

CITY OF HARMONY, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2012

CITY OF HARMONY, MINNESOTA

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CITY OF HARMONY, MINNESOTA

INTRODUCTORY SECTION

DECEMBER 31, 2012

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CITY OF HARMONY, MINNESOTA

CITY OFFICIALS

December 31, 2011

Steve Donney	Mayor
Dan Tieffenbacher	Council Member
Gerald Shuck	Council Member
Jim Bakken	Council Member
Debbie Swenson	Council Member
Jerome Illg	Administrator
Eileen Schansberg	Deputy Clerk

December 31, 2012

Steve Donney	Mayor
Dan Tieffenbacher	Council Member
Gerald Shuck	Council Member
Jim Bakken	Council Member
Debbie Swenson	Council Member
Jerome Illg	Administrator
Eileen Schansberg	Deputy Clerk

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CITY OF HARMONY, MINNESOTA

FINANCIAL SECTION

DECEMBER 31, 2012

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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, as of and for the year ended December 31, 2012, which collectively comprise the City of Harmony's basic financial statements as listed in the table of contents and the related notes to the financial statements. The prior year comparative information has been derived from the City's 2011 financial statements and, in our report dated March 29, 2012, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 as of December 31, 2012, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 3 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Harmony's financial statements as a whole. 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. The combining and individual nonmajor fund financial statements and supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Smith, Schafu and Associates, Ltd.

Rochester, Minnesota
March 28, 2013

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, 2012. We encourage readers to consider the information presented here in conjunction with the entire audit report.

New Accounting Pronouncement. The City implemented GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, in fiscal year 2012. This standard provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The reader will notice a change in terminology from "net assets" to "net position."

FINANCIAL HIGHLIGHTS

- The assets of the City of Harmony exceeded its liabilities at the close of the fiscal year by \$8,432,795 (*net position*). Of this amount, \$2,183,558 (*unrestricted net position*) 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 \$1,457,355, of which 83 percent is available for use with the City's designations.
- As the end of the fiscal year, unassigned fund balance of the general fund was \$337,102, or 68 percent of total general fund expenditures.
- The City of Harmony decreased the existing debt principal by \$370,175 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 position presents all information on all of the City of Harmony's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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.

CITY OF HARMONY, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

The government-wide financial statements include not only the City of Harmony itself (known as the primary government), but also a legally separate economic development authority, which is reported as a governmental activity. The Economic Development Authority, although legally separate, functions for all practical purposes as a department of the City of Harmony, and therefore has been included as an integral part of the primary government. The government-wide financial statements can be found on pages 14-16 of this report.

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

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

GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, requires fund balances to be classified as follows:

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. The Council has authorized the City Administrator to assign fund balance.

Unassigned – This includes any funds with negative balance and general fund balances that do not meet the criteria for the other categories.

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 14 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, capital projects fund, ambulance fund, and TIF#1 fund. Data from the other 10 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.

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

The City of Harmony adopts an annual appropriated budget for its general, debt service, 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 17-18 of this report.

Proprietary Funds. The City of Harmony maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Harmony uses enterprise funds to account for its water, sewer, garbage and recycling, electric, and senior living (Heritage Grove) operations. The water, sewer, garbage and recycling, storm water, electric, and senior living are reported as major funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements can be found on pages 26-31 of this report.

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

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 33-55 of this report.

Other Information. The combining statements referred to earlier in connection with non-major governmental funds can be found on pages 56-59.

Financial Analysis of the City

As noted earlier, net position 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 \$8,432,795 at the close of the fiscal year, with \$4,633,726 of this net position from governmental activities and \$3,799,069 from business-type activities.

	Government Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 2,201,463	\$ 1,970,254	\$ 1,179,749	\$ 1,065,608	\$ 3,381,212	\$ 3,035,862
Capital assets	3,196,597	3,369,176	5,441,042	5,634,092	8,637,639	9,003,268
Total assets	\$ 5,398,060	\$ 5,339,430	\$ 6,620,791	\$ 6,699,700	\$12,018,851	\$12,039,130
Long-term liabilities outstanding	\$ 550,370	\$ 655,378	\$ 2,611,558	\$ 2,870,884	\$ 3,161,928	\$ 3,526,262
Other liabilities	213,964	108,584	210,164	212,547	424,128	321,131
Total liabilities	764,334	763,962	2,821,722	3,083,431	3,586,056	3,847,393
Net position:						
Invested in capital assets, net of related debt	2,646,227	2,713,798	2,829,484	2,763,208	5,475,711	5,477,006
Restricted	773,526	702,420			773,526	702,420
Unrestricted	1,213,973	1,159,250	969,585	853,061	2,183,558	2,012,311
Total Net Position	4,633,726	4,575,468	3,799,069	3,616,269	8,432,795	8,191,737
Total Liabilities & Net Position	\$ 5,398,060	\$ 5,339,430	\$ 6,620,791	\$ 6,699,700	\$12,018,851	\$12,039,130

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

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

A significant portion of the City of Harmony's net position \$5,475,711 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.

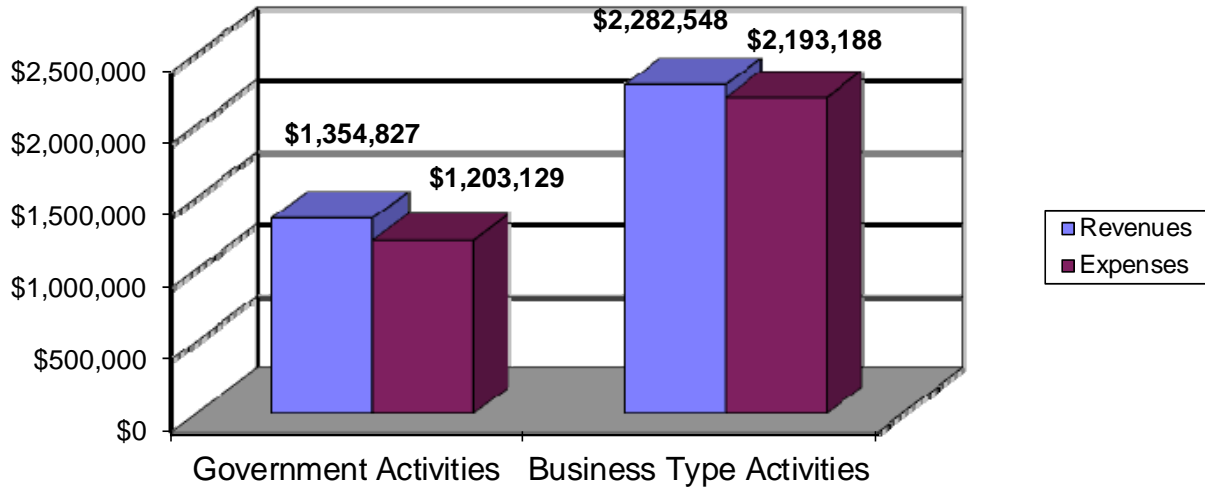
City of Harmony's Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues						
Charges for services	\$ 302,315	267,191	\$ 2,266,008	\$ 2,117,021	\$ 2,568,323	\$ 2,384,212
Operating grants and contributions	34,019	29,519			34,019	29,519
Capital grants and contributions	26,424	74,727		70,440	26,424	145,167
General revenues:						
Taxes	630,848	658,193			630,848	658,193
Intergovernmental revenue	330,755	376,134			330,755	376,134
Unrestricted investment earnings	15,349	16,623	2,158	3,110	17,507	19,733
Other	15,117	72,987	14,382	21,758	29,499	94,745
Total revenues	1,354,827	1,495,374	2,282,548	2,212,329	3,637,375	3,707,703
Expenses:						
General government	112,230	103,225			112,230	103,225
Public safety	386,787	479,309			386,787	479,309
Highway and streets	170,956	129,833			170,956	129,833
Library	100,622	101,532			100,622	101,532
General government buildings	158,953	149,199			158,953	149,199
Parks and recreation	53,884	54,530			53,884	54,530
Economic development authority	182,018	117,973			182,018	117,973
Bond interest and fiscal charges	11,425	19,379			11,425	19,379
Other	26,254	16,086			26,254	16,086
Water			130,201	211,749	130,201	211,749
Sewer			262,318	244,197	262,318	244,197
Electric			935,921	897,350	935,921	897,350
Senior living			786,301	856,098	786,301	856,098
Garbage and recycling			50,972	51,006	50,972	51,006
Storm water			27,475	25,275	27,475	25,275
Total expenses	1,203,129	1,171,066	2,193,188	2,285,675	3,396,317	3,456,741
Increase in net position before transfers and other items	151,698	324,308	89,360	(73,346)	241,058	250,962
Transfers	(93,440)	(209,906)	93,440	209,906		
Change in net position	58,258	114,402	182,800	136,560	241,058	250,962
Net Position – January 1	4,575,468	4,461,066	3,616,269	3,479,709	8,191,737	7,940,775
Net Position – December 31	\$ 4,633,726	\$ 4,575,468	\$ 3,799,069	\$ 3,616,269	\$ 8,432,795	\$ 8,191,737

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

The following graph shows 2012 revenues and expenses for both government activities and business-type activities.

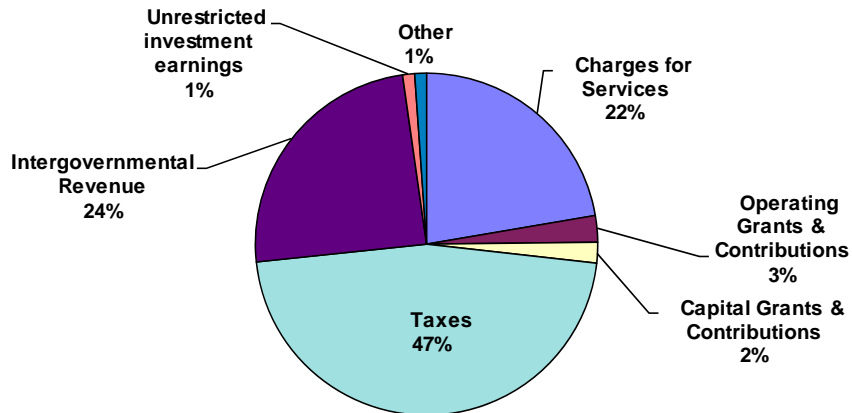
City of Harmony's Revenues & Expenses



Government Activities. Government activities account for 55% of the City of Harmony's net position.

The total increase in net position for governmental activities is \$58,258 for the year ended December 31, 2012. The total revenues for governmental activities amounted to \$1,354,827 while total expenses were \$1,203,129 and transfers out were \$93,440, which is illustrated in the chart above.

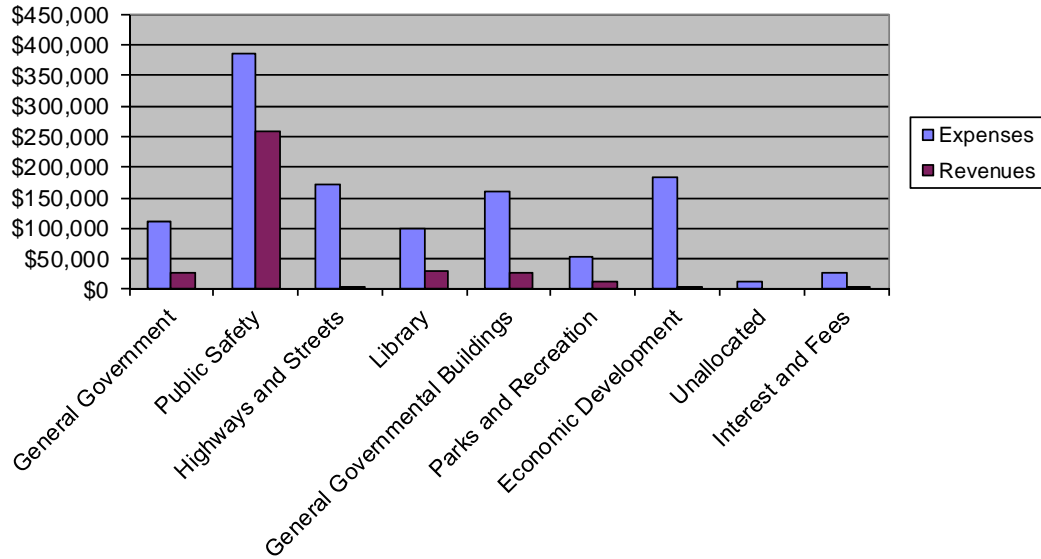
Government Activities Revenues



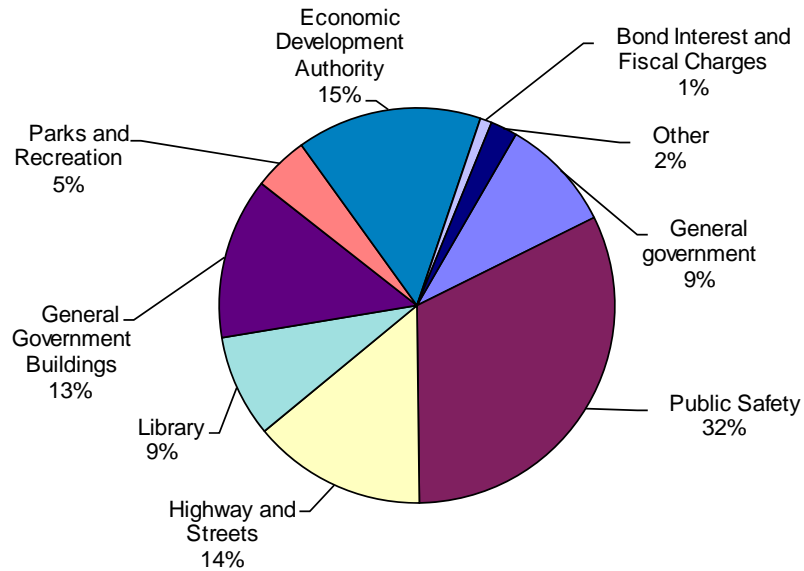
- Charges for Services increased during the year, resulting from increased ambulance calls.
- Capital Grants decreased due to a lighting grant project being completed in 2011 for the general governmental buildings.

CITY OF HARMONY, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

Expenses and Program Revenues-Governmental Activities



Government Activities Expenses

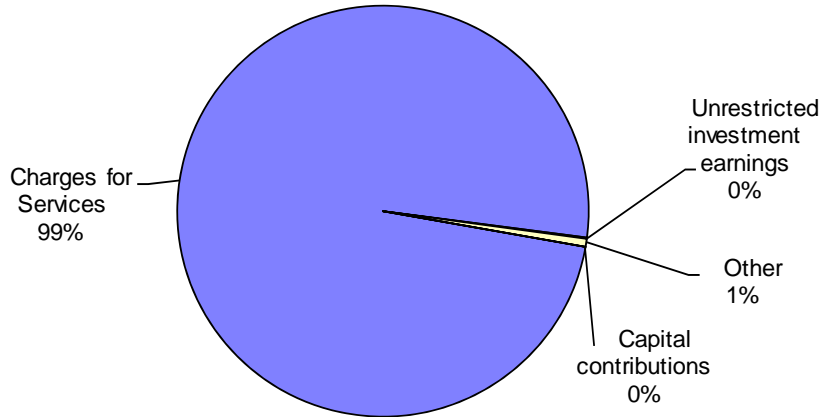


- Public safety decreased, which was due to a new fire truck that was ordered in 2010 and was delivered and paid in 2011.
- Increase in the economic development authority was due to the success of the commercial rehab program.
- General government buildings decreased in 2012 due to lighting project being completed in 2011 for the community center and visitor center.

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

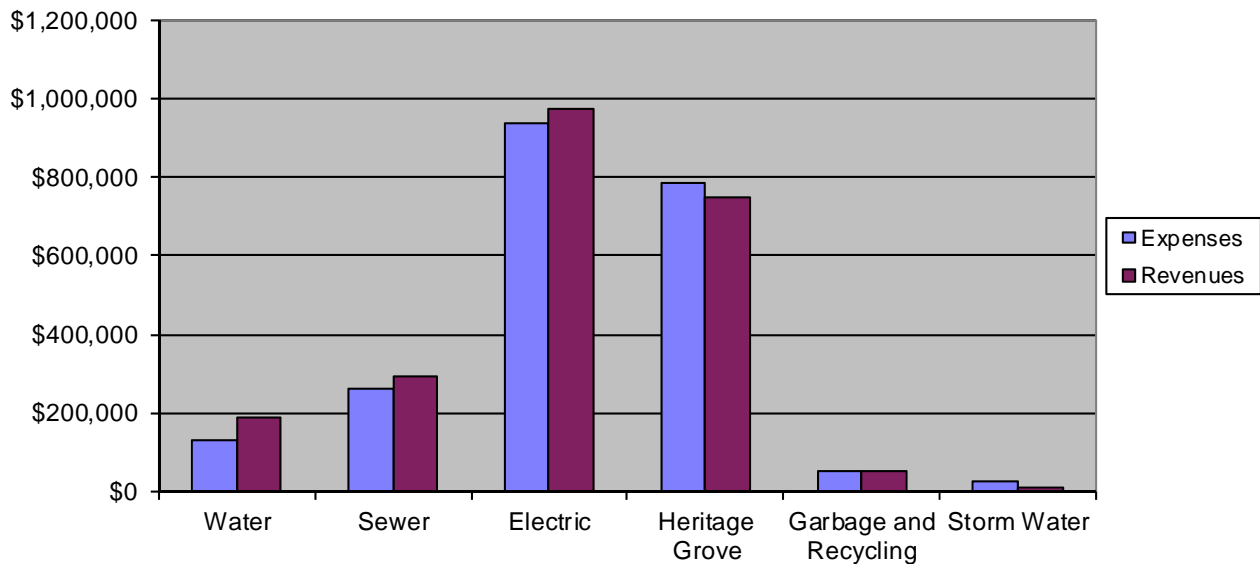
Business-type activities. Business-type activities increased the City of Harmony net position \$182,800 for the year ended December 31, 2012. Business-type activities revenues and expenses are illustrated in the charts below.

Business-Type Activities Revenue



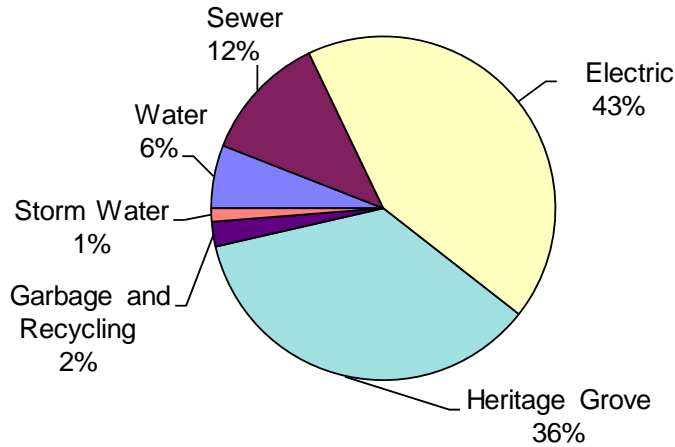
- Charges for services increased for consumption of water as well as water rate changes.
- Charges for services increased for sewer due to sewer rate changes.
- Charges for services increased due to electric rate changes and an increase in consumption.
- Charges for services increased for senior living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

Expenses and Program Revenues-Business Type-Activities



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

Business-Type Activities Expenses



- The wholesale electric power costs increased because of increase in electrical consumption due to warmer summer weather as well as wholesale power changes. The city has completed changing electric meters to radio read meters, which contributed to lower material costs.
- The sewer fund had increased repairs and maintenance costs due to the age of the equipment at the wastewater treatment plant.
- Heritage Grove had decreased expenses due to management changes.
- The water fund had decreased expenses due to well repairs and maintenance being completed in 2011. The city has completed changing water meters to radio read meters, which contributed to lower 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 about 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 \$1,457,355.

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, unassigned fund balance of the general fund was \$337,102.

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

The fund balance of the City of Harmony's general fund decreased by \$41,442 during the current year. Key factors in this change are as follows:

- Refunds and Reimbursements increased due to unanticipated dividend refunds for workers compensation and property insurance resulting in \$15,000 additional revenue.
- 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.
- A mill and overlay was completed on a street at a cost of \$13,000.
- The occupancy at Heritage Grove Senior Living Facility continued to struggle throughout 2012, causing a cash shortfall, in which the general fund transferred \$45,000 to meet the facilities operating expenditures.

The debt service funds have a total fund balance of \$73,618, 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 position of the proprietary funds at year-end are as follows:

Water	\$58,554
Sewer	\$202,764
Garbage and Recycling	\$27,869
Electric	\$658,562
Heritage Grove	\$20,033
Storm Water	\$1,803

General Fund Budgetary Highlights. After the 2012 budget was developed, the council approved repairing sidewalk and improving lighting at the community center and a mill and overlay of a residential street. They also approved the purchase of a street sweeper.

Capital Asset Administration. The City of Harmony's investment in capital assets for its governmental and business type activities as of December 31, 2012 amounts to \$8,637,639 (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:

- \$13,750 Sidewalk, Door, and Lights. Replaced the entry way lighting, sidewalk, and door at the Community Center because of maintenance concerns.
- \$41,000 Street Sweeper. The City of Harmony purchased a street sweeper due to the large repairs necessary for the current street sweeper.
- \$9,000 Emergency Equipment. Purchased pagers to be compatible with narrow-banding for emergency communication needs.
- \$13,750 Street Mill and Overlay. First Street Southeast received a mill and overlay in 2012.

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

City of Harmony's Capital Assets

	Government Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 289,318	\$ 289,318	\$ 168,114	\$ 168,114	\$ 457,432	\$ 457,432
Building and Improvements	1,214,545	1,214,545	4,811,814	4,809,441	6,026,359	6,023,986
Vehicles	1,197,967	1,197,967	52,807	52,807	1,250,774	1,250,774
Machinery and Other Equipment	523,168	538,298	456,736	394,009	979,904	932,307
Infrastructure	3,047,661	3,018,068	3,473,703	3,464,138	6,521,364	6,482,206
Work-In-Progress	13,325				13,325	
Total assets	6,285,984	6,258,196	8,963,174	8,888,509	15,249,158	15,146,705
Less: Accumulated Depreciation	(3,089,387)	(2,889,020)	(3,522,132)	(3,254,417)	(6,611,519)	(6,143,437)
Net Capital Assets	\$3,196,597	\$3,369,176	\$5,441,042	\$5,634,092	\$8,637,639	\$9,003,268

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

Long-Term Debt. At the end of the fiscal year, the City of Harmony had long-term debt of \$3,246,622. General obligation debt outstanding of \$2,160,000 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 \$493,252 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	
	2012	2011	2012	2011	2012	2011
General Obligation Bonds	\$ 216,000	\$ 293,000	\$	\$	\$ 216,000	\$ 293,000
General Obligation Improvement						
USDA Promissory Note	334,370	362,378			334,370	362,378
General Obligation Note			491,252	601,419	491,252	601,419
General Obligation Revenue			2,205,000	2,360,000	2,205,000	2,360,000
Total assets	\$ 550,370	\$ 655,378	\$2,696,252	\$2,961,419	\$3,246,622	\$3,616,797

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

Factors on the City of Harmony's Future

The City of Harmony has finished the community center building improvement project. A new metal roof was installed. The exterior walls and windows of the community center, as well as a heating/cooling system for the gym, rooms and hallways were replaced. The community center parking lot has been replaced also with funds from the electric fund. The City of Harmony utilized the USDA Rural Development loan funds to finance the project. The City of Harmony has utilized some of the energy-efficiency savings to finance the annual debt payment on the USDA loan which was refinanced in 2013 to achieve additional savings.

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 a 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 Economic Development Authority is in the process of completing a strategic plan to outline goals and objectives.

The City of Harmony continues to monitor its utility rates. In order to finance future utility projects, rates are being reviewed on an annual basis. Given the age of the water and sewer infrastructure, the rates for water and sewer were increased in 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 showed future improvements are necessary and were incorporated in the capital improvement plan.

The City of Harmony's senior living facility continues to operate well; however, occupancy struggled in 2012. The operations of the facility unfortunately did not finance the daily operations including the debt service for 2012. 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 has hired a commercial real estate broker to sell the facility. The City of Harmony continues to monitor the operations and finances of the facility in the short term.

The City of Harmony completed a capital improvement plan in 2012 that highlighted the good financial situation of the city due to debt retirements in 2011-2014 coupled with an old TIF district that expired 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. The City of Harmony will be able to control tax rates and utility rates, while still being able to complete infrastructure projects.

The City of Harmony's capital improvement plan illustrated having potential financial resources to complete infrastructure projects, the city engineer completed a pavement management plan to rate and prioritize the streets and utilities within the community. The pavement management plan along with the capital improvement plan will be used by the Harmony City Council to manage and strategize the possible completion of street and utilities in the years to come.

The City of Harmony is planning to complete First Avenue Southwest a cooperative road project with the county, that will involve a mill and overlay, curb and gutter replacement, water main replacement, and storm sewer rehabilitation. The project is being planned for 2014.

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.

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CITY OF HARMONY, MINNESOTA

BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2012

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CITY OF HARMONY, MINNESOTA
STATEMENT OF NET POSITION

December 31, 2012

With Comparative Totals for December 31, 2011

	Governmental Activities	Business-Type Activities	Totals	
			2012	2011
Assets				
Cash and investments	\$ 1,710,281	\$ 761,923	\$ 2,472,204	\$ 2,134,089
Receivables	272,840	174,480	447,320	477,382
Internal balances	(184,605)	184,605		
Due from other governmental units	6,805		6,805	15,795
Inventory		37,288	37,288	36,362
Loans receivable	369,041		369,041	323,501
Prepaid expenses	27,101	21,453	48,554	48,733
Capital assets:				
Nondepreciable	302,643	168,114	470,757	457,432
Depreciable, net	2,893,954	5,272,928	8,166,882	8,545,836
Total Assets	5,398,060	6,620,791	12,018,851	12,039,130
Liabilities and Net Position				
Liabilities				
Accounts payable	140,266	108,220	248,486	165,777
Deposits payable		39,614	39,614	25,495
Compensated absences	55,932	34,626	90,558	87,068
Accrued liabilities	9,241	16,434	25,675	18,673
Accrued interest payable	8,525	11,270	19,795	24,118
Noncurrent liabilities:				
Due within one year	107,245	273,800	381,045	371,175
Due in more than one year	443,125	2,337,758	2,780,883	3,155,087
Total Liabilities	764,334	2,821,722	3,586,056	3,847,393
Net Position				
Invested in capital assets, net of related debt	2,646,227	2,829,484	5,475,711	5,477,006
Restricted for:				
Economic development	370,625		370,625	308,429
Tax increment financing plan	274,617		274,617	252,280
Debt service requirements	128,284		128,284	141,711
Unrestricted	1,213,973	969,585	2,183,558	2,012,311
Total Net Position	4,633,726	3,799,069	8,432,795	8,191,737
Total Liabilities and Net Position	\$ 5,398,060	\$ 6,620,791	\$ 12,018,851	\$ 12,039,130

See Notes to Financial Statements

CITY OF HARMONY, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012
With Comparative Totals for December 31, 2011

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental activities:			
General government	\$ 112,230	\$ 27,421	\$ 8,592
Public safety	386,787	244,312	6,170
Streets and highways	170,956	884	
Library	100,622	2,022	27,849
Government buildings	158,953	27,238	
Park and recreation	53,884	438	11,000
Economic development	182,018		2,332
Interest on long-term debt	11,425		
Unallocated	26,254		4,500
Total governmental activities	<u>1,203,129</u>	<u>302,315</u>	<u>34,019</u>
Business-Type activities:			
Water	130,201	187,122	
Sewer	262,318	294,461	
Electric	935,921	973,342	
Heritage Grove	786,301	748,866	
Garbage	50,972	52,615	
Storm Water	27,475	9,602	
Total business-type activities	<u>2,193,188</u>	<u>2,266,008</u>	
Total	<u><u>3,396,317</u></u>	<u><u>2,568,323</u></u>	<u><u>34,019</u></u>

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

Change in net position

Net position - beginning

Net position - ending

See Notes to Financial Statements

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Totals	
		2012	2011
\$ (84,809)	\$	\$ (84,809)	\$ (82,282)
(127,713)		(127,713)	(232,794)
(170,072)		(170,072)	(120,125)
(70,751)		(70,751)	(71,225)
(131,715)		(131,715)	(93,983)
(42,446)		(42,446)	(51,092)
(179,686)		(179,686)	(117,973)
(11,425)		(11,425)	(19,379)
(21,754)		(21,754)	(10,776)
<u>(840,371)</u>		<u>(840,371)</u>	<u>(799,629)</u>
	56,921	56,921	14,506
	32,143	32,143	48,753
	37,421	37,421	(2,180)
	(37,435)	(37,435)	(148,503)
	1,643	1,643	1,627
	(17,873)	(17,873)	(12,417)
	<u>72,820</u>	<u>72,820</u>	<u>(98,214)</u>
<u>(840,371)</u>	<u>72,820</u>	<u>(767,551)</u>	<u>(897,843)</u>
514,126		514,126	545,263
116,722		116,722	112,930
330,755		330,755	376,134
15,349	2,158	17,507	19,733
15,117	14,382	29,499	94,745
(93,440)	93,440		
<u>898,629</u>	<u>109,980</u>	<u>1,008,609</u>	<u>1,148,805</u>
58,258	182,800	241,058	250,962
<u>4,575,468</u>	<u>3,616,269</u>	<u>8,191,737</u>	<u>7,940,775</u>
<u>\$ 4,633,726</u>	<u>\$ 3,799,069</u>	<u>\$ 8,432,795</u>	<u>\$ 8,191,737</u>

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CITY OF HARMONY, MINNESOTA

FUND FINANCIAL STATEMENTS

DECEMBER 31, 2012

CITY OF HARMONY, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2012
With Comparative Totals for December 31, 2011

	101 General	223 Ambulance	401 Capital Projects	405 TIF #1	Other Governmental Funds	Total Governmental Funds	
						2012	2011
ASSETS							
Cash and investments	\$ 581,170	\$ 241,578	\$ 497,241	\$ 94,649	\$ 295,643	\$ 1,710,281	\$ 1,513,237
Accounts receivable	2,469	38,361			6,450	47,280	46,020
Taxes receivable - delinquent	31,580			6,367	4,034	41,981	43,636
Special assessments receivable:							
Deferred	7,007			125,539	47,128	179,674	211,193
Delinquent				401	3,504	3,905	2,563
Note receivable				142,310	226,731	369,041	323,501
Due from other funds	53,962				4,580	58,542	71,577
Due from other governmental units	5,762				1,043	6,805	15,795
Prepaid items	18,241	1,238			7,622	27,101	26,488
TOTAL ASSETS	\$ 700,191	\$ 281,177	\$ 497,241	\$ 369,266	\$ 596,735	\$ 2,444,610	\$ 2,254,010
LIABILITIES AND FUND BALANCE							
Liabilities							
Accounts payable	\$ 38,718	\$ 3,549	\$	\$ 94,649	\$ 3,350	\$ 140,266	\$ 39,087
Accrued liabilities	7,693	437			1,111	9,241	5,545
Due to other funds					243,147	243,147	283,756
Deferred revenue	38,587			274,617	281,397	594,601	580,893
Total Liabilities	84,998	3,986		369,266	529,005	987,255	909,281
Fund Balance							
Non-spendable							
Prepaid items	18,241	1,238			7,622	27,101	26,488
Restricted							
Grantors					144,000	144,000	128,949
Creditors					73,618	73,618	69,700
Regulations							84,925
Committed	259,850		497,241			757,091	620,695
Assigned		275,953			76,324	352,277	315,672
Unassigned	337,102				(233,834)	103,268	98,300
Total Fund Balance	615,193	277,191	497,241		67,730	1,457,355	1,344,729
TOTAL LIABILITIES AND FUND BALANCE	\$ 700,191	\$ 281,177	\$ 497,241	\$ 369,266	\$ 596,735	\$ 2,444,610	\$ 2,254,010

See Notes to Financial Statements

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

For the Year Ended December 31, 2012

With Comparative Totals for the Year Ended December 31, 2011

	101 General	223 Ambulance	401 Capital Projects	405 TIF #1	Other Governmental Funds	Total Governmental Funds	
						2012	2011
REVENUES							
General property taxes	\$ 204,188	\$	\$	\$	\$ 311,593	\$ 515,781	\$ 546,177
Tax increments				106,166	10,556	116,722	112,930
Special assessments	1,735				20,973	22,708	35,778
Licenses and permits	7,342					7,342	8,192
Fines and forfeits	959					959	1,840
Intergovernmental revenues	330,755	18,696			75,881	425,332	512,036
Charges for services	27,238	175,193			12,171	214,602	189,936
Investment income	5,682	1,052	1,993	392	6,274	15,393	16,587
Refunds and reimbursements	20,079					20,079	12,276
Miscellaneous revenues	16,769	7,610			47,295	71,674	89,356
Total Revenues	614,747	202,551	1,993	106,558	484,743	1,410,592	1,525,108
EXPENDITURES							
General government	109,601					109,601	105,836
Public safety	99,500	155,614			57,444	312,558	631,782
Street and highways	92,055					92,055	140,495
Library					100,684	100,684	101,532
Government buildings	165,851					165,851	197,762
Park and recreation					55,947	55,947	44,148
Economic development				174,236	77,021	251,257	96,692
Debt service					90,138	90,138	79,603
Unallocated	26,242			129	64	26,435	16,554
Total Expenditures	493,249	155,614		174,365	381,298	1,204,526	1,414,404
Excess (deficiency) of revenues over (under) expenditures	121,498	46,937	1,993	(67,807)	103,445	206,066	110,704
OTHER FINANCING SOURCES (USES)							
Transfers in	5,000		175,500		65,715	246,215	341,468
Transfers out	(167,940)	(37,500)	(41,097)	(17,118)	(76,000)	(339,655)	(551,374)
Total Other Financing Sources (Uses)	(162,940)	(37,500)	134,403	(17,118)	(10,285)	(93,440)	(209,906)
Net change in fund balances	(41,442)	9,437	136,396	(84,925)	93,160	112,626	(99,202)
Fund Balance - Beginning	656,635	267,754	360,845	84,925	(25,430)	1,344,729	1,443,931
Fund Balance - Ending	\$ 615,193	\$ 277,191	\$ 497,241	\$	\$ 67,730	\$ 1,457,355	\$ 1,344,729

See Notes to Financial Statements

**CITY OF HARMONY, MINNESOTA
RECONCILIATION OF NET POSITION IN THE
GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND BALANCES
IN THE FUND BASIS FINANCIAL STATEMENTS
December 31, 2012**

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

Total governmental fund balances (page 17)	\$	1,457,355
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$	6,285,984
Less: Accumulated depreciation		<u>(3,089,387)</u>
		3,196,597
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Delinquent property taxes	\$	41,981
Deferred and delinquent special assessments		183,579
Notes receivable		<u>369,041</u>
		594,601
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	\$	(550,370)
Compensated absences		(55,932)
Accrued interest		<u>(8,525)</u>
		<u>(614,827)</u>
Net position of governmental activities (page 14)	\$	<u><u>4,633,726</u></u>

See Notes to Financial Statements

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, 2012

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

Net change in fund balances - total governmental funds (page 18)	\$	112,626
<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	\$ 68,951	
Depreciation expense	<u>(227,901)</u>	(158,950)
<p>The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net assets</p>		
		(13,629)
<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, 2012	\$ 594,601	
Deferred revenue, December 31, 2011	<u>(580,893)</u>	13,708
<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	\$ 105,008	
Change in compensated absences	(2,219)	
Change in accrued interest	<u>1,714</u>	<u>104,503</u>
Change in net position of governmental activities (pages 15 and 16)	\$	<u><u>58,258</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, 2012
With Comparative Totals for the Year Ended December 31, 2011

	Budgeted Amounts		2012 Actual Amounts	Variance with Final Budget - Positive (Negative)	2011 Actual Amounts
	Original	Final			
REVENUES					
Property Tax Levy					
Property tax collected	\$ 206,400	\$ 206,400	\$ 204,188	\$ (2,212)	\$ 233,904
Special Assessments	1,500	1,500	1,735	235	1,816
Intergovernmental Revenues					
Local government aid	320,299	320,299	320,299		320,299
Market value credit			45	45	36,907
Fire state aid	9,000	9,000	9,547	547	11,910
Other state aid					28,945
PERA rate increase aid	864	864	864		864
Total Intergovernmental	330,163	330,163	330,755	592	398,925
Licenses and Permits	6,225	6,225	7,342	1,117	8,192
Fines and Forfeits	1,250	1,250	959	(291)	1,840
Charges for Services					
Rental income - community center and visitor center	26,000	26,000	27,238	1,238	28,472
Investment Income	4,000	4,000	5,682	1,682	3,913
Refunds and Reimbursements	5,000	5,000	20,079	15,079	12,276
Miscellaneous Revenues					
Lodging tax	5,000	5,000	4,717	(283)	4,416
Cable TV franchise fee	3,500	3,500	4,199	699	4,142
Other	4,100	4,100	7,853	3,753	10,255
Total Miscellaneous Revenues	12,600	12,600	16,769	4,169	18,813
TOTAL REVENUES	\$ 593,138	\$ 593,138	\$ 614,747	\$ 21,609	\$ 708,151

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, 2012
With Comparative Totals for the Year Ended December 31, 2011

	Budgeted Amounts		2012 Actual Amounts	Variance with Final Budget - Positive (Negative)	2011 Actual Amounts
	Original	Final			
EXPENDITURES					
General Government					
Mayor and Council					
Employee services	\$ 7,350	\$ 7,350	\$ 7,321	\$ 29	\$ 7,321
Printing and publication	550	550	338	212	69
Insurance	425	425		425	
Dues	1,000	1,000	1,077	(77)	1,034
Total Mayor and Council	<u>9,325</u>	<u>9,325</u>	<u>8,736</u>	<u>589</u>	<u>8,424</u>
Elections	<u>1,365</u>	<u>1,365</u>	<u>1,305</u>	<u>60</u>	
Finance and Administration					
Employee services	70,349	70,349	74,074	(3,725)	76,151
Materials and supplies	7,850	7,850	4,071	3,779	3,571
Printing and publication	1,750	1,750	1,460	290	1,047
Training	1,150	1,150	370	780	350
Repairs and maintenance	750	750	1,510	(760)	1,166
Professional fees	6,000	6,000	11,317	(5,317)	5,549
Miscellaneous	3,398	3,398	2,840	558	1,813
Total Finance and Administration	<u>91,247</u>	<u>91,247</u>	<u>95,642</u>	<u>(4,395)</u>	<u>89,647</u>
Professional Services					
Legal	<u>7,500</u>	<u>7,500</u>	<u>3,918</u>	<u>3,582</u>	<u>7,765</u>
Total General Government	<u>109,437</u>	<u>109,437</u>	<u>109,601</u>	<u>(164)</u>	<u>105,836</u>
Government Buildings					
Community Center					
Employee services	36,464	36,464	31,142	5,322	27,573
Materials and supplies	6,000	6,000	7,514	(1,514)	6,648
Insurance	14,478	14,478	13,433	1,045	13,179
Repairs and maintenance	8,750	8,750	4,392	4,358	3,244
Utilities	32,250	32,250	25,460	6,790	26,444
Miscellaneous	187	187	428	(241)	131
Capital outlay			16,318	(16,318)	43,281
Debt service	44,083	44,083	44,083		44,083
Total Community Center	<u>\$ 142,212</u>	<u>\$ 142,212</u>	<u>\$ 142,770</u>	<u>\$ (558)</u>	<u>\$ 164,583</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, 2012
With Comparative Totals for the Year Ended December 31, 2011

	Budgeted Amounts		2012 Actual Amounts	Variance with Final Budget - Positive (Negative)	2011 Actual Amounts
	Original	Final			
EXPENDITURES (Continued)					
Government Buildings (Continued)					
Visitor Center					
Employee services	\$ 11,330	\$ 11,330	\$ 8,853	\$ 2,477	\$ 7,323
Materials and supplies	3,050	3,050	2,571	479	2,406
Insurance	1,454	1,454	1,350	104	1,321
Repairs and maintenance	3,500	3,500	2,124	1,376	3,922
Capital outlay			2,178	(2,178)	12,297
Utilities	6,800	6,800	6,005	795	5,910
Total Visitor Center	<u>26,134</u>	<u>26,134</u>	<u>23,081</u>	<u>3,053</u>	<u>33,179</u>
Total Government Buildings	<u>168,346</u>	<u>168,346</u>	<u>165,851</u>	<u>2,495</u>	<u>197,762</u>
Public Safety					
Police Protection					
Contractual services	76,500	76,500	74,239	2,261	74,830
Vehicle expense	2,500	2,500	3,580	(1,080)	2,887
Materials and supplies	600	600	7	593	138
Insurance	451	451	410	41	412
Repairs and maintenance	1,000	1,000	505	495	659
Miscellaneous	750	750	624	126	698
Total Police Protection	<u>81,801</u>	<u>81,801</u>	<u>79,365</u>	<u>2,436</u>	<u>79,624</u>
Fire Protection					
Firemen's relief	<u>17,000</u>	<u>17,000</u>	<u>14,547</u>	<u>2,453</u>	<u>16,910</u>
Animal Control	<u>5,424</u>	<u>5,424</u>	<u>3,439</u>	<u>1,985</u>	<u>4,428</u>
Pest Control	<u>5,000</u>	<u>5,000</u>	<u>112</u>	<u>4,888</u>	
Civil Defense	<u>1,801</u>	<u>1,801</u>	<u>2,037</u>	<u>(236)</u>	<u>1,975</u>
Total Public Safety	<u>\$ 111,026</u>	<u>\$ 111,026</u>	<u>\$ 99,500</u>	<u>\$ 11,526</u>	<u>\$ 102,937</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, 2012
With Comparative Totals for the Year Ended December 31, 2011

	Budgeted Amounts		2012 Actual Amounts	Variance with Final Budget - Positive (Negative)	2011 Actual Amounts
	Original	Final			
EXPENDITURES (Continued)					
Streets and Highway					
Employee services	\$ 17,625	\$ 17,625	\$ 16,351	\$ 1,274	\$ 16,023
Vehicle expense	4,000	4,000	3,443	557	2,907
Materials and supplies	10,775	10,775	9,290	1,485	9,346
Insurance	2,728	2,728	2,791	(63)	2,503
Repairs and maintenance	17,000	17,000	6,182	10,818	14,696
Snow and ice	30,835	30,835	19,606	11,229	29,864
Building maintenance	23,980	23,980	20,667	3,313	22,065
Capital outlay			13,725	(13,725)	3,452
Total Streets and Highway	106,943	106,943	92,055	14,888	100,856
Unallocated					
Insurance	4,994	4,994	4,297	697	4,730
Lodging tax	5,000	5,000	5,400	(400)	4,194
Community events	6,000	6,000	7,499	(1,499)	6,579
Community development	3,000	3,000	9,046	(6,046)	658
Total Unallocated	18,994	18,994	26,242	(7,248)	16,161
TOTAL EXPENDITURES	514,746	514,746	493,249	21,497	523,552
Excess of revenues over expenditures	78,392	78,392	121,498	43,106	184,599
Other Financing Sources (Uses)					
Transfers in	13,500	13,500	5,000	(8,500)	15,802
Transfers out	(122,940)	(122,940)	(167,940)	(45,000)	(190,436)
Total Other Financing Sources (Uses)	(109,440)	(109,440)	(162,940)	(53,500)	(174,634)
Net change in fund balance	(31,048)	(31,048)	(41,442)	(10,394)	9,965
FUND BALANCE - Beginning	656,635	656,635	656,635		646,670
FUND BALANCE - Ending	\$ 625,587	\$ 625,587	\$ 615,193	\$ (10,394)	\$ 656,635

See Notes to Financial Statements

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CITY OF HARMONY, MINNESOTA
AMBULANCE FUND
Schedule of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2012
With Comparative Totals for the Year Ended December 31, 2011

	Budgeted Amounts		2012 Actual Amounts	Variance with Final Budget Positive (Negative)	2011 Actual Amounts
	Original	Final			
REVENUES					
Charges for Services					
Service fees	\$ 160,000	\$ 160,000	\$ 175,193	\$ 15,193	\$ 148,585
Intergovernmental Revenues	19,130	19,130	18,696	(434)	19,130
Miscellaneous					
Investment income			1,052	1,052	1,361
Contributions					3,950
Other	7,500	7,500	7,610	110	13,502
Total Miscellaneous	7,500	7,500	8,662	1,162	18,813
TOTAL REVENUES	186,630	186,630	202,551	15,921	186,528
EXPENDITURES					
Public Safety					
Salaries and wages	66,071	66,071	76,671	(10,600)	59,198
Insurance	4,320	4,320	3,403	917	3,993
Repair and maintenance	11,750	11,750	14,965	(3,215)	13,450
Travel, schools, conferences	4,875	4,875	7,741	(2,866)	7,052
Miscellaneous	9,000	9,000	9,068	(68)	8,049
Medicare write-offs	40,000	40,000	33,944	6,056	34,561
Capital outlay	1,500	1,500	9,822	(8,322)	15,738
TOTAL EXPENDITURES	137,516	137,516	155,614	(18,098)	142,041
EXCESS (DEFICIT) REVENUES OVER (UNDER) EXPENDITURES	49,114	49,114	46,937	(2,177)	44,487
Other Financing Sources					
Transfers out	(37,500)	(37,500)	(37,500)		(27,492)
NET CHANGE IN FUND BALANCE	11,614	11,614	9,437	(2,177)	16,995
FUND BALANCE, JANUARY 1	267,754	267,754	267,754		250,759
FUND BALANCE, DECEMBER 31	\$ 279,368	\$ 279,368	\$ 277,191	\$ (2,177)	\$ 267,754

See Notes to Financial Statements

CITY OF HARMONY, MINNESOTA
PROPRIETARY FUNDS
Statement of Net Position
December 31, 2012
With Comparative Totals for December 31, 2011

	Business-Type Activities - Enterprise Funds		
	601 Water Fund	602 Sewer Fund	604 Electric Fund
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 45,236	\$ 205,362	\$ 446,223
Accounts receivable	15,455	24,824	88,290
Special assessments		5,154	1,504
Due from other funds			189,185
Prepaid expense	2,128	2,868	5,123
Inventory	11,590		25,698
Total Current Assets	<u>74,409</u>	<u>238,208</u>	<u>756,023</u>
Noncurrent Assets:			
Capital assets:			
Nondepreciable	1,150	14,400	5,000
Depreciable	840,163	2,616,898	1,615,928
Less: Accumulated depreciation	<u>(225,342)</u>	<u>(952,574)</u>	<u>(938,803)</u>
Net capital assets	<u>615,971</u>	<u>1,678,724</u>	<u>682,125</u>
Total Assets	<u>690,380</u>	<u>1,916,932</u>	<u>1,438,148</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	3,412	17,893	75,570
Accrued liabilities	672	832	4,608
Due to other funds			
Customer deposits			10,845
Accrued interest payable		3,553	
Accrued compensated absences	11,771	13,166	6,438
Current maturities of bonds payable		158,800	
Total Current Liabilities	<u>15,855</u>	<u>194,244</u>	<u>97,461</u>
Noncurrent Liabilities:			
Bonds payable, net of current maturities, discount, and issuance costs		<u>377,452</u>	
Total Liabilities	<u>15,855</u>	<u>571,696</u>	<u>97,461</u>
NET POSITION			
Invested in capital assets, net of related debt	615,971	1,142,472	682,125
Unrestricted	<u>58,554</u>	<u>202,764</u>	<u>658,562</u>
Total Net Position	<u>\$ 674,525</u>	<u>\$ 1,345,236</u>	<u>\$ 1,340,687</u>

See Notes to Financial Statements

Business-Type Activities - Enterprise Funds

621 Heritage Grove	603 Garbage and Recycling Fund	605 Storm Water Fund	TOTALS	
			2012	2011
\$ 37,884	\$ 26,085	\$ 1,133	\$ 761,923	\$ 620,852
33,438	5,058	757	167,822	165,247
			6,658	8,723
			189,185	219,544
10,897	27	410	21,453	22,245
			37,288	36,362
<u>82,219</u>	<u>31,170</u>	<u>2,300</u>	<u>1,184,329</u>	<u>1,072,973</u>
147,564			168,114	168,114
2,917,000		805,071	8,795,060	8,720,395
<u>(1,153,289)</u>		<u>(252,124)</u>	<u>(3,522,132)</u>	<u>(3,254,417)</u>
<u>1,911,275</u>		<u>552,947</u>	<u>5,441,042</u>	<u>5,634,092</u>
<u>1,993,494</u>	<u>31,170</u>	<u>555,247</u>	<u>6,625,371</u>	<u>6,707,065</u>
11,126	219		108,220	126,690
9,994	313	15	16,434	13,128
4,580			4,580	7,365
28,769			39,614	25,495
7,717			11,270	13,879
	2,769	482	34,626	33,355
<u>115,000</u>			<u>273,800</u>	<u>265,167</u>
<u>177,186</u>	<u>3,301</u>	<u>497</u>	<u>488,544</u>	<u>485,079</u>
<u>1,960,306</u>			<u>2,337,758</u>	<u>2,605,717</u>
<u>2,137,492</u>	<u>3,301</u>	<u>497</u>	<u>2,826,302</u>	<u>3,090,796</u>
(164,031)		552,947	2,829,484	2,763,208
<u>20,033</u>	<u>27,869</u>	<u>1,803</u>	<u>969,585</u>	<u>853,061</u>
<u>\$ (143,998)</u>	<u>\$ 27,869</u>	<u>\$ 554,750</u>	<u>\$ 3,799,069</u>	<u>\$ 3,616,269</u>

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

For the Year Ended December 31, 2012
With Comparative Totals for the Year Ended December 31, 2011

	Business-Type Activities - Enterprise Funds		
	601 Water Fund	602 Sewer Fund	604 Electric Fund
Operating Revenues			
Sales and rentals	\$ 187,122	\$ 294,461	\$ 973,342
Operating Expenses			
Salaries and wages	42,814	51,384	25,135
Service contracts	850	1,611	
Purchased power			786,585
Materials and supplies	34,546	10,357	23,941
Utilities	13,507	52,349	17,225
Repairs and maintenance	7,794	30,153	25,272
Travel and training	2,309	3,059	
Professional fees	2,950	10,613	5,275
Miscellaneous	1,394	3,176	3,074
Insurance	3,007	3,712	7,164
Depreciation/amortization	21,030	84,621	42,250
Total Operating Expenses	<u>130,201</u>	<u>251,035</u>	<u>935,921</u>
Operating Income (Loss)	<u>56,921</u>	<u>43,426</u>	<u>37,421</u>
Nonoperating Revenues (Expenses)			
Special assessments		295	
Investment income	45	775	1,207
Other revenue (expense)	687	1,480	11,468
Interest expense and fiscal charges		(11,283)	
Total Nonoperating Revenues (Expenses)	<u>732</u>	<u>(8,733)</u>	<u>12,675</u>
Income (Loss) Before Transfers	57,653	34,693	50,096
Capital contributions			
Transfers in		41,940	
Transfers out	(33,500)	(3,500)	(18,000)
Change in net position	24,153	73,133	32,096
Net Position - Beginning of Year	<u>650,372</u>	<u>1,272,103</u>	<u>1,308,591</u>
Net Position - End of Year	<u>\$ 674,525</u>	<u>\$ 1,345,236</u>	<u>\$ 1,340,687</u>

Business-Type Activities - Enterprise Funds

621 Heritage Grove	603 Garbage and Recycling Fund	605 Storm Water Fund	TOTALS	
			2012	2011
\$ 748,866	\$ 52,615	\$ 9,602	\$ 2,266,008	\$ 2,117,021
350,487	11,503	2,721	484,044	486,559
34,196	34,451		71,108	81,944
			786,585	748,351
67,577	1,753	190	138,364	177,345
41,260			124,341	122,380
33,364		3,412	99,995	131,129
550			5,918	5,556
3,714	2,950		25,502	23,959
20,099	315		28,058	37,163
31,811		690	46,384	72,839
106,494		20,468	274,863	280,490
<u>689,552</u>	<u>50,972</u>	<u>27,481</u>	<u>2,085,162</u>	<u>2,167,715</u>
59,314	1,643	(17,879)	180,846	(50,694)
			295	1,488
20	111		2,158	3,110
		452	14,087	20,270
(96,749)		6	(108,026)	(117,960)
<u>(96,729)</u>	<u>111</u>	<u>458</u>	<u>(91,486)</u>	<u>(93,092)</u>
(37,415)	1,754	(17,421)	89,360	(143,786)
				70,440
70,000		40,000	151,940	298,382
	(1,000)	(2,500)	(58,500)	(88,476)
32,585	754	20,079	182,800	136,560
<u>(176,583)</u>	<u>27,115</u>	<u>534,671</u>	<u>3,616,269</u>	<u>3,479,709</u>
<u>\$ (143,998)</u>	<u>\$ 27,869</u>	<u>\$ 554,750</u>	<u>\$ 3,799,069</u>	<u>\$ 3,616,269</u>

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

For the Year Ended December 31, 2012
With Comparative Totals for the Year Ended December 31, 2011

	Business-Type Activities - Enterprise Funds		
	601 Water Fund	602 Sewer Fund	604 Electric Fund
Cash Flows From Operating Activities			
Cash received from customers	\$ 186,273	\$ 295,236	\$ 967,058
Cash payments to suppliers	(65,403)	(103,898)	(871,157)
Cash payments to employees or on their behalf	(42,775)	(52,750)	(24,790)
Other cash payments			550
Net Cash Provided By Operating Activities	<u>78,095</u>	<u>138,588</u>	<u>71,661</u>
Cash Flows From Capital and Related Financing Activities			
Acquisition and construction of capital assets	(5,714)	(9,630)	(17,284)
Principal payments on bonds		(155,167)	
Interest paid on bonds		(11,283)	
Due to/from other funds			30,359
Special assessments received		295	1,329
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>(5,714)</u>	<u>(175,785)</u>	<u>14,404</u>
Cash Flows From Non-Capital Financing Activities			
Transfers in (out) to other funds	(33,500)	38,440	(18,000)
Other income (expense)	687	1,480	11,468
Net Cash Provided By (Used In) Non-Capital Financing Activities	<u>(32,813)</u>	<u>39,920</u>	<u>(6,532)</u>
Cash Flows From Investing Activities			
Investment earnings received	45	775	1,207
Net Increase (Decrease) in Cash and Cash Equivalents	39,613	3,498	80,740
Cash and Cash Equivalents, Beginning of Year	<u>5,623</u>	<u>201,864</u>	<u>365,483</u>
Cash and Cash Equivalents, End of Year	<u>\$ 45,236</u>	<u>\$ 205,362</u>	<u>\$ 446,223</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 (Loss)	\$ 56,921	\$ 43,426	\$ 37,421
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	21,030	84,621	42,250
(Increase) Decrease In:			
Accounts receivable	(1,186)	796	(5,201)
Prepaid expenses	277	(21)	(97)
Inventory	60		(986)
Increase (Decrease) In:			
Accounts payable	104	11,395	(2,621)
Accrued interest payable		(1,874)	
Accrued liabilities	889	245	345
Customer deposits			550
Net Cash Provided By Operating Activities	<u>\$ 78,095</u>	<u>\$ 138,588</u>	<u>\$ 71,661</u>

See Notes to Financial Statements

Business-Type Activities - Enterprise Funds

621 Heritage Grove	603 Garbage and Recycling Fund	605 Storm Water Fund	TOTALS	
			2012	2011
\$ 753,368	\$ 52,434	\$ 9,666	\$ 2,264,035	\$ 2,112,952
(213,108)	(4,799)	(4,292)	(1,262,657)	(1,290,164)
(381,145)	(46,236)	(2,879)	(550,575)	(573,242)
			550	(600)
<u>159,115</u>	<u>1,399</u>	<u>2,495</u>	<u>451,353</u>	<u>248,946</u>
(2,373)		(40,971)	(75,972)	(84,389)
(110,000)			(265,167)	(257,620)
(96,749)		6	(108,026)	(117,960)
(2,785)			27,574	13,549
			1,624	661
<u>(211,907)</u>		<u>(40,965)</u>	<u>(419,967)</u>	<u>(445,759)</u>
70,000	(1,000)	37,500	93,440	209,906
		452	14,087	20,270
<u>70,000</u>	<u>(1,000)</u>	<u>37,952</u>	<u>107,527</u>	<u>230,176</u>
20	111		2,158	3,110
17,228	510	(518)	141,071	36,473
<u>20,656</u>	<u>25,575</u>	<u>1,651</u>	<u>620,852</u>	<u>584,379</u>
<u>\$ 37,884</u>	<u>\$ 26,085</u>	<u>\$ 1,133</u>	<u>\$ 761,923</u>	<u>\$ 620,852</u>

Business-Type Activities - Enterprise Funds

621 Heritage Grove	603 Garbage Fund	605 Storm Water Fund	TOTALS	
			2012	2011
\$ 59,314	\$ 1,643	\$ (17,879)	\$ 180,846	\$ (50,694)
106,494		20,468	274,863	280,490
3,990	(184)	(54)	(1,839)	5,943
512	3	118	792	(10,345)
			(926)	333
(27,567)	219		(18,470)	29,544
(735)			(2,609)	(1,786)
3,538	(282)	(158)	4,577	(4,739)
<u>13,569</u>			<u>14,119</u>	<u>200</u>
<u>\$ 159,115</u>	<u>\$ 1,399</u>	<u>\$ 2,495</u>	<u>\$ 451,353</u>	<u>\$ 248,946</u>

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CITY OF HARMONY, MINNESOTA
Statement of Fiduciary Net Position
December 31, 2012
With Comparative Totals for December 31, 2011

	2012	2011
Assets		
Cash and cash equivalents	\$ 14,434	\$ 14,283
Net Position		
Unrestricted	\$ 14,434	\$ 14,283

CITY OF HARMONY, MINNESOTA
Statement of Changes in Fiduciary Net Position
For the Year Ended December 31, 2012
With Comparative Totals for the Year Ended December 31, 2011

	2012	2011
Additions to		
Investment income	\$ 151	\$ 251
Increase in Net Position	151	251
Net Position - Beginning of Year	14,283	14,032
Net Position - End of Year	\$ 14,434	\$ 14,283

See Notes to Financial Statements

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CITY OF HARMONY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

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.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position 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.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

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.

The City reports the following major governmental funds:

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

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

The *Capital Projects fund* accounts for the activities related to capital projects.

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

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 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.

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.

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.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Position 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.

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.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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.

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.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

Capital Assets (continued)

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.

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 position. 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.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

Interfund Transactions

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

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

Concentration of Credit Risk

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

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

Reclassifications

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation.

Net Position / Fund Balance

In the government-wide and proprietary financial statements, net position 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 Position – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

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

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

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.

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, 2012, 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	\$ 339
Cash	None	N/A	1,193,048
Money Market Mutual Funds	None	N/A	278,013
Non-Negotiable CD's	January - December 2013	Unrated	<u>1,000,804</u>
Cash and Investments per Statement of Net Position			<u>\$ 2,472,204</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 3.0% 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, 2012 is \$166,976.

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, 2012 is \$59,755.

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, 2012 is \$4,580.

4. Due From Other Governmental Units

Amounts due from other governmental units at December 31, 2012 are as follows:

<u>Fund</u>	<u>Fillmore County</u>
General	\$ 5,762
Debt Service	913
Capital Projects	130
	<u>\$ 6,805</u>

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Capital Assets

Capital asset activity for the year ended December 31, 2012 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 289,318	\$	\$	\$ 289,318
Construction in progress		13,325		13,325
Total capital assets, not being depreciated	<u>289,318</u>	<u>13,325</u>		<u>302,643</u>
Capital assets, being depreciated:				
Buildings and improvements	1,214,545			1,214,545
Vehicles	1,197,967			1,197,967
Machinery and other equipment	538,298	26,033	41,163	523,168
Infrastructure (e.g. streets)	3,018,068	29,593		3,047,661
Total capital assets, being depreciated	<u>5,968,878</u>	<u>55,626</u>	<u>41,163</u>	<u>5,983,341</u>
Less accumulated depreciation for:				
Buildings and improvements	671,661	68,076		739,737
Vehicles	476,290	76,520		552,810
Machinery and other equipment	317,282	42,909	27,534	332,657
Infrastructure (e.g. streets)	1,423,787	40,396		1,464,183
Total accumulated depreciation	<u>2,889,020</u>	<u>227,901</u>	<u>27,534</u>	<u>3,089,387</u>
Total capital assets, being depreciated, net	<u>3,079,858</u>	<u>(172,275)</u>	<u>13,629</u>	<u>2,893,954</u>
Governmental activities capital assets, net	<u>\$ 3,369,176</u>	<u>\$ (158,950)</u>	<u>\$ 13,629</u>	<u>\$ 3,196,597</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
Government buildings	\$ 37,981
Public safety	93,990
Streets and highways	78,997
Culture and recreation	16,933
	<u>227,901</u>
Total depreciation expense - governmental activities	<u>\$ 227,901</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	4,809,441	2,373		4,811,814
Machinery and other equipment	394,009	64,034	1,307	456,736
Vehicles	52,807			52,807
Infrastructure (e.g. utilities)	3,464,138	9,565		3,473,703
Total capital assets, being depreciated	<u>8,720,395</u>	<u>75,972</u>	<u>1,307</u>	<u>8,795,060</u>
Less accumulated depreciation for:				
Buildings and improvements	1,888,325	171,071		2,059,396
Machinery and other equipment	98,869	13,704	1,307	111,266
Vehicles	52,807			52,807
Infrastructure (e.g. utilities)	1,214,416	84,247		1,298,663
Total accumulated depreciation	<u>3,254,417</u>	<u>269,022</u>	<u>1,307</u>	<u>3,522,132</u>
Total capital assets, being depreciated, net	<u>5,465,978</u>	<u>(193,050)</u>		<u>5,272,928</u>
Business-type activities capital assets, net	<u>\$ 5,634,092</u>	<u>\$ (193,050)</u>	<u>\$</u>	<u>\$ 5,441,042</u>

Depreciation expense was charged to functions/programs as follows:

Business-Type Activities:	
Water	\$ 21,030
Sewer	84,621
Electric	42,250
Heritage Grove	100,653
Storm Water	<u>20,468</u>
Total depreciation expense - business-type activities	<u>\$ 269,022</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 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, 2012 balances is as follows:

	Range of Interest Rates	Final Maturity	Balance December 31, 2012
General Obligation Improvement Bonds			
Series 2002B Refunding and Improvement	2.00 - 4.30%	2013	\$ 50,000
Series 2010A Improvement	3.25%	2018	166,000
General Obligation Revenue Notes			
Series 1993 - PFA	3.34%	2014	112,252
Series 2004 - PFA	1.00%	2023	379,000
General Obligation Revenue Bonds			
Series 2002A Water and Sewer	2.00 - 4.30%	2013	45,000
2008 EDA Housing Refunding Bonds	4.10 - 4.60%	2026	2,160,000
Other			
Promissory Note - USDA	4.375%	2019	84,695
Promissory Note - USDA	4.25%	2019	40,811
Promissory Note - USDA	4.50%	2024	208,864
Total			<u>\$ 3,246,622</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, 2012 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	\$ 100,000		\$ 50,000		\$ 50,000	\$ 50,000
Series 2010A Improvement	193,000		27,000		166,000	28,000
Other:						
Promissory Note - USDA	94,855		10,160		84,695	10,605
Promissory Note - USDA	45,732		4,921		40,811	5,131
Promissory Note - USDA	221,791		12,927		208,864	13,509
Compensated Absences	53,713			2,219	55,932	
Governmental Activities Long-term Liabilities	<u>709,091</u>		<u>105,008</u>	<u>2,219</u>	<u>606,302</u>	<u>107,245</u>
BUSINESS-TYPE ACTIVITIES						
General Obligation Revenue Notes:						
Series 1993 - PFA	190,419		78,167		112,252	80,800
Series 2004 - PFA	411,000		32,000		379,000	33,000
General Obligation Revenue Bonds:						
Series 2002A Water and Sewer	90,000		45,000		45,000	45,000
2008 EDA Housing Refunding Bonds	2,270,000		110,000		2,160,000	115,000
Compensated Absences	33,355			1,271	34,626	
Unamortized Discount and Issue Costs	(90,535)			(5,841)	(84,694)	
Business-type Activities Long-term Liabilities	<u>2,904,239</u>		<u>265,167</u>	<u>(4,570)</u>	<u>2,646,184</u>	<u>273,800</u>
Total	<u>\$ 3,613,330</u>	<u>\$</u>	<u>\$ 370,175</u>	<u>\$ (2,351)</u>	<u>\$ 3,252,486</u>	<u>\$ 381,045</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, 2012 are summarized below.

Years	General Obligation		General Obligation Revenue		Other	
	Principal	Interest	Principal	Interest	Principal	Interest
<u>Governmental Activities</u>						
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	32,000	1,300			34,756	9,327
2018-2022	16,000	260			131,803	25,042
2023-2027					42,862	2,914
Totals	<u>\$ 216,000</u>	<u>\$ 17,601</u>			<u>\$ 334,370</u>	<u>\$ 88,667</u>

Business-Type Activities

2013	\$ 273,800	\$ 100,444
2014	184,452	91,875
2015	158,000	86,100
2016	164,000	80,646
2017	169,000	74,976
2018-2022	951,000	280,431
2023-2027	796,000	88,756
Totals	<u>\$ 2,696,252</u>	<u>\$ 803,228</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, 2012 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, 2012, the Housing Revenue Refunding Bonds outstanding aggregated \$7,055,000.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Individual Fund Disclosures

Transfers during the year ended December 31, 2012 were as follows:

Funds	Transfers In	Transfers Out
General Fund:	\$ 5,000	\$ 167,940
Special Revenue:		
Ambulance		37,500
Park	5,750	6,000
Fire	27,847	25,000
EDA	32,118	45,000
Capital Projects:		
Capital Projects	175,500	41,097
TIF #1		17,118
Enterprise:		
Water		33,500
Sewer	41,940	3,500
Garbage and recycling		1,000
Electric		18,000
Storm Water	40,000	2,500
Heritage Grove	70,000	
Total Transfers	\$ 398,155	\$ 398,155

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, 2012, at the individual fund level are summarized below:

	Due From Other Funds	Due To Other Funds
General Fund	\$ 53,962	\$
Special Revenue:		
Fire		189,185
Revolving Loan	4,580	
Small Cities Grant		106
Capital Projects:		
TIF #5		53,856
Enterprise Fund:		
Electric	189,185	
Heritage Grove		4,580
	<u>\$ 247,727</u>	<u>\$ 247,727</u>

At December 31, 2012 the following funds have deficit fund equity:

Special Revenue:		
Small Cities Grant		\$ 106
Fire		180,104
Capital Projects:		
TIF #5		53,624
Enterprise Fund:		
Heritage Grove		143,998

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

Excess of expenditures over appropriations at the individual fund level during 2012 are as follows:

Special Revenue:		
Ambulance Fund		\$ 18,098
Fire Fund		5,731

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, 2012 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	\$ 7,007	\$	\$ 50,632	\$ 125,940	\$ 183,579
Taxes receivable	31,580		4,034	6,367	41,981
Loans receivable		226,731		142,310	369,041
Total	\$ 38,587	\$ 226,731	\$ 54,666	\$ 274,617	\$ 594,601

9. Fund Equity

The City has restricted portions of fund balance in the fund financial statements and fund equity in the government-wide financial statements. The restricted fund balance / equity represents the portion not available for expenditure or legally segregated for specific use. A summary of the restricted portion of the fund balance / equity at December 31, 2012 is as follows:

Specific Purpose	Restriction Imposed By			
	Contributors	Grantors	Creditors	Regulations
Restricted Fund Balance				
Revolving Loan Fund:				
Economic Development	\$	\$ 144,000	\$	\$
Debt Service Funds:				
Debt service requirements			73,618	
Total Restricted Fund Balance	\$	\$ 144,000	\$ 73,618	\$
Restricted Fund Balance				
Economic Development	\$	\$ 370,625	\$	\$
Tax increment financing plan				274,617
Debt service requirements			128,284	
Total Restricted Fund Balance	\$	\$ 370,625	\$ 128,284	\$ 274,617

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Fund Equity

The City has committed and assigned portions of the fund equity in the governmental funds. A summary of the committed and assigned portion of the fund equity at December 31, 2012 is as follows:

Specific Purpose	Ambulance	Park	Library	Arts	EDA
Assigned Fund Balance					
Public safety	\$ 275,953	\$	\$	\$	\$
Park and recreation		28,172	516	15,337	
Economic development					32,299
Total Assigned Fund Balance	\$ 275,953	\$ 28,172	\$ 516	\$ 15,337	\$ 32,299

	General	Capital Projects
Committed Fund Balance		
Cash Flow	\$ 259,850	\$
Equipment:		
Public buildings		7,500
Public safety		132,153
Streets and highways		231,750
Park and recreation		22,750
Utility		55,500
Other		47,588
	\$ 259,850	\$ 497,241

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.

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.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Defined Benefit Pension Plans - Statewide

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.

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. GERF Basic Plan members and Coordinated Plan members are required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2012. PEPFF members were required to contribute 9.4% of their annual covered salary in 2012. 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, 2012, 2011, and 2010 were \$29,431, \$28,007, and \$27,887, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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 2012.

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 2012. 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.

13. New Accounting Pronouncements

GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, implemented this year provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Statement of Net Assets is renamed the Statement of Net Position and includes four components: assets, deferred outflows of resources, liabilities and deferred inflows of resources. The City has determined they have no deferred outflows or inflows as defined by this standard.

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

GASB 65, *Items Previously Reported as Assets and Liabilities*, will be effective for the City beginning with its year ending December 31, 2013. This statement requires certain items that are currently reported as assets and liabilities to be reclassified as deferred outflows resources, deferred inflows of resources, or current-period outflows and inflows.

CITY OF HARMONY, MINNESOTA
COMBINING AND INDIVIDUAL FUND STATEMENTS
DECEMBER 31, 2012

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

December 31, 2012

	Special Revenue					
	251 Park	211 Library	202 Small Cities Grant	201 Revolving Loan	261 Arts	620 EDA
ASSETS						
Cash and investments	\$ 28,586	\$ 3,480	\$	\$ 139,501	\$ 15,337	\$ 30,878
Accounts receivable						1,600
Taxes receivable - delinquent						
Special assessments receivable						
Deferred						
Delinquent						
Loan receivable			59,755	166,976		
Due from other funds				4,580		
Due from other governmental units						
Prepaid items	2,340	284				14
TOTAL ASSETS	\$ 30,926	\$ 3,764	\$ 59,755	\$ 311,057	\$ 15,337	\$ 32,492
LIABILITIES AND FUND BALANCE						
Liabilities:						
Accounts payable	\$ 407	\$ 2,029	\$	\$ 81	\$	\$ 10
Accrued liabilities	7	935				169
Due to other funds			106			
Deferred revenue			59,755	166,976		
Total Liabilities	414	2,964	59,861	167,057		179
Fund Balance:						
Nonspendable						
Prepaid items	2,340	284				14
Restricted						
Grantors				144,000		
Creditors						
Assigned	28,172	516			15,337	32,299
Unassigned			(106)			
Total Fund Balance	30,512	800	(106)	144,000	15,337	32,313
TOTAL LIABILITIES AND FUND BALANCE	\$ 30,926	\$ 3,764	\$ 59,755	\$ 311,057	\$ 15,337	\$ 32,492

		Debt Service		Total Nonmajor Governmental Funds 2012
		312 2002 G.O. Improvement Bonds	314 2010 G.O. Improvement Bonds	
222 Fire	418 TIF #5			
\$ 5,054	\$ 102	\$ 32,569	\$ 40,136	\$ 295,643
4,850		2,845	1,189	6,450
		4,336	42,792	4,034
		3,504		47,128
				3,504
				226,731
	130	550	363	4,580
4,984				1,043
				7,622
<u>\$ 14,888</u>	<u>\$ 232</u>	<u>\$ 43,804</u>	<u>\$ 84,480</u>	<u>\$ 596,735</u>
\$ 823	\$	\$	\$	\$ 3,350
189,185	53,856			1,111
		10,685	43,981	243,147
				281,397
<u>190,008</u>	<u>53,856</u>	<u>10,685</u>	<u>43,981</u>	<u>529,005</u>
4,984				7,622
				144,000
		33,119	40,499	73,618
				76,324
<u>(180,104)</u>	<u>(53,624)</u>			<u>(233,834)</u>
<u>(175,120)</u>	<u>(53,624)</u>	<u>33,119</u>	<u>40,499</u>	<u>67,730</u>
<u>\$ 14,888</u>	<u>\$ 232</u>	<u>\$ 43,804</u>	<u>\$ 84,480</u>	<u>\$ 596,735</u>

CITY OF HARMONY, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012

	Special Revenue					
	251	211	202	201	261	620
	Park	Library	Small Cities Grant	Revolving Loan	Arts	EDA
REVENUES						
General property taxes	\$ 43,500	\$ 70,350	\$	\$	\$	\$ 97,500
Tax increment						
Special assessments						
Intergovernmental revenues	1,000	27,849				
Charges for services	438	2,022				
Investment income	91			5,940	72	26
Miscellaneous revenues	13,041	941	985	25,486		750
TOTAL REVENUES	58,070	101,162	985	31,426	72	98,276
EXPENDITURES						
Public safety						
Library		100,684				
Park and recreation	53,948				1,999	
Economic development				16,375		60,646
Debt service						
Unallocated						
TOTAL EXPENDITURES	53,948	100,684		16,375	1,999	60,646
Excess (deficiency) of revenues over (under) expenditures	4,122	478	985	15,051	(1,927)	37,630
OTHER FINANCING SOURCES (USES)						
Transfers In	5,750					32,118
Transfers out	(6,000)					(45,000)
Total other financing sources (uses)	(250)					(12,882)
Net change in fund balances	3,872	478	985	15,051	(1,927)	24,748
Fund Balance - Beginning	26,640	322	(1,091)	128,949	17,264	7,565
Fund Balance - Ending	\$ 30,512	\$ 800	\$ (106)	\$ 144,000	\$ 15,337	\$ 32,313

		Debt Service		Total Nonmajor Governmental Funds 2012
222 Fire	418 TIF #5	312 2002 G.O. Improvement Bonds	314 2010 G.O. Improvement Bonds	
\$ 30,750	\$ 10,556	\$ 41,956	\$ 27,537	\$ 311,593
		8,596	12,377	10,556
47,032				20,973
9,711				75,881
	13	5	127	12,171
6,092				6,274
<u>93,585</u>	<u>10,569</u>	<u>50,557</u>	<u>40,041</u>	<u>484,743</u>
57,444				57,444
				100,684
				55,947
				77,021
	3,458	53,619	33,061	90,138
	64			64
<u>57,444</u>	<u>3,522</u>	<u>53,619</u>	<u>33,061</u>	<u>381,298</u>
36,141	7,047	(3,062)	6,980	103,445
27,847				65,715
(25,000)				(76,000)
<u>2,847</u>				<u>(10,285)</u>
38,988	7,047	(3,062)	6,980	93,160
(214,108)	(60,671)	36,181	33,519	(25,430)
<u>\$ (175,120)</u>	<u>\$ (53,624)</u>	<u>\$ 33,119</u>	<u>\$ 40,499</u>	<u>\$ 67,730</u>

CITY OF HARMONY, MINNESOTA
FIRE FUND
Schedule of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2012
With Comparative Totals for the Year Ended December 31, 2011

	Budgeted Amounts		2012 Actual Amounts	Variance with Final Budget Positive (Negative)	2011 Actual Amounts
	Original	Final			
REVENUES					
Property Tax Levy					
Property tax collected	\$ 30,750	\$ 30,750	\$ 30,750	\$	\$ 40,752
Charges for Services					
Service fees	5,000	5,000	9,711	4,711	10,750
Intergovernmental					
Contracts	37,500	37,500	40,712	3,212	36,587
Grants			6,320	6,320	22,346
Total Intergovernmental	37,500	37,500	47,032	9,532	58,933
Miscellaneous					
Donations	3,500	3,500	6,092	2,592	7,192
Other					6,338
Total Miscellaneous	3,500	3,500	6,092	2,592	13,530
TOTAL REVENUES	76,750	76,750	93,585	16,835	123,965
EXPENDITURES					
Public Safety					
Salaries and wages	13,177	13,177	15,952	(2,775)	15,838
Insurance	5,486	5,486	6,437	(951)	5,416
Repair and maintenance	7,700	7,700	4,389	3,311	7,442
Utilities	6,950	6,950	5,176	1,774	5,807
Supplies	9,650	9,650	8,009	1,641	9,323
Miscellaneous	8,750	8,750	9,670	(920)	6,332
Capital outlay			7,811	(7,811)	336,646
TOTAL EXPENDITURES	51,713	51,713	57,444	(5,731)	386,804
EXCESS (DEFICIT) REVENUES OVER (UNDER) EXPENDITURES	25,037	25,037	36,141	11,104	(262,839)
Other Financing Sources					
Transfers in	12,500	12,500	27,847	(15,347)	27,492
Transfers out	(35,000)	(35,000)	(25,000)	10,000	(24,996)
Total Other Financing Sources	(22,500)	(22,500)	2,847	(5,347)	2,496
NET CHANGE IN FUND BALANCE	2,537	2,537	38,988	5,757	(260,343)
FUND BALANCE, JANUARY 1	(214,108)	(214,108)	(214,108)		46,235
FUND BALANCE, DECEMBER 31	\$ (211,571)	\$ (211,571)	\$ (175,120)	\$ 5,757	\$ (214,108)

CITY OF HARMONY, MINNESOTA
SUPPLEMENTAL INFORMATION
DECEMBER 31, 2012

CITY OF HARMONY, MINNESOTA
WATER FUND
Statement of Revenues, Expenses
and Changes in Fund Net Position
For the Year Ended December 31, 2012
With Comparative Totals for the Year Ended December 31, 2011

	2012	2011
Operating Revenue		
Sales and rentals	\$ 187,122	\$ 165,457
Operating Expenses		
Salaries and wages	42,814	44,897
Service contracts	850	850
Materials and supplies	34,546	62,259
Utilities	13,507	15,479
Repairs and maintenance	7,794	57,331
Travel and training	2,309	2,376
Professional services	2,950	2,350
Miscellaneous	1,394	2,974
Insurance	3,007	3,001
Depreciation/amortization	21,030	20,232
Total Operating Expenses	130,201	211,749
Operating Income (Loss)	56,921	(46,292)
Nonoperating Revenues (Expenses)		
Investment income	45	97
Other revenue	687	171
Total Nonoperating Revenues (Expenses)	732	268
INCOME (LOSS) BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	57,653	(46,024)
Capital contributions		60,798
Transfers in		40,000
Transfers out	(33,500)	(63,492)
Change in net position	24,153	(8,718)
Net Position - Beginning of Year	650,372	659,090
Net Position - End of Year	\$ 674,525	\$ 650,372

CITY OF HARMONY, MINNESOTA
SEWER FUND
Statement of Revenues, Expenses
and Changes in Fund Net Position
For the Year Ended December 31, 2012
With Comparative Totals for the Year Ended December 31, 2011

	2012	2011
Operating Revenue		
Sales and rentals	\$ 294,461	\$ 286,524
Operating Expenses		
Salaries and wages	51,384	50,686
Service contracts	1,611	150
Materials and supplies	10,357	9,109
Utilities	52,349	51,164
Repairs and maintenance	30,153	14,034
Travel and training	3,059	2,276
Professional fees	10,613	11,476
Miscellaneous	3,176	1,569
Insurance	3,712	3,713
Depreciation/amortization	84,621	83,917
Total Operating Expenses	251,035	228,094
Operating Income	43,426	58,430
Nonoperating Revenues (Expenses)		
Special assessments	295	331
Investment income	775	882
Other revenue	1,480	
Interest expense and fiscal charges	(11,283)	(16,103)
Total Nonoperating Revenues (Expenses)	(8,733)	(14,890)
INCOME BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	34,693	43,540
Capital contributions		6,426
Transfers in	41,940	74,436
Transfers out	(3,500)	(3,492)
Change in net position	73,133	120,910
Net Position - Beginning of Year	1,272,103	1,151,193
Net Position - End of Year	\$ 1,345,236	\$ 1,272,103

**CITY OF HARMONY, MINNESOTA
ELECTRIC FUND
Statement of Revenues, Expenses
and Changes in Fund Net Position**
For the Year Ended December 31, 2012
With Comparative Totals for the Year Ended December 31, 2011

	2012	2011
Operating Revenue		
Sales and rentals	\$ 973,342	\$ 895,170
Operating Expenses		
Salaries and wages	25,135	24,680
Purchased power	786,585	748,351
Materials and supplies	23,941	35,745
Utilities	17,225	14,259
Repairs and maintenance	25,272	16,646
Professional fees	5,275	4,591
Miscellaneous	3,074	3,774
Insurance	7,164	7,184
Depreciation/amortization	42,250	42,120
Total Operating Expenses	935,921	897,350
Operating Income (Loss)	37,421	(2,180)
Nonoperating Revenues (Expenses)		
Special assessments		1,157
Investment income	1,207	1,936
Other revenue	11,468	20,099
Total Nonoperating Revenues (Expenses)	12,675	23,192
INCOME BEFORE TRANSFERS	50,096	21,012
Transfers in		58,946
Transfers out	(18,000)	(18,000)
Change in net position	32,096	61,958
Net Position - Beginning of Year	1,308,591	1,246,633
Net Position - End of Year	\$ 1,340,687	\$ 1,308,591

CITY OF HARMONY, MINNESOTA
HERITAGE GROVE FUND
Statement of Revenues, Expenses
and Changes in Fund Net Position
For the Year Ended December 31, 2012
With Comparative Totals for the Year Ended December 31, 2011

	2012	2011
Operating Revenue		
Sales and rentals	\$ 748,866	\$ 707,595
Operating Expenses		
Salaries and wages	350,487	349,424
Service contracts	34,196	48,850
Materials and supplies	67,577	67,943
Utilities	41,260	41,478
Repairs and maintenance	33,364	40,617
Travel and training	550	904
Professional fees	3,714	3,192
Miscellaneous	20,099	28,465
Insurance	31,811	58,200
Depreciation/amortization	106,494	115,158
Total Operating Expenses	689,552	754,231
Operating Income (Loss)	59,314	(46,636)
Nonoperating Revenues (Expenses)		
Investment income	20	35
Interest expense and fiscal charges	(96,749)	(101,867)
Total Nonoperating Revenues (Expenses)	(96,729)	(101,832)
LOSS BEFORE TRANSFERS	(37,415)	(148,468)
Transfers in	70,000	125,000
Change in net position	32,585	(23,468)
Net Position - Beginning of Year	(176,583)	(153,115)
Net Position - End of Year	\$ (143,998)	\$ (176,583)

**CITY OF HARMONY, MINNESOTA
GARBAGE AND RECYCLING FUND
Statement of Revenues, Expenses
and Changes in Fund Net Position**
For the Year Ended December 31, 2012
With Comparative Totals for the Year Ended December 31, 2011

	2012	2011
Operating Revenue		
Sales and rentals	\$ 52,615	\$ 52,633
Operating Expenses		
Salaries and wages	11,503	14,630
Service contracts	34,451	32,094
Materials and supplies	1,753	1,551
Professional services	2,950	2,350
Miscellaneous	315	381
Total Operating Expenses	50,972	51,006
Operating Income	1,643	1,627
Nonoperating Revenues (Expenses)		
Investment income	111	160
INCOME BEFORE TRANSFERS	1,754	1,787
Transfers out	(1,000)	(996)
Change in net position	754	791
Net Position - Beginning of Year	27,115	26,324
Net Position - End of Year	\$ 27,869	\$ 27,115

CITY OF HARMONY, MINNESOTA
STORM WATER FUND
Statement of Revenues, Expenses
and Changes in Fund Net Position
For the Year Ended December 31, 2012
With Comparative Totals for the Year Ended December 31, 2011

	2012	2011
Operating Revenue		
Sales and rentals	\$ 9,602	\$ 9,642
Operating Expenses		
Salaries and wages	2,721	2,242
Materials and supplies	190	738
Repairs and maintenance	3,412	2,501
Insurance	690	741
Depreciation/amortization	20,468	19,063
Total Operating Expenses	<u>27,481</u>	<u>25,285</u>
Operating Loss	<u>(17,879)</u>	<u>(15,643)</u>
Nonoperating Revenues (Expenses)		
Interest expense	6	10
Other revenue	452	
Total Nonoperating Revenues (Expenses)	<u>458</u>	<u>10</u>
INCOME BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	(17,421)	(15,633)
Capital contributions		3,216
Transfers in	40,000	
Transfers out	<u>(2,500)</u>	<u>(2,496)</u>
Change in net position	20,079	(14,913)
Net Position - Beginning of Year	<u>534,671</u>	<u>549,584</u>
Net Position - End of Year	<u>\$ 554,750</u>	<u>\$ 534,671</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, 2012 and have issued our report thereon dated March 28, 2013.

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 28, 2013