year Ended December 31, 2010

	2011	2010
Operating Revenue		
Sales and rentals	\$ 707,595	\$ 643,109
Operating Expenses		
Salaries and wages	349,424	296,331
Service contracts	48,850	32,044
Materials and supplies	67,943	45,624
Utilities	41,478	38,901
Repairs and maintenance	40,617	26,231
Travel and training	904	257
Professional fees	3,192	3,067
Miscellaneous	28,465	32,177
Insurance	58,200	56,541
Depreciation/amortization	115,158	114,820
Total Operating Expenses	<u>754,231</u>	<u>645,993</u>
Operating Loss	<u>(46,636)</u>	<u>(2,884)</u>
Nonoperating Revenues (Expenses)		
Investment income	35	513
Interest expense and fiscal charges	(101,867)	(106,080)
Total Nonoperating Revenues (Expenses)	<u>(101,832)</u>	<u>(105,567)</u>
LOSS BEFORE TRANSFERS	<u>(148,468)</u>	<u>(108,451)</u>
Transfers in	<u>125,000</u>	<u>115,000</u>
Change in net assets	<u>(23,468)</u>	<u>6,549</u>
Net Assets - Beginning of Year	<u>(153,115)</u>	<u>(159,664)</u>
Net Assets - End of Year	<u>\$ (176,583)</u>	<u>\$ (153,115)</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, 2011

With Comparative Totals for the Year Ended December 31, 2010

	2011	2010
Operating Revenue		
Sales and rentals	\$ 52,633	\$ 53,017
Operating Expenses		
Salaries and wages	14,630	13,796
Service contracts	32,094	30,944
Materials and supplies	1,551	1,513
Professional services	2,350	1,625
Miscellaneous	381	294
Total Operating Expenses	<u>51,006</u>	<u>48,172</u>
Operating Income	1,627	4,845
Nonoperating Revenues (Expenses)		
Investment income	<u>160</u>	<u>273</u>
INCOME BEFORE TRANSFERS	1,787	5,118
Transfers out	<u>(996)</u>	<u>(996)</u>
Change in net assets	791	4,122
Net Assets - Beginning of Year	<u>26,324</u>	<u>22,202</u>
Net Assets - End of Year	<u>\$ 27,115</u>	<u>\$ 26,324</u>

SCHEDULE 6

**CITY OF HARMONY, MINNESOTA
STORM WATER FUND**

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

For the Year Ended December 31, 2011

With Comparative Totals for the Year Ended December 31, 2010

	2011	2010
Operating Revenue		
Sales and rentals	\$ 9,642	\$ 9,690
Operating Expenses		
Salaries and wages	2,242	3,799
Materials and supplies	738	375
Repairs and maintenance	2,501	400
Insurance	741	603
Depreciation/amortization	19,063	19,022
Total Operating Expenses	<u>25,285</u>	<u>24,199</u>
Operating Loss	<u>(15,643)</u>	<u>(14,509)</u>
Nonoperating Revenues (Expenses)		
Interest expense	<u>10</u>	<u>(5)</u>
INCOME BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	(15,633)	(14,514)
Capital contributions	3,216	
Transfers out	<u>(2,496)</u>	<u>(2,496)</u>
Change in net assets	(14,913)	(17,010)
Net Assets - Beginning of Year	<u>549,584</u>	<u>566,594</u>
Net Assets - End of Year	<u><u>\$ 534,671</u></u>	<u><u>\$ 549,584</u></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, 2011 and have issued our report thereon dated March 29, 2012.

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.

Smith, Schafner and Associates, Ltd.

Rochester, Minnesota
March 29, 2012