

CITY OF HARMONY, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2013

CITY OF HARMONY, MINNESOTA

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CITY OF HARMONY, MINNESOTA

INTRODUCTORY SECTION

DECEMBER 31, 2013

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CITY OF HARMONY, MINNESOTA

CITY OFFICIALS

December 31, 2013

Steve Donney	Mayor
Lynn Mensink	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, 2013

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, 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.

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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14 to the financial statements, in 2013, the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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.

Other Information

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.

Report on Summarized Comparative Information

The financial statements include partial prior year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended December 31, 2012, from which such partial information was derived.

We have previously audited the City's 2012 financial statement and our report dated March 28, 2013, expressed unmodified opinions on the respective financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Smith, Schafu and Associates, Ltd.

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, 2013. We encourage readers to consider the information presented here in conjunction with the entire audit report.

New Accounting Pronouncement. The City implemented Governmental Accounting Standards Board (GASB) No. 65, *Items Previously Report as Assets and Liabilities*, for the year ended December 31, 2013. This Statement established accounting and financial reporting standards that retroactively reclassify, as deferred inflows of resources, certain items previously reported as liabilities. In addition, debt issuance costs are no longer reported in the Statement of Net Position under the new Standard.

FINANCIAL HIGHLIGHTS

- The assets of the City of Harmony exceeded its liabilities at the close of the fiscal year by \$8,431,809 (*net position*). Of this amount, \$2,529,883 (*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 \$1,303,354, of which 84 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 \$249,179, or 25 percent of total general fund expenditures.
- The City of Harmony decreased the existing debt principal by \$2,762,170 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, and economic development. 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 formal action. The constraints cannot be changed or removed without Council formal 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 16 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, fire fund, ambulance fund, revolving loan fund, economic development authority fund, and capital projects 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, and special revenue funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. The basic governmental funds financial statements can be found on pages 17-20 of this report.

Proprietary Funds. The City of Harmony maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Harmony uses enterprise funds to account for its water, sewer, garbage and recycling, storm water, 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 31-36 of this report.

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

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 38-61 of this report.

Other Information. The combining statements referred to earlier in connection with non-major governmental funds can be found on pages 62-65.

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 \$8,431,809 at the close of the fiscal year, with \$4,342,154 of net position from governmental activities and \$4,089,655 from proprietary funds.

	Government Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 1,906,506	\$ 2,201,463	\$ 1,066,426	\$ 1,179,749	\$ 2,972,932	\$ 3,381,212
Capital assets	3,223,351	3,196,597	3,546,843	5,441,042	6,770,194	8,637,639
Total assets	\$ 5,129,857	\$ 5,398,060	\$ 4,613,269	\$ 6,620,791	\$ 9,743,126	\$12,018,851
Long-term liabilities outstanding	\$ 670,000	\$ 550,370	\$ 377,452	\$ 2,696,252	\$ 1,047,452	\$ 3,246,622
Other liabilities	117,703	213,964	146,162	210,164	263,865	424,128
Total liabilities	787,703	764,334	523,614	2,906,416	1,311,317	3,670,750
Net position:						
Net investment in capital assets	2,553,351	2,646,227	3,169,391	2,744,790	5,722,742	5,391,017
Restricted	179,184	773,526			179,184	773,526
Unrestricted	1,609,619	1,213,973	920,264	969,585	2,529,883	2,183,558
Total Net Position	4,342,154	4,633,726	4,089,655	3,714,375	8,431,809	8,348,101
Total Liabilities and Net Position	\$ 5,129,857	\$ 5,398,060	\$ 4,613,269	\$ 6,620,791	\$ 9,743,126	\$12,018,851

**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 \$5,722,742 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.

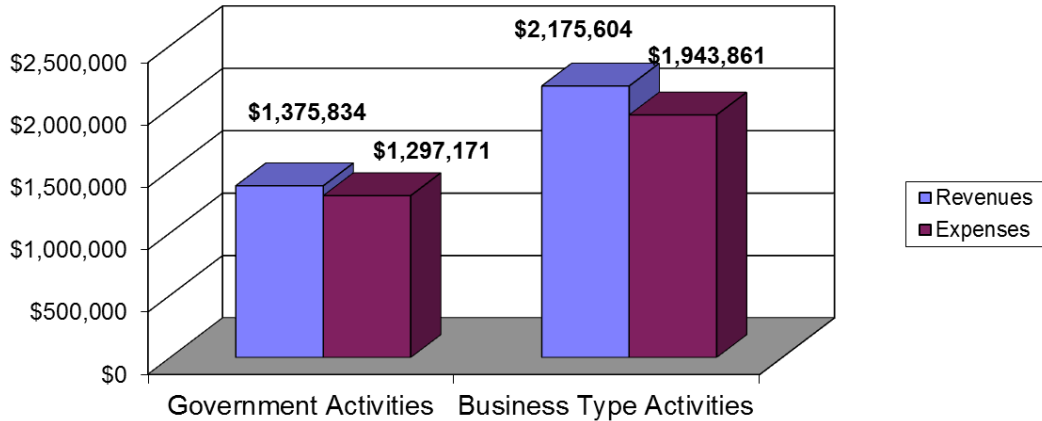
City of Harmony's Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues						
Charges for services	\$ 280,568	302,315	\$ 2,129,156	\$ 2,266,008	\$ 2,409,724	\$ 2,568,323
Operating grants and contributions	31,222	34,019			31,222	34,019
Capital grants and contributions	37,824	26,424			37,824	26,424
General revenues:						
Taxes	555,698	630,848			555,698	630,848
Intergovernmental revenue	347,767	330,755			347,767	330,755
Unrestricted investment earnings	10,903	15,349	1,972	2,158	12,875	17,507
Other	111,852	15,117	44,476	14,382	156,328	29,499
Total revenues	1,375,834	1,354,827	2,175,604	2,282,548	3,551,438	3,637,375
Expenses:						
General government	73,503	112,230			73,503	112,230
Public safety	419,807	386,787			419,807	386,787
Highway and streets	298,208	170,956			298,208	170,956
Library	103,882	100,622			103,882	100,622
General government buildings	157,171	158,953			157,171	158,953
Parks and recreation	60,094	53,884			60,094	53,884
Economic development authority	148,296	182,018			148,296	182,018
Bond interest and fiscal charges	17,016	11,425			17,016	11,425
Other	19,194	26,254			19,194	26,254
Water			112,020	130,201	112,020	130,201
Sewer			278,965	262,318	278,965	262,318
Electric			957,781	935,921	957,781	935,921
Senior living			508,290	780,460	508,290	780,460
Garbage and recycling			56,350	50,972	56,350	50,972
Storm water			30,455	27,475	30,455	27,475
Total expenses	1,297,171	1,203,129	1,943,861	2,187,347	3,241,032	3,390,476
Increase in net position before transfers and other items	78,663	151,698	231,743	95,201	310,406	246,899
Other items			(226,698)		(226,698)	
Transfers	(370,235)	(93,440)	370,235	93,440		
Change in net position	(291,572)	58,258	375,280	188,641	83,708	246,899
Net Position – January 1 (as restated Note 14)	4,633,726	4,575,468	3,714,375	3,525,734	8,348,101	8,101,202
Net Position – December 31	\$ 4,342,154	\$ 4,633,726	\$ 4,089,655	\$ 3,714,375	\$ 8,431,809	\$ 8,348,101

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

The following graph shows 2013 revenues and expenses for both government activities and business-type activities.

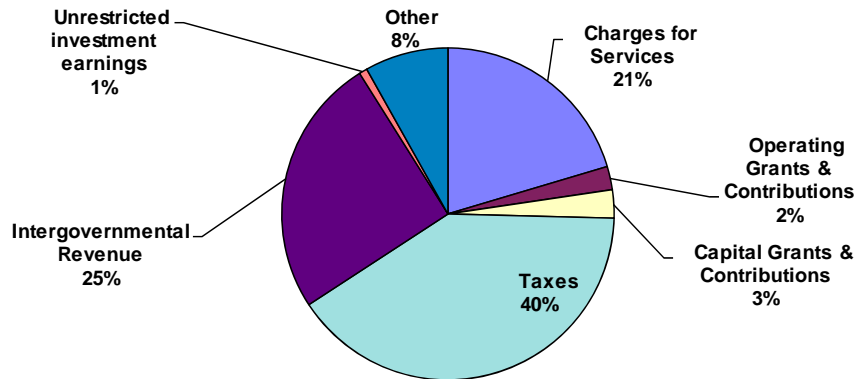
City of Harmony's Revenues & Expenses



Government Activities. Government activities account for 51% of the City of Harmony's net position.

The total decrease in net position for governmental activities is \$291,572 for the year ended December 31, 2013. The total revenues for governmental activities amounted to \$1,375,834 while total expenses were \$1,297,171 and transfers out were \$370,235, which is illustrated in the chart above.

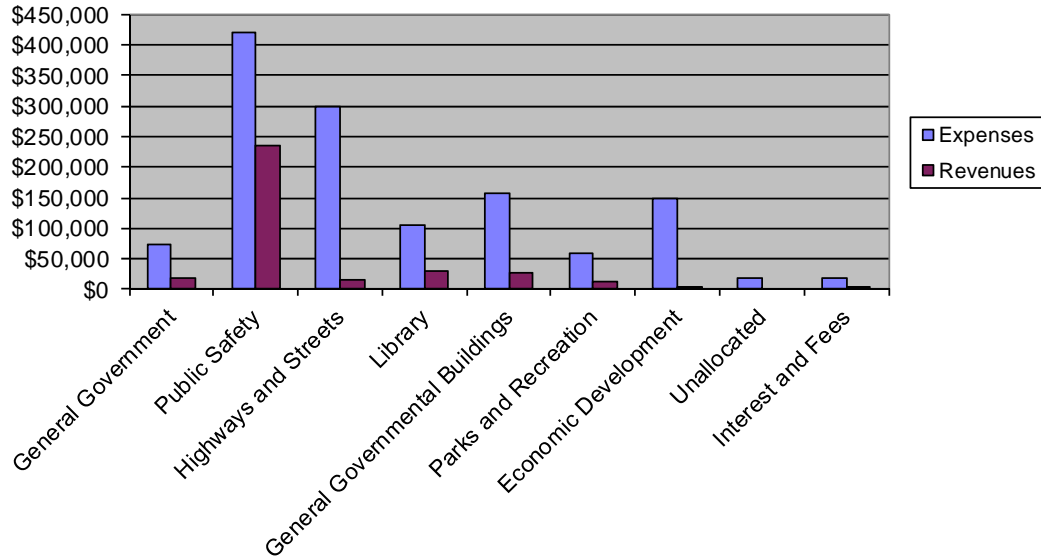
Government Activities Revenues



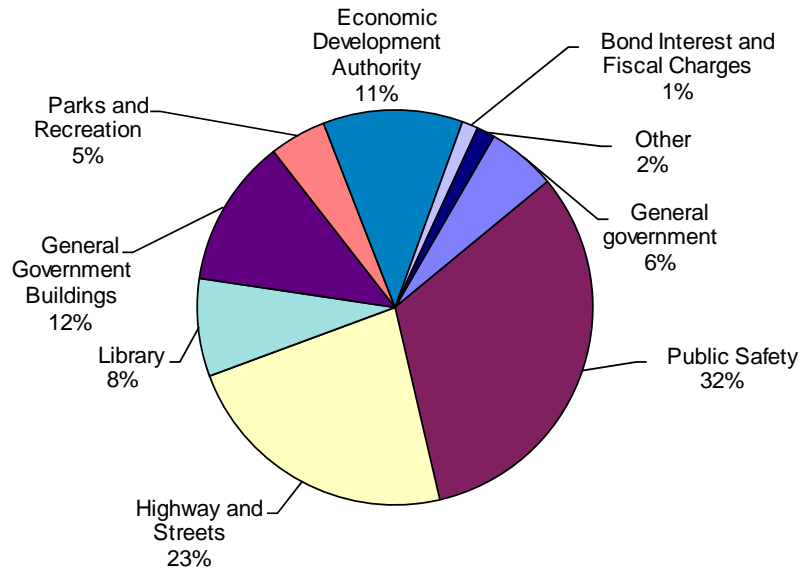
- Charges for Services decreased during the year, resulting from decreased ambulance and fire calls.
- Taxes decreased due to decertification of TIF District #1 contributing to loss of TIF revenue.
- Other revenue increased from the City of Harmony's returned share of TIF District #1 funds due to decertification.

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

Expenses and Program Revenues-Governmental Activities



Government Activities Expenses

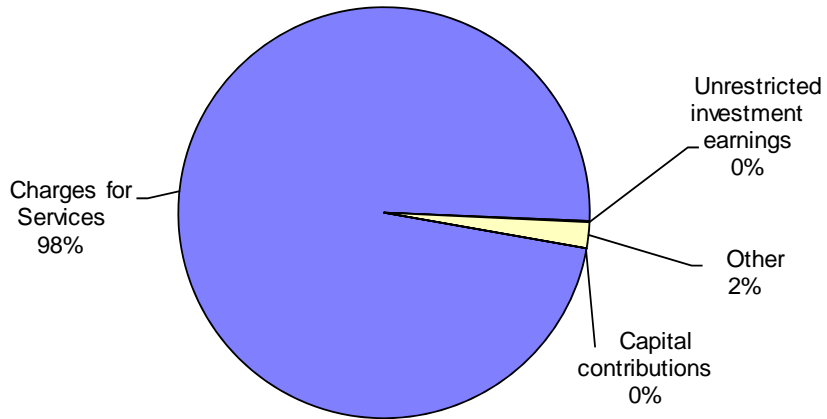


- Public safety increased, which was due to a new ambulance which was ordered in 2013. A new police car was ordered in 2012 and was delivered in 2013.
- Highway and streets increased which was due to seal coating done in 2013, but not in 2012 as well as some minor street repairs.
- Decrease in the economic development authority was due to the discontinuance of the commercial rehab program due to the decertification requirement of TIF District #1.

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

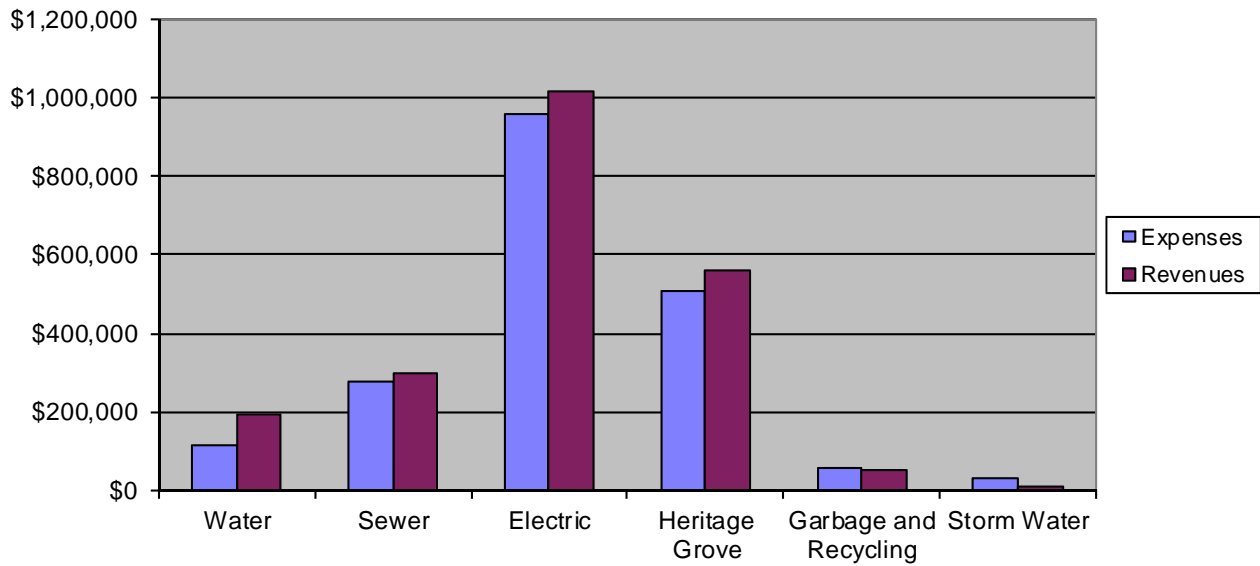
Business-type activities. Business-type activities increased the City of Harmony net position \$375,280 for the year ended December 31, 2013. Business-type activities revenues and expenses are illustrated in the charts below.

Business-Type Activities Revenue



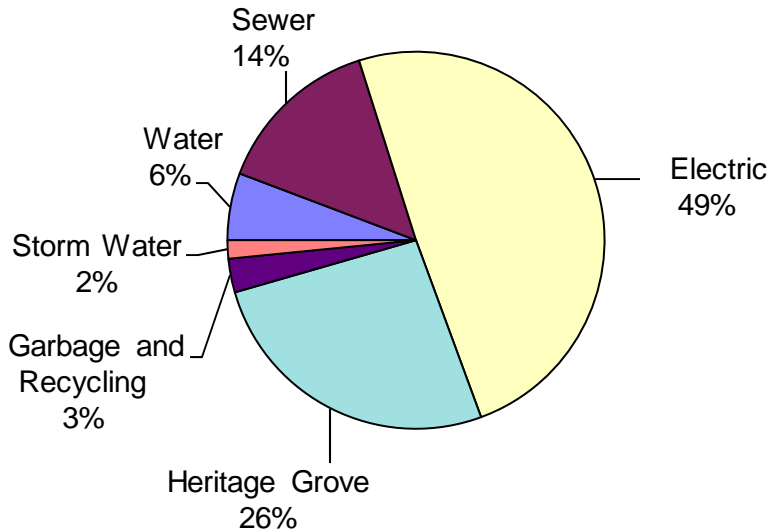
- Water charges for services increased due to rate changes.
- Electric charges for services increased due to rate changes and an increase in consumption.
- Charges for services decreased for senior living facility due to sale of the facility in August.

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 along with a rate increase.
- Heritage Grove had decreased expenses due to the sale of the facility in August 2013.
- The sewer fund had increased operating costs due to ongoing repairs at the wastewater treatment plant.

Financial Analysis of the City's Funds

Governmental Funds. The focus of the City of Harmony's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Harmony's financing requirements. In particular, unassigned 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 \$1,303,354.

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 \$249,179.

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

The fund balance of the City of Harmony's general fund decreased by \$55,998 during the current year. Key factors in this change are as follows:

- Due to the required decertification of TIF District #1, additional revenue of \$67,000 for the City of Harmony's share of increment increased other revenue.
- The City of Harmony refinanced the USDA Promissory Notes that had financed the Community Center Improvements with Tax Abatement Bonds. As part of the refinancing, cash reserves of \$35,000 were utilized.
- Right-of-Way was purchased for \$25,000 connecting two residential streets together for greater accessibility for the residential home growth.
- Repairs and Maintenance for streets were \$40,000 higher due to seal coating, patching some residential streets, and improving a high traffic residential and commercial street.
- The Heritage Grove Senior Living Facility was sold in 2013 at a loss, causing a cash shortfall, in which the general fund transferred \$101,795 to complete the sale of the facility.

The debt service funds have a total fund balance of \$45,197, 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	\$126,659
Sewer	\$161,610
Garbage and Recycling	\$23,625
Electric	\$608,040
Storm Water	\$330

General Fund Budgetary Highlights. After the 2013 budget was developed, the council approved refinancing the USDA Promissory Notes, purchased a skidloader, and the previously mentioned right-of-way acquisition.

Capital Asset Administration. The City of Harmony's investment in capital assets for its governmental and business type activities as of December 31, 2013 amounts to \$6,770,194 (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:

- \$60,000 Playground Equipment. Replaced the playground equipment at Selvig Park because of their age and maintenance concerns.
- \$30,000 Skidloader. A skidloader was purchased with a blower to allow for sidewalk snow removal and to be used for general maintenance.
- \$30,000 Police Car. Squad car was purchased to provide police protection as part of our county sheriff contract.
- \$25,000 Wastewater Plant. Pumps and air compressors were replaced at the Wastewater Treatment Plant due to maintenance.
- \$96,000 Substation Transformer. The transformer was replaced due to its' failure. The transformer serviced almost the entire community.
- \$105,000 Ambulance. The City of Harmony traded the old ambulance for a new ambulance for patient transport and care.
- \$25,000 Right of Way Purchase. Right-of-way was purchased to connect two residential streets that would allow for continued residential growth in the area.
- \$55,000 Electrical Upgrades. Upgraded electric service for a two large commercial businesses.

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

City of Harmony's Capital Assets

	Government Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 314,318	\$ 289,318	\$ 20,550	\$ 168,114	\$ 334,868	\$ 457,432
Building and Improvements	1,219,067	1,214,545	2,112,518	4,811,814	3,331,585	6,026,359
Vehicles	1,211,077	1,197,967	28,700	52,807	1,239,777	1,250,774
Machinery and Other Equipment	566,939	523,168	291,780	456,736	858,719	979,904
Infrastructure	3,129,718	3,047,661	3,636,104	3,473,703	6,765,822	6,521,364
Work-In-Progress	13,835	13,325			13,835	13,325
Total assets	6,454,954	6,285,984	6,089,652	8,963,174	12,544,606	15,249,158
Less: Accumulated Depreciation	(3,231,603)	(3,089,387)	(2,542,809)	(3,522,132)	(5,774,412)	(6,611,519)
Net Capital Assets	\$ 3,223,351	\$ 3,196,597	\$ 3,546,843	\$ 5,441,042	\$ 6,770,194	\$ 8,637,639

More detailed information on the City of Harmony's capital assets is presented in the Notes to the Financial Statements on page 49-50.

Long-Term Debt. At the end of the fiscal year, the City of Harmony had long-term debt of \$1,047,452. General obligation debt outstanding of \$2,160,000 that was used to finance construction of a senior living facility that is backed by the full faith and credit of the City, was paid off in 2013, due to the sale of the facility. General obligation note outstanding of \$377,452 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	
	2013	2012	2013	2012	2013	2012
General Obligation Bonds	\$ 138,000	\$ 216,000	\$	\$	\$ 138,000	\$ 216,000
General Obligation Tax Abatement	532,000				532,000	
USDA Promissory Note		334,370				334,370
General Obligation Note			377,452	491,252	377,452	491,252
General Obligation Revenue				2,205,000		2,205,000
Total assets	\$ 670,000	\$ 550,370	\$ 377,452	\$ 2,696,252	\$ 1,047,452	\$ 3,246,622

Additional information on the City of Harmony's long-term debt can be found in the Notes to the Financial Statements on pages 51-54.

Factors on the City of Harmony's Future

The City of Harmony had entered into a cooperative housing tax abatement project with Fillmore County for the development of 14 residential lots with a developer financing the project. 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. It appears that trend may change in the coming years. The City of Harmony recently completed a housing incentive program that pledges future taxes from newly built home(s) to the owner.

The City of Harmony Economic Development Authority continues to recruit businesses into the industrial park. The City of Harmony Economic Development Authority has completed a strategic plan to outline goals and objectives. As a result, developed the housing incentive program and will be developing some marketing techniques to recruit businesses to our industrial park.

CITY OF HARMONY, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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. 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 applied for a DEED grant in 2013 and was awarded a \$250,000 grant to install a new municipal well. The City of Harmony has begun preparations for the project to be completed in 2015.

The City of Harmony's senior living facility was sold in August 2013. As part of the sale, general obligation tax abatement bonds were issued pledging the increased tax revenue from the private sale for repayment of the bonds. The bonds were issued to alleviate the loss on the sale of the facility. With the sale of facility, it significantly reduced the long-term debt obligation of the City of Harmony while also eliminating the operational contributions that the City of Harmony has had to make to the facility for continued operations. The City of Harmony anticipates recovering the remaining loss from the increase in taxes once the tax abatement bonds are paid in full.

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 reclaim and pavement, curb and gutter replacement, water main replacement, and storm sewer rehabilitation. The project is planned for 2014. We are exploring the possibility of locating the electric utilities adjacent to this project underground.

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, 2013

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CITY OF HARMONY, MINNESOTA
STATEMENT OF NET POSITION

December 31, 2013

With Comparative Totals for December 31, 2012

	Governmental Activities	Business-Type Activities	Totals	
			2013	2012
Assets				
Cash and investments	\$ 1,449,704	\$ 674,368	\$ 2,124,072	\$ 2,472,204
Receivables	254,970	170,230	425,200	447,320
Internal balances	(171,169)	171,169		
Due from other governmental units	5,860		5,860	6,805
Inventory		36,252	36,252	37,288
Loans receivable	342,414		342,414	369,041
Prepaid expenses	24,727	14,407	39,134	48,554
Capital assets:				
Nondepreciable	328,153	20,550	348,703	470,757
Depreciable, net	2,895,198	3,526,293	6,421,491	8,166,882
Total Assets	\$ 5,129,857	\$ 4,613,269	\$ 9,743,126	\$ 12,018,851
Liabilities and Net Position				
Liabilities				
Accounts payable	\$ 40,673	\$ 92,413	\$ 133,086	\$ 248,486
Deposits payable		11,674	11,674	39,614
Compensated absences	58,106	32,655	90,761	90,558
Accrued liabilities	11,616	7,776	19,392	25,675
Accrued interest payable	7,308	1,644	8,952	19,795
Noncurrent liabilities:				
Due within one year	62,000	64,452	126,452	381,045
Due in more than one year	608,000	313,000	921,000	2,865,577
Total Liabilities	787,703	523,614	1,311,317	3,670,750
Net Position				
Net investment in capital assets	2,553,351	3,169,391	5,722,742	5,391,017
Restricted for:				
Economic development	133,987		133,987	370,625
Tax increment financing plan				274,617
Debt service requirements	45,197		45,197	128,284
Unrestricted	1,609,619	920,264	2,529,883	2,183,558
Total Net Position	4,342,154	4,089,655	8,431,809	8,348,101
Total Liabilities and Net Position	\$ 5,129,857	\$ 4,613,269	\$ 9,743,126	\$ 12,018,851

See Notes to Financial Statements

CITY OF HARMONY, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2013
With Comparative Totals for December 31, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 73,503	\$ 19,721	\$	\$
Public safety	419,807	227,992	3,131	5,604
Streets and highways	298,208	1,515		15,015
Library	103,882	2,056	28,091	
Government buildings	157,171	27,888		
Park and recreation	60,094	1,396		10,369
Economic development	148,296			3,547
Interest on long-term debt	17,016			
Unallocated	19,194			3,289
Total governmental activities	1,297,171	280,568	31,222	37,824
Business-Type activities:				
Water	112,020	192,162		
Sewer	278,965	299,355		
Electric	957,781	1,014,577		
Heritage Grove	508,290	560,377		
Garbage	56,350	53,037		
Storm Water	30,455	9,648		
Total business-type activities	1,943,861	2,129,156		
Total	3,241,032	2,409,724	31,222	37,824

General revenues:
General property taxes
Tax increments
Intergovernmental revenue
Interest earnings
Miscellaneous
Gain (loss) on sale
Loss on early extinguishment of debt
Transfers, net
Total general revenues and transfers

Change in net position

Net position - beginning (as restated Note 14)

Net position - ending

See Notes to Financial Statements

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Totals	
		2013	2012
\$ (53,782)	\$	\$ (53,782)	\$ (84,809)
(183,080)		(183,080)	(127,713)
(281,678)		(281,678)	(170,072)
(73,735)		(73,735)	(70,751)
(129,283)		(129,283)	(131,715)
(48,329)		(48,329)	(42,446)
(144,749)		(144,749)	(179,686)
(17,016)		(17,016)	(11,425)
(15,905)		(15,905)	(21,754)
<u>(947,557)</u>		<u>(947,557)</u>	<u>(840,371)</u>
	80,142	80,142	56,921
	20,390	20,390	32,143
	56,796	56,796	37,421
	52,087	52,087	(31,594)
	(3,313)	(3,313)	1,643
	<u>(20,807)</u>	<u>(20,807)</u>	<u>(17,873)</u>
	185,295	185,295	78,661
<u>(947,557)</u>	<u>185,295</u>	<u>(762,262)</u>	<u>(761,710)</u>
542,605		542,605	514,126
13,093		13,093	116,722
347,767		347,767	330,755
10,903	1,972	12,875	17,507
157,509	27,978	185,487	29,499
(45,657)	16,498	(29,159)	
	(226,698)	(226,698)	
<u>(370,235)</u>	<u>370,235</u>		
<u>655,985</u>	<u>189,985</u>	<u>845,970</u>	<u>1,008,609</u>
(291,572)	375,280	83,708	246,899
<u>4,633,726</u>	<u>3,714,375</u>	<u>8,348,101</u>	<u>8,101,202</u>
<u>\$ 4,342,154</u>	<u>\$ 4,089,655</u>	<u>\$ 8,431,809</u>	<u>\$ 8,348,101</u>

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CITY OF HARMONY, MINNESOTA

FUND FINANCIAL STATEMENTS

DECEMBER 31, 2013

CITY OF HARMONY, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2013
With Comparative Totals for December 31, 2012

	101 General	222 Fire	223 Ambulance	201 Revolving Loan	620 EDA
ASSETS					
Cash and investments	\$ 528,521	\$ 9,180	\$ 205,408	\$ 132,583	\$ 55,137
Accounts receivable	1,674	5,285	39,262		300
Taxes receivable - delinquent	34,318				
Special assessments receivable:					
Deferred	5,606				123,289
Delinquent	3,082				514
Note receivable				177,807	106,360
Due from other funds	48,660				
Due from other governmental units	5,444				
Prepaid items	16,271	4,442	1,443		8
TOTAL ASSETS	\$ 643,576	\$ 18,907	\$ 246,113	\$ 310,390	\$ 285,608
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE					
Liabilities					
Accounts payable	\$ 31,102	\$ 943	\$ 2,713	\$	\$ 274
Accrued liabilities	10,273		296		178
Due to other funds		172,014			
Total Liabilities	41,375	172,957	3,009		452
Deferred Inflows of Resources					
Unavailable					
Property taxes	34,318				
Special assessments	8,688				123,803
Loans receivable				177,807	106,360
Total Deferred Inflows of Resources	43,006			177,807	230,163
Fund Balance					
Non-spendable					
Prepaid items	16,271	4,442	1,443		8
Restricted					
Grantors				132,583	
Creditors					
Committed	293,745				
Assigned			241,661		54,985
Unassigned	249,179	(158,492)			
Total Fund Balance	559,195	(154,050)	243,104	132,583	54,993
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 643,576	\$ 18,907	\$ 246,113	\$ 310,390	\$ 285,608

See Notes to Financial Statements

401 Capital Projects	Other Governmental Funds	Total Governmental Funds	
		2013	2012
\$ 444,278	\$ 74,597	\$ 1,449,704	\$ 1,710,281
		46,521	47,280
	4,047	38,365	41,981
	37,593	166,488	179,674
		3,596	3,905
	58,247	342,414	369,041
		48,660	58,542
	416	5,860	6,805
	2,563	24,727	27,101
<u>\$ 444,278</u>	<u>\$ 177,463</u>	<u>\$ 2,126,335</u>	<u>\$ 2,444,610</u>
\$	\$ 5,641	\$ 40,673	\$ 140,266
	869	11,616	9,241
	47,815	219,829	243,147
	54,325	272,118	392,654
	4,047	38,365	41,981
	37,593	170,084	183,579
	58,247	342,414	369,041
	99,887	550,863	594,601
	2,563	24,727	27,101
		132,583	144,000
	45,197	45,197	73,618
444,278		738,023	757,091
	25,750	322,396	352,277
	(50,259)	40,428	103,268
<u>444,278</u>	<u>23,251</u>	<u>1,303,354</u>	<u>1,457,355</u>
<u>\$ 444,278</u>	<u>\$ 177,463</u>	<u>\$ 2,126,335</u>	<u>\$ 2,444,610</u>

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

For the Year Ended December 31, 2013
With Comparative Totals for the Year Ended December 31, 2012

	101 General	222 Fire	223 Ambulance	201 Revolving Loan	620 EDA
REVENUES					
General property taxes	\$ 237,127	\$ 29,550	\$	\$	\$ 97,500
Tax increments					
Special assessments	15,775				3,547
Licenses and permits	6,586				
Fines and forfeits	2,450				
Intergovernmental revenues	337,767	41,104	21,821		
Charges for services	27,888	4,800	163,392		
Investment income	3,246		624	5,233	96
Refunds and reimbursements	13,135				
Miscellaneous revenues	104,595	5,715	6,705	29,450	13,101
Total Revenues	748,569	81,169	192,542	34,683	114,244
EXPENDITURES					
General government	88,709				
Public safety	138,086	47,599	289,129		
Street and highways	279,524				
Library					
Government buildings	463,395				
Park and recreation					
Economic development				46,100	71,564
Debt service					
Unallocated	21,294				
Total Expenditures	991,008	47,599	289,129	46,100	71,564
Excess (deficiency) of revenues over (under) expenditures	(242,439)	33,570	(96,587)	(11,417)	42,680
OTHER FINANCING SOURCES (USES)					
Bond proceeds	312,482				
Transfers in	115,000	12,500	100,000		15,000
Transfers out	(241,041)	(25,000)	(37,500)		(35,000)
Total Other Financing Sources (Uses)	186,441	(12,500)	62,500		(20,000)
Net change in fund balances	(55,998)	21,070	(34,087)	(11,417)	22,680
Fund Balance - Beginning	615,193	(175,120)	277,191	144,000	32,313
Fund Balance - Ending	\$ 559,195	\$ (154,050)	\$ 243,104	\$ 132,583	\$ 54,993

See Notes to Financial Statements

401 Capital Projects	Other Governmental Funds	Total Governmental Funds	
		2013	2012
\$	\$ 182,044	\$ 546,221	\$ 515,781
	13,093	13,093	116,722
	12,735	32,057	22,708
		6,586	7,342
		2,450	959
	38,091	438,783	425,332
	3,452	199,532	214,602
1,537	133	10,869	15,393
		13,135	20,079
	16,276	175,842	71,674
<u>1,537</u>	<u>265,824</u>	<u>1,438,568</u>	<u>1,410,592</u>
		88,709	109,601
		474,814	312,558
		279,524	92,055
	103,882	103,882	100,684
		463,395	165,851
	104,768	104,768	55,947
	3,875	121,539	251,257
	127,266	127,266	90,138
	143	21,437	26,435
	<u>339,934</u>	<u>1,785,334</u>	<u>1,204,526</u>
<u>1,537</u>	<u>(74,110)</u>	<u>(346,766)</u>	<u>206,066</u>
	250,518	563,000	
175,500	36,306	454,306	246,215
(230,000)	(256,000)	(824,541)	(339,655)
<u>(54,500)</u>	<u>30,824</u>	<u>192,765</u>	<u>(93,440)</u>
(52,963)	(43,286)	(154,001)	112,626
<u>497,241</u>	<u>66,537</u>	<u>1,457,355</u>	<u>1,344,729</u>
<u>\$ 444,278</u>	<u>\$ 23,251</u>	<u>\$ 1,303,354</u>	<u>\$ 1,457,355</u>

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, 2013

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

Total governmental fund balances (pages 17 and 18)	\$	1,303,354
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$	6,454,954
Less: Accumulated depreciation		<u>(3,231,603)</u>
		3,223,351
Some receivables are not available soon enough to pay for current period expenditures and, therefore, are unavailable in the funds.		
Delinquent property taxes	\$	38,365
Deferred and delinquent special assessments		170,084
Notes receivable		<u>342,414</u>
		550,863
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	\$	(670,000)
Compensated absences		(58,106)
Accrued interest		<u>(7,308)</u>
		<u>(735,414)</u>
Net position of governmental activities (page 14)	\$	<u><u>4,342,154</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, 2013

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

Net change in fund balances - total governmental funds (pages 19 and 20)	\$	(154,001)
<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	\$ 300,731	
Depreciation expense	<u>(241,645)</u>	59,086
<p>The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net position.</p>		
		(32,332)
<p>Certain revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Property taxes	\$ (3,616)	
Special assessments	(13,495)	
Loans receivable	<u>(26,627)</u>	(43,738)
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>		
Principal retirement on long-term debt	\$ 443,370	
Proceeds on bond issuance	(563,000)	
Change in compensated absences	(2,174)	
Change in accrued interest	<u>1,217</u>	<u>(120,587)</u>
Change in net position of governmental activities (pages 15 and 16)	\$	<u><u>(291,572)</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, 2013
With Comparative Totals for the Year Ended December 31, 2012

	Budgeted Amounts		2013 Actual Amounts	Variance with Final Budget - Positive (Negative)	2012 Actual Amounts
	Original	Final			
REVENUES					
Property Tax Levy					
Property tax collected	\$ 274,190	\$ 236,190	\$ 237,127	\$ 937	\$ 204,188
Special Assessments	1,500	1,500	15,775	14,275	1,735
Intergovernmental Revenues					
Local government aid	320,299	320,299	320,299		320,299
Market value credit			10	10	45
Fire state aid	9,000	9,000	16,594	7,594	9,547
PERA rate increase aid	864	864	864		864
Total Intergovernmental	330,163	330,163	337,767	7,604	330,755
Licenses and Permits	6,250	6,250	6,586	336	7,342
Fines and Forfeits	1,250	1,250	2,450	1,200	959
Charges for Services					
Rental income - community center and visitor center	26,000	26,000	27,888	1,888	27,238
Investment Income	4,000	4,000	3,246	(754)	5,682
Refunds and Reimbursements	5,000	5,000	13,135	8,135	20,079
Miscellaneous Revenues					
Lodging tax	5,000	5,000	5,256	256	4,717
Cable TV franchise fee	3,500	3,500	4,259	759	4,199
Insurance proceeds			10,871	10,871	
Decertification of TIF district			66,968	66,968	
Other	4,100	4,100	17,241	13,141	7,853
Total Miscellaneous Revenues	12,600	12,600	104,595	91,995	16,769
TOTAL REVENUES	\$ 660,953	\$ 622,953	\$ 748,569	\$ 125,616	\$ 614,747

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, 2013
With Comparative Totals for the Year Ended December 31, 2012

	Budgeted Amounts		2013 Actual Amounts	Variance with Final Budget - Positive (Negative)	2012 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	2,393	(1,843)	338
Insurance	425	425		425	
Dues	1,000	1,000	1,107	(107)	1,077
Total Mayor and Council	<u>9,325</u>	<u>9,325</u>	<u>10,821</u>	<u>(1,496)</u>	<u>8,736</u>
Elections					<u>1,305</u>
Finance and Administration					
Employee services	67,533	67,533	56,861	10,672	74,074
Materials and supplies	6,850	6,850	6,237	613	4,071
Printing and publication	1,250	1,250	1,499	(249)	1,460
Training	650	650		650	370
Repairs and maintenance	1,000	1,000	2,118	(1,118)	1,510
Professional fees	6,000	6,000	6,181	(181)	11,317
Miscellaneous	3,378	3,378	369	3,009	2,840
Total Finance and Administration	<u>86,661</u>	<u>86,661</u>	<u>73,265</u>	<u>13,396</u>	<u>95,642</u>
Professional Services					
Legal	<u>7,500</u>	<u>7,500</u>	<u>4,623</u>	<u>2,877</u>	<u>3,918</u>
Total General Government	<u>103,486</u>	<u>103,486</u>	<u>88,709</u>	<u>14,777</u>	<u>109,601</u>
Government Buildings					
Community Center					
Employee services	34,775	34,775	31,640	3,135	31,142
Materials and supplies	6,750	6,750	5,773	977	7,514
Insurance	14,464	14,464	13,920	544	13,433
Repairs and maintenance	8,750	8,750	6,737	2,013	4,392
Utilities	30,750	30,750	30,775	(25)	25,460
Professional fees			13,533	(13,533)	
Miscellaneous	188	188	99	89	428
Capital outlay					16,318
Debt service	44,083	6,083	340,414	(334,331)	44,083
Total Community Center	<u>\$ 139,760</u>	<u>\$ 101,760</u>	<u>\$ 442,891</u>	<u>\$ (341,131)</u>	<u>\$ 142,770</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, 2013
With Comparative Totals for the Year Ended December 31, 2012

	Budgeted Amounts		2013 Actual Amounts	Variance with Final Budget - Positive (Negative)	2012 Actual Amounts
	Original	Final			
EXPENDITURES (Continued)					
Government Buildings (Continued)					
Visitor Center					
Employee services	\$ 11,185	\$ 11,185	\$ 7,930	\$ 3,255	\$ 8,853
Materials and supplies	3,050	3,050	2,446	604	2,571
Insurance	1,448	1,448	1,398	50	1,350
Repairs and maintenance	3,750	3,750	1,976	1,774	2,124
Capital outlay					2,178
Utilities	7,100	7,100	6,754	346	6,005
Total Visitor Center	<u>26,533</u>	<u>26,533</u>	<u>20,504</u>	<u>6,029</u>	<u>23,081</u>
Total Government Buildings	<u>166,293</u>	<u>128,293</u>	<u>463,395</u>	<u>(335,102)</u>	<u>165,851</u>
Public Safety					
Police Protection					
Contractual services	79,866	79,866	74,555	5,311	74,239
Vehicle expense	3,000	3,000	3,431	(431)	3,580
Materials and supplies	600	600	164	436	7
Insurance	451	451	449	2	410
Repairs and maintenance	1,050	1,050	214	836	505
Capital outlay	25,000	25,000	30,208	(5,208)	
Miscellaneous	775	775	591	184	624
Total Police Protection	<u>110,742</u>	<u>110,742</u>	<u>109,612</u>	<u>1,130</u>	<u>79,365</u>
Fire Protection					
Firemen's relief	<u>17,000</u>	<u>17,000</u>	<u>22,594</u>	<u>(5,594)</u>	<u>14,547</u>
Animal Control					
	<u>5,425</u>	<u>5,425</u>	<u>3,842</u>	<u>1,583</u>	<u>3,439</u>
Pest Control					
	<u>5,000</u>	<u>5,000</u>		<u>5,000</u>	<u>112</u>
Civil Defense					
	<u>2,052</u>	<u>2,052</u>	<u>2,038</u>	<u>14</u>	<u>2,037</u>
Total Public Safety	<u>\$ 140,219</u>	<u>\$ 140,219</u>	<u>\$ 138,086</u>	<u>\$ 2,133</u>	<u>\$ 99,500</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, 2013
With Comparative Totals for the Year Ended December 31, 2012

	Budgeted Amounts		2013 Actual Amounts	Variance with Final Budget - Positive (Negative)	2012 Actual Amounts
	Original	Final			
EXPENDITURES (Continued)					
Streets and Highway					
Employee services	\$ 18,387	\$ 18,387	\$ 19,227	\$ (840)	\$ 16,351
Vehicle expense	3,500	3,500	3,033	467	3,443
Materials and supplies	9,725	9,725	15,322	(5,597)	9,290
Insurance	2,669	2,669	2,514	155	2,791
Repairs and maintenance	51,500	51,500	83,852	(32,352)	6,182
Snow and ice	28,676	28,676	45,610	(16,934)	19,606
Building maintenance	24,185	24,185	23,923	262	20,667
Capital outlay			86,043	(86,043)	13,725
Total Streets and Highway	<u>138,642</u>	<u>138,642</u>	<u>279,524</u>	<u>(140,882)</u>	<u>92,055</u>
Unallocated					
Insurance	4,994	4,994	3,321	1,673	4,297
Lodging tax	5,000	5,000	5,236	(236)	5,400
Community events	6,575	6,575	8,751	(2,176)	7,499
Community development	3,000	3,000	3,986	(986)	9,046
Total Unallocated	<u>19,569</u>	<u>19,569</u>	<u>21,294</u>	<u>(1,725)</u>	<u>26,242</u>
TOTAL EXPENDITURES	<u>568,209</u>	<u>530,209</u>	<u>991,008</u>	<u>(460,799)</u>	<u>493,249</u>
Excess of revenues over expenditures	<u>92,744</u>	<u>92,744</u>	<u>(242,439)</u>	<u>(335,183)</u>	<u>121,498</u>
Other Financing Sources (Uses)					
Bond proceeds			312,482	312,482	
Transfers in	73,500	73,500	115,000	41,500	5,000
Transfers out	(122,940)	(122,940)	(241,041)	(118,101)	(167,940)
Total Other Financing Sources (Uses)	<u>(49,440)</u>	<u>(49,440)</u>	<u>186,441</u>	<u>235,881</u>	<u>(162,940)</u>
Net change in fund balance	43,304	43,304	(55,998)	(99,302)	(41,442)
FUND BALANCE - Beginning	<u>615,193</u>	<u>615,193</u>	<u>615,193</u>		<u>656,635</u>
FUND BALANCE - Ending	<u>\$ 658,497</u>	<u>\$ 658,497</u>	<u>\$ 559,195</u>	<u>\$ (99,302)</u>	<u>\$ 615,193</u>

See Notes to Financial Statements

CITY OF HARMONY, MINNESOTA
FIRE FUND
Schedule of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2013
With Comparative Totals for the Year Ended December 31, 2012

	Budgeted Amounts		2013 Actual Amounts	Variance with Final Budget Positive (Negative)	2012 Actual Amounts
	Original	Final			
REVENUES					
Property Tax Levy					
Property tax collected	\$ 29,550	\$ 29,550	\$ 29,550	\$	\$ 30,750
Charges for Services					
Service fees	5,000	5,000	4,800	(200)	9,711
Intergovernmental					
Contracts	37,500	37,500	41,104	3,604	40,712
Grants					2,500
Total Intergovernmental	37,500	37,500	41,104	3,604	43,212
Miscellaneous					
Donations	3,500	3,500	5,604	2,104	6,092
Other			111	111	3,820
Total Miscellaneous	3,500	3,500	5,715	2,215	9,912
TOTAL REVENUES	75,550	75,550	81,169	5,619	93,585
EXPENDITURES					
Public Safety					
Salaries and wages	12,498	12,498	12,705	(207)	15,952
Insurance	6,999	6,999	6,325	674	6,437
Repair and maintenance	7,500	7,500	7,813	(313)	4,389
Utilities	6,950	6,950	6,224	726	5,176
Supplies	9,650	9,650	5,182	4,468	8,009
Miscellaneous	7,750	7,750	5,709	2,041	9,670
Capital outlay			3,641	(3,641)	7,811
TOTAL EXPENDITURES	51,347	51,347	47,599	3,748	57,444
EXCESS (DEFICIT) REVENUES OVER (UNDER) EXPENDITURES	24,203	24,203	33,570	9,367	36,141
Other Financing Sources (Uses)					
Transfers in	12,500	12,500	12,500		27,847
Transfers out	(35,000)	(35,000)	(25,000)	10,000	(25,000)
Total Other Financing Sources (Uses)	(22,500)	(22,500)	(12,500)	10,000	2,847
NET CHANGE IN FUND BALANCE	1,703	1,703	21,070	19,367	38,988
FUND BALANCE, JANUARY 1	(175,120)	(175,120)	(175,120)		(214,108)
FUND BALANCE, DECEMBER 31	\$ (173,417)	\$ (173,417)	\$ (154,050)	\$ 19,367	\$ (175,120)

See Notes to Financial Statements

CITY OF HARMONY, MINNESOTA
AMBULANCE FUND
Schedule of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2013
With Comparative Totals for the Year Ended December 31, 2012

	Budgeted Amounts		2013 Actual Amounts	Variance with Final Budget Positive (Negative)	2012 Actual Amounts
	Original	Final			
REVENUES					
Charges for Services					
Service fees	\$ 160,000	\$ 160,000	\$ 163,392	\$ 3,392	\$ 175,193
Intergovernmental Revenues	21,196	21,196	21,821	625	21,046
Miscellaneous					
Investment income	1,000	1,000	624	(376)	1,052
Contributions	500	500		(500)	
Other	5,000	5,000	6,705	1,705	5,260
Total Miscellaneous	6,500	6,500	7,329	829	6,312
TOTAL REVENUES	187,696	187,696	192,542	4,846	202,551
EXPENDITURES					
Public Safety					
Salaries and wages	74,767	74,767	92,677	(17,910)	76,671
Insurance	3,598	3,598	5,529	(1,931)	3,403
Repair and maintenance	14,550	14,550	20,075	(5,525)	14,965
Travel, schools, conferences	6,100	6,100	4,485	1,615	7,741
Miscellaneous	9,000	9,000	12,496	(3,496)	9,068
Medicare write-offs	40,000	40,000	33,970	6,030	33,944
Capital outlay	98,000	98,000	119,897	(21,897)	9,822
TOTAL EXPENDITURES	246,015	246,015	289,129	(43,114)	155,614
EXCESS (DEFICIT) REVENUES OVER (UNDER) EXPENDITURES	(58,319)	(58,319)	(96,587)	(38,268)	46,937
Other Financing Sources (Uses)					
Transfers in			100,000	(100,000)	
Transfers out	(37,500)	(37,500)	(37,500)		(37,500)
Total Other Financing Sources (Uses)	(37,500)	(37,500)	62,500	(100,000)	(37,500)
NET CHANGE IN FUND BALANCE	(95,819)	(95,819)	(34,087)	(138,268)	9,437
FUND BALANCE, JANUARY 1	277,191	277,191	277,191		267,754
FUND BALANCE, DECEMBER 31	\$ 181,372	\$ 181,372	\$ 243,104	\$ (138,268)	\$ 277,191

See Notes to Financial Statements

CITY OF HARMONY, MINNESOTA
REVOLVING LOAN FUND
Schedule of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2013
With Comparative Totals for the Year Ended December 31, 2012

	Budgeted Amounts		2013 Actual Amounts	Variance with Final Budget Positive (Negative)	2012 Actual Amounts
	Original	Final			
REVENUES					
Miscellaneous					
Investment income	\$ 3,500	\$ 3,500	\$ 5,233	\$ 1,733	\$ 5,940
Other	17,500	17,500	29,450	11,950	25,486
TOTAL REVENUES	21,000	21,000	34,683	13,683	31,426
EXPENDITURES					
Economic Development					
Professional fees	1,000	1,000	1,055	(55)	875
Loans made	25,000	25,000	45,000	(20,000)	15,500
Miscellaneous			45	(45)	
TOTAL EXPENDITURES	26,000	26,000	46,100	(20,100)	16,375
NET CHANGE IN FUND BALANCE	(5,000)	(5,000)	(11,417)	33,783	15,051
FUND BALANCE, JANUARY 1	144,000	144,000	144,000		128,949
FUND BALANCE, DECEMBER 31	\$ 139,000	\$ 139,000	\$ 132,583	\$ 33,783	\$ 144,000

See Notes to Financial Statements

CITY OF HARMONY, MINNESOTA
EDA FUND
Schedule of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2013
With Comparative Totals for the Year Ended December 31, 2012

	Budgeted Amounts		2013 Actual Amounts	Variance with Final Budget Positive (Negative)	2012 Actual Amounts
	Original	Final			
REVENUES					
Property Tax Levy					
Property tax collected	\$ 97,500	\$ 97,500	\$ 97,500	\$	\$ 97,500
Special Assessments			3,547	3,547	2,332
Miscellaneous					
Investment income			96	96	26
Other			13,101	13,101	750
Total Miscellaneous			13,197	13,197	776
TOTAL REVENUES	97,500	97,500	114,244	16,744	100,608
EXPENDITURES					
Economic Development					
Salaries and wages	15,367	15,367	15,470	(103)	14,875
Professional fees	27,246	27,246	34,011	(6,765)	26,524
Donations	20,000	20,000	20,500	(500)	20,500
Miscellaneous	51,912	51,912	1,583	50,329	1,079
TOTAL EXPENDITURES	114,525	114,525	71,564	42,961	62,978
EXCESS (DEFICIT) REVENUES OVER (UNDER) EXPENDITURES	(17,025)	(17,025)	42,680	(26,217)	37,630
Other Financing Sources (Uses)					
Transfers in	15,000	15,000	15,000		32,118
Transfers out			(35,000)	(35,000)	(45,000)
Total Other Financing Sources (Uses)	15,000	15,000	(20,000)	(35,000)	(12,882)
NET CHANGE IN FUND BALANCE	(2,025)	(2,025)	22,680	(61,217)	24,748
FUND BALANCE, JANUARY 1	32,313	32,313	32,313		7,565
FUND BALANCE, DECEMBER 31	\$ 30,288	\$ 30,288	\$ 54,993	\$ (61,217)	\$ 32,313

See Notes to Financial Statements

CITY OF HARMONY, MINNESOTA
PROPRIETARY FUNDS
Statement of Net Position
December 31, 2013
With Comparative Totals for December 31, 2012

	Business-Type Activities - Enterprise Funds		
	601 Water Fund	602 Sewer Fund	604 Electric Fund
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 104,314	\$ 143,908	\$ 404,851
Accounts receivable	21,043	31,463	106,544
Special assessments		4,418	540
Due from other funds			172,014
Prepaid expense	2,807	4,432	6,244
Inventory	11,458		24,794
Total Current Assets	<u>139,622</u>	<u>184,221</u>	<u>714,987</u>
Noncurrent Assets:			
Capital assets:			
Nondepreciable	1,150	14,400	5,000
Depreciable	840,163	2,645,539	1,778,329
Less: Accumulated depreciation	<u>(246,565)</u>	<u>(1,039,300)</u>	<u>(982,986)</u>
Net capital assets	<u>594,748</u>	<u>1,620,639</u>	<u>800,343</u>
Total Assets	<u>734,370</u>	<u>1,804,860</u>	<u>1,515,330</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	2,385	6,270	83,758
Accrued liabilities	778	822	5,825
Due to other funds			
Customer deposits			11,674
Accrued interest payable		1,644	
Accrued compensated absences	9,800	13,875	5,690
Current maturities of bonds payable		64,452	
Total Current Liabilities	<u>12,963</u>	<u>87,063</u>	<u>106,947</u>
Noncurrent Liabilities:			
Bonds payable, net of current maturities and discount		<u>313,000</u>	
Total Liabilities	<u>12,963</u>	<u>400,063</u>	<u>106,947</u>
NET POSITION			
Net investment in capital assets	594,748	1,243,187	800,343
Unrestricted	<u>126,659</u>	<u>161,610</u>	<u>608,040</u>
Total Net Position	<u>\$ 721,407</u>	<u>\$ 1,404,797</u>	<u>\$ 1,408,383</u>

See Notes to Financial Statements

Business-Type Activities - Enterprise Funds

621 Heritage Grove	603 Garbage and Recycling Fund	605 Storm Water Fund	TOTALS	
			2013	2012
\$	\$ 21,295	\$	\$ 674,368	\$ 761,923
	5,362	860	165,272	167,822
			4,958	6,658
			172,014	189,185
	27	897	14,407	21,453
			36,252	37,288
	<u>26,684</u>	<u>1,757</u>	<u>1,067,271</u>	<u>1,184,329</u>
			20,550	168,114
		805,071	6,069,102	8,795,060
		(273,958)	(2,542,809)	(3,522,132)
		<u>531,113</u>	<u>3,546,843</u>	<u>5,441,042</u>
	<u>26,684</u>	<u>532,870</u>	<u>4,614,114</u>	<u>6,625,371</u>
			92,413	108,220
	348	3	7,776	16,434
		845	845	4,580
			11,674	39,614
			1,644	11,270
	2,711	579	32,655	34,626
			64,452	273,800
	<u>3,059</u>	<u>1,427</u>	<u>211,459</u>	<u>488,544</u>
			313,000	2,422,452
	<u>3,059</u>	<u>1,427</u>	<u>524,459</u>	<u>2,910,996</u>
		531,113	3,169,391	2,744,790
	23,625	330	920,264	969,585
<u>\$</u>	<u>\$ 23,625</u>	<u>\$ 531,443</u>	<u>\$ 4,089,655</u>	<u>\$ 3,714,375</u>

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

For the Year Ended December 31, 2013
With Comparative Totals for the Year Ended December 31, 2012

	Business-Type Activities - Enterprise Funds		
	601 Water Fund	602 Sewer Fund	604 Electric Fund
Operating Revenues			
Sales and rentals	\$ 192,162	\$ 299,355	\$ 1,014,577
Operating Expenses			
Salaries and wages	44,352	60,025	25,219
Service contracts	850	5,495	
Purchased power			821,468
Materials and supplies	8,761	16,766	3,696
Utilities	14,291	55,593	19,438
Repairs and maintenance	11,269	22,391	16,968
Travel and training	2,899	4,513	
Professional fees	3,050	15,493	5,390
Miscellaneous	2,054	1,601	13,632
Insurance	3,273	4,432	7,786
Depreciation/amortization	21,221	86,727	44,184
Total Operating Expenses	<u>112,020</u>	<u>273,036</u>	<u>957,781</u>
Operating Income (Loss)	<u>80,142</u>	<u>26,319</u>	<u>56,796</u>
Nonoperating Revenues (Expenses)			
Special assessments		258	438
Investment income	210	423	1,260
Other revenue (expense)	30	50	27,202
Interest expense and fiscal charges		(5,929)	
Total Nonoperating Revenues (Expenses)	<u>240</u>	<u>(5,198)</u>	<u>28,900</u>
Income (Loss) Before Transfers and Special Item	<u>80,382</u>	<u>21,121</u>	<u>85,696</u>
Gain on sale			
Loss on early extinguishment of debt			
Transfers in		41,940	
Transfers out	(33,500)	(3,500)	(18,000)
Change in net position	46,882	59,561	67,696
Net Position - Beginning of Year (as restated, Note 14)	<u>674,525</u>	<u>1,345,236</u>	<u>1,340,687</u>
Net Position - End of Year	<u>\$ 721,407</u>	<u>\$ 1,404,797</u>	<u>\$ 1,408,383</u>

See Notes to the Financial Statements

Business-Type Activities - Enterprise Funds

621 Heritage Grove	603 Garbage and Recycling Fund	605 Storm Water Fund	TOTALS	
			2013	2012
\$ 560,377	\$ 53,037	\$ 9,648	\$ 2,129,156	\$ 2,266,008
212,700	13,607	3,317	359,220	484,044
24,768	37,614		68,727	71,108
			821,468	786,585
46,221	1,542	133	77,119	138,364
29,173			118,495	124,341
17,663	537	4,379	73,207	99,995
936			8,348	5,918
1,542	3,050		28,525	25,502
39,623			56,910	28,058
20,376		797	36,664	46,384
61,058		21,834	235,024	269,022
<u>454,060</u>	<u>56,350</u>	<u>30,460</u>	<u>1,883,707</u>	<u>2,079,321</u>
106,317	(3,313)	(20,812)	245,449	186,687
			696	295
10	69		1,972	2,158
			27,282	14,087
(54,230)		5	(60,154)	(108,026)
<u>(54,220)</u>	<u>69</u>	<u>5</u>	<u>(30,204)</u>	<u>(91,486)</u>
52,097	(3,244)	(20,807)	215,245	95,201
16,498			16,498	
(226,698)			(226,698)	
386,795			428,735	151,940
	(1,000)	(2,500)	(58,500)	(58,500)
228,692	(4,244)	(23,307)	375,280	188,641
<u>(228,692)</u>	<u>27,869</u>	<u>554,750</u>	<u>3,714,375</u>	<u>3,525,734</u>
\$	\$ 23,625	\$ 531,443	\$ 4,089,655	\$ 3,714,375

CITY OF HARMONY, MINNESOTA
PROPRIETARY FUNDS
Statement of Cash Flows
For the Year Ended December 31, 2013
With Comparative Totals for the Year Ended December 31, 2012

	Business-Type Activities - Enterprise Funds		
	601 Water Fund	602 Sewer Fund	604 Electric Fund
Cash Flows From Operating Activities			
Cash received from customers	\$ 186,027	\$ 291,888	\$ 996,106
Cash payments to suppliers	(46,624)	(134,321)	(880,190)
Cash payments to employees or on their behalf	(47,065)	(64,822)	(24,750)
Other cash payments			829
Net Cash Provided By Operating Activities	<u>92,338</u>	<u>92,745</u>	<u>91,995</u>
Cash Flows From Capital and Related Financing Activities			
Acquisition and construction of capital assets		(28,641)	(162,402)
Principal payments on bonds		(158,800)	
Interest paid on bonds		(5,929)	
Net proceeds on sale			
Due to/from other funds			17,171
Special assessments received		258	1,402
Net Cash Provided By (Used In) Capital and Related Financing Activities		<u>(193,112)</u>	<u>(143,829)</u>
Cash Flows From Non-Capital Financing Activities			
Transfers in (out) to other funds	(33,500)	38,440	(18,000)
Other income (expense)	30	50	27,202
Net Cash Provided By (Used In) Non-Capital Financing Activities	<u>(33,470)</u>	<u>38,490</u>	<u>9,202</u>
Cash Flows From Investing Activities			
Investment earnings received	210	423	1,260
Net Increase (Decrease) in Cash and Cash Equivalents	59,078	(61,454)	(41,372)
Cash and Cash Equivalents, Beginning of Year	45,236	205,362	446,223
Cash and Cash Equivalents, End of Year	<u>\$ 104,314</u>	<u>\$ 143,908</u>	<u>\$ 404,851</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)	\$ 80,142	\$ 26,319	\$ 56,796
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	21,221	86,727	44,184
(Increase) Decrease In:			
Accounts receivable	(5,588)	(5,903)	(18,254)
Prepaid expenses	(679)	(1,564)	(1,121)
Inventory	132		904
Increase (Decrease) In:			
Accounts payable	(1,027)	(11,623)	8,188
Accrued interest payable		(1,909)	
Accrued liabilities	(1,863)	698	469
Customer deposits			829
Net Cash Provided By Operating Activities	<u>\$ 92,338</u>	<u>\$ 92,745</u>	<u>\$ 91,995</u>

See Notes to Financial Statements

Business-Type Activities - Enterprise Funds

621 Heritage Grove	603 Garbage and Recycling Fund	605 Storm Water Fund	TOTALS	
			2013	2012
\$ 604,712	\$ 52,733	\$ 9,058	\$ 2,140,524	\$ 2,264,035
(203,146)	(5,348)	(5,309)	(1,274,938)	(1,262,657)
(247,462)	(51,244)	(3,232)	(438,575)	(550,575)
			829	550
<u>154,104</u>	<u>(3,859)</u>	<u>517</u>	<u>427,840</u>	<u>451,353</u>
			(191,043)	(75,972)
(2,160,000)			(2,318,800)	(265,167)
(54,230)		5	(60,154)	(108,026)
1,640,017			1,640,017	
(4,580)		845	13,436	27,574
			1,660	1,624
<u>(578,793)</u>		<u>850</u>	<u>(914,884)</u>	<u>(419,967)</u>
386,795	(1,000)	(2,500)	370,235	93,440
			27,282	14,087
<u>386,795</u>	<u>(1,000)</u>	<u>(2,500)</u>	<u>397,517</u>	<u>107,527</u>
10	69		1,972	2,158
(37,884)	(4,790)	(1,133)	(87,555)	141,071
<u>37,884</u>	<u>26,085</u>	<u>1,133</u>	<u>761,923</u>	<u>620,852</u>
<u>\$</u>	<u>\$ 21,295</u>	<u>\$</u>	<u>\$ 674,368</u>	<u>\$ 761,923</u>

Business-Type Activities - Enterprise Funds

621 Heritage Grove	603 Garbage Fund	605 Storm Water Fund	TOTALS	
			2013	2012
\$ 106,317	\$ (3,313)	\$ (20,812)	\$ 245,449	\$ 180,846
61,058		21,834	235,024	274,863
33,438	(304)	(103)	3,286	(1,839)
10,897		(487)	7,046	792
			1,036	(926)
(11,126)	(219)		(15,807)	(18,470)
(7,717)			(9,626)	(2,609)
(9,994)	(23)	85	(10,628)	4,577
(28,769)			(27,940)	14,119
<u>\$ 154,104</u>	<u>\$ (3,859)</u>	<u>\$ 517</u>	<u>\$ 427,840</u>	<u>\$ 451,353</u>

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CITY OF HARMONY, MINNESOTA
Statement of Fiduciary Net Position
December 31, 2013
With Comparative Totals for December 31, 2012

	2013	2012
<hr/>		
Assets		
Cash and cash equivalents	\$ 14,487	\$ 14,434
	<u> </u>	<u> </u>
Net Position		
Unrestricted	\$ 14,487	\$ 14,434
	<u> </u>	<u> </u>

CITY OF HARMONY, MINNESOTA
Statement of Changes in Fiduciary Net Position
For the Year Ended December 31, 2013
With Comparative Totals for the Year Ended December 31, 2012

	2013	2012
<hr/>		
Additions		
Investment income	\$ 53	\$ 151
	<u> </u>	<u> </u>
Increase in Net Position	53	151
Net Position - Beginning of Year	14,434	14,283
	<u> </u>	<u> </u>
Net Position - End of Year	\$ 14,487	\$ 14,434
	<u> </u>	<u> </u>

See Notes to Financial Statements

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CITY OF HARMONY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transaction, in which the City receives value without directly giving equal value in return, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year in which the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it is recognized.

Unearned revenue is recorded when assets are recognized before revenue recognition criteria have been satisfied. Grants received before eligibility requirements other than time requirements are met are recorded as unearned revenue. Grants received before time requirements are met are recorded as a deferred inflow of resources.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

The City reports the following major governmental funds:

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

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

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

The *Revolving Loan fund* accounts for loans for businesses within the community.

The *EDA fund* accounts for economic development and growth within the City.

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

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 Assisted Living Center facility was sold effective August 29, 2013.

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.

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)

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

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

Assets, Liabilities, Deferred Inflows of Resources, 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 inflows of resources 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.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (continued)

Property Taxes (continued)

Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to cities and other taxing districts normally during the months of July and December.

Inventories

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

Special Assessments

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

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (continued)

Capital Assets (continued)

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

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

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

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

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, Deferred Inflows of Resources, 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 2012 financial statements have been reclassified to conform to the 2013 presentation.

Net Position / Fund Balance

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

Net Investment in Capital Assets – 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, Deferred Inflows of Resources, 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.

The City has not adopted a minimum fund balance policy.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments

Summary of Cash and Investments

As of December 31, 2013, 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	\$ 165
Cash	None	N/A	545,603
Money Market Mutual Funds	None	N/A	278,056
Non-Negotiable CD's	January - December 2014	Unrated	<u>1,300,248</u>
Cash and Investments per Statement of Net Position			<u>\$ 2,124,072</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, 2013 is \$177,807.

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 inflows of resources until the repayments are made. The remaining balance at December 31, 2013 is \$58,247.

In addition to these loans, a \$40,000 loan was given to Heritage Grove (an enterprise fund of the City). The terms were 4.0% for 12 years. This was recorded as a due to / due from on the balance sheet. The loan was retired in 2013.

4. Due From Other Governmental Units

Amounts due from other governmental units at December 31, 2013 are as follows:

<u>Fund</u>	<u>Fillmore County</u>
General	\$ 5,444
Debt Service	296
Capital Projects	120
	<hr/>
	\$ 5,860
	<hr/> <hr/>

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Capital Assets

Capital asset activity for the year ended December 31, 2013 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 289,318	\$ 25,000	\$	\$ 314,318
Construction in progress	13,325	13,835	13,325	13,835
Total capital assets, not being depreciated	<u>302,643</u>	<u>38,835</u>	<u>13,325</u>	<u>328,153</u>
Capital assets, being depreciated:				
Buildings and improvements	1,214,545	4,522		1,219,067
Vehicles	1,197,967	138,086	124,976	1,211,077
Machinery and other equipment	523,168	50,556	6,785	566,939
Infrastructure (e.g. streets)	3,047,661	82,057		3,129,718
Total capital assets, being depreciated	<u>5,983,341</u>	<u>275,221</u>	<u>131,761</u>	<u>6,126,801</u>
Less accumulated depreciation for:				
Buildings and improvements	739,737	69,797		809,534
Vehicles	552,810	87,477	96,036	544,251
Machinery and other equipment	332,657	43,259	3,393	372,523
Infrastructure (e.g. streets)	1,464,183	41,112		1,505,295
Total accumulated depreciation	<u>3,089,387</u>	<u>241,645</u>	<u>99,429</u>	<u>3,231,603</u>
Total capital assets, being depreciated, net	<u>2,893,954</u>	<u>33,576</u>	<u>32,332</u>	<u>2,895,198</u>
Governmental activities capital assets, net	<u>\$ 3,196,597</u>	<u>\$ 72,411</u>	<u>\$ 45,657</u>	<u>\$ 3,223,351</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
Government buildings	\$ 41,690
Public safety	101,450
Streets and highways	79,612
Culture and recreation	18,893
	<u>241,645</u>
Total depreciation expense - governmental activities	<u>\$ 241,645</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	\$	\$ 147,564	\$ 20,550
Total capital assets, not being depreciated	<u>168,114</u>		<u>147,564</u>	<u>20,550</u>
Capital assets, being depreciated:				
Buildings and improvements	4,811,814		2,699,296	2,112,518
Machinery and other equipment	456,736	28,641	193,597	291,780
Vehicles	52,807		24,107	28,700
Infrastructure (e.g. utilities)	3,473,703	162,401		3,636,104
Total capital assets, being depreciated	<u>8,795,060</u>	<u>191,042</u>	<u>2,917,000</u>	<u>6,069,102</u>
Less accumulated depreciation for:				
Buildings and improvements	2,059,396	131,474	1,190,240	1,000,630
Machinery and other equipment	111,266	17,549		128,815
Vehicles	52,807		24,107	28,700
Infrastructure (e.g. utilities)	1,298,663	86,001		1,384,664
Total accumulated depreciation	<u>3,522,132</u>	<u>235,024</u>	<u>1,214,347</u>	<u>2,542,809</u>
Total capital assets, being depreciated, net	<u>5,272,928</u>	<u>(43,982)</u>	<u>1,702,653</u>	<u>3,526,293</u>
Business-type activities capital assets, net	<u>\$ 5,441,042</u>	<u>\$ (43,982)</u>	<u>\$ 1,850,217</u>	<u>\$ 3,546,843</u>

Depreciation expense was charged to functions/programs as follows:

Business-Type Activities:	
Water	\$ 21,221
Sewer	86,727
Electric	44,184
Heritage Grove	61,058
Storm Water	21,834
	<u>235,024</u>
Total depreciation expense - business-type activities	<u>\$ 235,024</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.

General Obligation Tax Abatement Bonds:

Proceeds from these bonds were used to help finance the sale of the Assisted Living Facility and to refund the USDA Promissory Notes. These bonds are payable primarily through tax abatements 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, 2013 balances is as follows:

	<u>Range of Interest Rates</u>	<u>Final Maturity</u>	<u>Balance December 31, 2013</u>
General Obligation Improvement Bonds			
Series 2010A Improvement	3.25%	2018	\$ 138,000
General Obligation Tax Abatement Bonds			
Series 2013A Tax Abatement Refunding	2.20%	2024	282,000
Series 2013B Tax Abatement	4.50%	2024	250,000
General Obligation Revenue Notes			
Series 1993 - PFA	3.34%	2014	31,452
Series 2004 - PFA	1.00%	2023	346,000
Total			<u>\$ 1,047,452</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, 2013 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	\$ 50,000		\$ 50,000		\$	\$
Series 2010A Improvement	166,000		28,000		138,000	30,000
General Obligation Tax Abatement Bonds:						
Series 2013A Tax Abatement Refunding		313,000	31,000		282,000	32,000
Series 2013B Tax Abatement		250,000			250,000	
Other:						
Promissory Note - USDA	84,695		84,695			
Promissory Note - USDA	40,811		40,811			
Promissory Note - USDA	208,864		208,864			
Compensated Absences	55,932			2,174	58,106	
Governmental Activities Long-term Liabilities	<u>606,302</u>	<u>563,000</u>	<u>443,370</u>	<u>2,174</u>	<u>728,106</u>	<u>62,000</u>
BUSINESS-TYPE ACTIVITIES						
General Obligation Revenue Notes:						
Series 1993 - PFA	112,252		80,800		31,452	31,452
Series 2004 - PFA	379,000		33,000		346,000	33,000
General Obligation Revenue Bonds:						
Series 2002A Water and Sewer	45,000		45,000			
2008 EDA Housing Refunding Bonds	2,160,000		2,160,000			
Compensated Absences	34,626			(1,971)	32,655	
Business-type Activities Long-term Liabilities	<u>2,730,878</u>		<u>2,318,800</u>	<u>(1,971)</u>	<u>410,107</u>	<u>64,452</u>
Total	<u>\$ 3,337,180</u>	<u>\$ 563,000</u>	<u>\$ 2,762,170</u>	<u>\$ 203</u>	<u>\$ 1,138,213</u>	<u>\$ 126,452</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, 2013 are summarized below.

Years	General Obligation Improvement Bonds		General Obligation Revenue Bonds / Notes		General Obligation Tax Abatement	
	Principal	Interest	Principal	Interest	Principal	Interest
<u>Governmental Activities</u>						
2014	\$ 30,000	\$ 4,241			\$ 32,000	\$ 16,579
2015	30,000	3,266			53,000	16,300
2016	30,000	2,291			54,000	14,651
2017	32,000	1,300			56,000	12,958
2018	16,000	260			58,000	11,198
2019-2023					233,000	29,801
2024-2027					46,000	1,027
Totals	<u>\$ 138,000</u>	<u>\$ 11,358</u>			<u>\$ 532,000</u>	<u>\$ 102,514</u>

Business-Type Activities

2014	\$ 64,452	\$ 3,985
2015	33,000	3,130
2016	34,000	2,800
2017	34,000	2,460
2018	34,000	2,120
2019-2023	178,000	5,370
Totals	<u>\$ 377,452</u>	<u>\$ 19,865</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, 2013 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, 2013, the Housing Revenue Refunding Bonds outstanding aggregated \$6,465,000.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Individual Fund Disclosures

Transfers during the year ended December 31, 2013 were as follows:

Funds	Transfers In	Transfers Out
General Fund:	\$ 115,000	\$ 241,041
Special Revenue:		
Ambulance	100,000	37,500
Park	20,000	6,000
Fire	12,500	25,000
EDA	15,000	35,000
Capital Projects:		
Capital Projects	175,500	230,000
Debt Services:		
2002 G.O. Improvement Bonds	11,306	
2013B G.O. Tax Abatement	5,000	250,000
Enterprise:		
Water		33,500
Sewer	41,940	3,500
Garbage and recycling		1,000
Electric		18,000
Storm Water		2,500
Heritage Grove	386,795	
Total Transfers	\$ 883,041	\$ 883,041

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, 2013, at the individual fund level are summarized below:

	Due From Other Funds	Due To Other Funds
General Fund	\$ 48,660	\$
Special Revenue:		
Fire		172,014
Library		981
Capital Projects:		
TIF #5		46,834
Enterprise Fund:		
Electric	172,014	
Storm Water		845
	<u>\$ 220,674</u>	<u>\$ 220,674</u>

At December 31, 2013 the following funds have deficit fund equity:

Special Revenue:		
Library		\$ 3,365
Fire		154,050
Capital Projects:		
TIF #5		46,635

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

Excess of expenditures over appropriations at the individual fund level during 2013 are as follows:

General Fund	\$ 460,799
Special Revenue:	
Ambulance Fund	43,114
Revolving Loan Fund	20,100

All excess expenditures were the result of planned processes.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Deferred Inflows of Resources

Deferred inflows of resources recorded in the fund financial statements at December 31, 2013 consists of the following:

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

Revenue	General Fund	Special Revenue	Debt Service Funds	Capital Projects Funds	Totals
Special assessments	\$ 8,688	\$ 123,803	\$ 37,593	\$	\$ 170,084
Taxes receivable	34,318		1,318	2,729	38,365
Loans receivable		342,414			342,414
Total	\$ 43,006	\$ 466,217	\$ 38,911	\$ 2,729	\$ 550,863

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, 2013 is as follows:

Specific Purpose	Restriction Imposed By			
	Contributors	Grantors	Creditors	Regulations
Restricted Fund Balance				
Revolving Loan Fund:				
Economic Development	\$	\$ 132,583	\$	\$
Debt Service Funds:				
Debt service requirements			45,197	
Total Restricted Fund Balance	\$	\$ 132,583	\$ 45,197	\$
Restricted Net Position				
Economic Development	\$	\$ 133,987	\$	\$
Debt service requirements			45,197	
Total Restricted Net Position	\$	\$ 133,987	\$ 45,197	\$

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, 2013 is as follows:

Specific Purpose	Ambulance	Park	Small Cities	Arts	EDA
Assigned Fund Balance					
Public safety	\$ 241,661	\$	\$	\$	\$
Park and recreation		13,240	1,404	11,106	
Economic development					54,985
Total Assigned Fund Balance	\$ 241,661	\$ 13,240	\$ 1,404	\$ 11,106	\$ 54,985

	General	Capital Projects
Committed Fund Balance		
Cash Flow	\$ 293,745	\$
Equipment:		
Public buildings		15,000
Public safety		57,153
Streets and highways		220,250
Park and recreation		8,750
Utility		94,000
Other		49,125
	\$ 293,745	\$ 444,278

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 2013. PEPFF members were required to contribute 9.4% of their annual covered salary in 2013. 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, 2013, 2012, and 2011 were \$31,696, \$29,431, and \$28,007, 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 2013.

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 2013. 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. Accounting Standards Issued But Not Yet Adopted

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* will be effective for the City beginning with its year ending December 31, 2015. This Statement requires the reporting of unfunded pension liabilities in the government-wide and proprietary financial statements. Management has not determined the impact adoption of this new standard will have on the City's financial position.

CITY OF HARMONY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

14. Change in Accounting Standards

During the year ended December 31, 2013, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 65 "Items Previously Reported as Assets and Liabilities." This standard requires retroactive implementation which resulted in the restatement of beginning balances in the December 31, 2013 financial statements.

The following Schedule reconciles the previously reported December 31, 2012 balances to the amounts reported in the December 31, 2013 financial statements:

Activities/Fund	Net Position December 31, 2011 as Previously Reported	Restatement for Write-off of Unamortized Bond Issuance Costs	Net Position December 31, 2011 as Restated
Governmental Activities	\$ 4,575,468	\$	\$ 4,575,468
Business-Type Activities	\$ 3,616,269	\$ (90,535)	\$ 3,525,734
Proprietary Funds:			
Water Fund	\$ 650,372	\$	\$ 650,372
Sewer Fund	1,272,103		1,272,103
Electric Fund	1,308,591		1,308,591
Heritage Grove	(176,583)	(90,535)	(267,118)
Garbage and Recycling Fund	27,115		27,115
Storm Water Fund	534,671		534,671
	<u>\$ 3,616,269</u>	<u>\$ (90,535)</u>	<u>\$ 3,525,734</u>

Activities/Fund	Net Position December 31, 2012 as Previously Reported	Restatement for Write-off of Unamortized Bond Issuance Costs	Net Position December 31, 2012 as Restated
Governmental Activities	\$ 4,633,726	\$	\$ 4,633,726
Business-Type Activities	\$ 3,799,069	\$ (84,694)	\$ 3,714,375
Proprietary Funds:			
Water Fund	\$ 674,525	\$	\$ 674,525
Sewer Fund	1,345,236		1,345,236
Electric Fund	1,340,687		1,340,687
Heritage Grove	(143,998)	(84,694)	(228,692)
Garbage and Recycling Fund	27,869		27,869
Storm Water Fund	554,750		554,750
	<u>\$ 3,799,069</u>	<u>\$ (84,694)</u>	<u>\$ 3,714,375</u>

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CITY OF HARMONY, MINNESOTA
COMBINING AND INDIVIDUAL FUND STATEMENTS
DECEMBER 31, 2013

**CITY OF HARMONY, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2013**

	Special Revenue			
	251 Park	211 Library	202 Small Cities Grant	261 Arts
ASSETS				
Cash and investments	\$ 13,442	\$ 40	\$ 1,404	\$ 11,106
Taxes receivable - delinquent				
Special assessments receivable				
Deferred				
Loan receivable			58,247	
Due from other governmental units				
Prepaid items	2,304	259		
TOTAL ASSETS	\$ 15,746	\$ 299	\$ 59,651	\$ 11,106
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ 192	\$ 1,824	\$	\$
Accrued liabilities	10	859		
Due to other funds		981		
Total Liabilities	202	3,664		
Deferred Inflows of Resources				
Unavailable:				
Property taxes				
Special assessments				
Loans receivable			58,247	
Total Deferred Inflows of Resources			58,247	
Fund Balance:				
Nonspendable				
Prepaid items	2,304	259		
Restricted				
Creditors				
Assigned	13,240		1,404	11,106
Unassigned		(3,624)		
Total Fund Balance	15,544	(3,365)	1,404	11,106
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 15,746	\$ 299	\$ 59,651	\$ 11,106

		Debt Service				
405 TIF #1	418 TIF #5	312 2002 G.O. Improvement Bonds	314 2010 G.O. Improvement Bonds	315 2013A G.O. Tax Abatement Refunding	316 2013B G.O. Tax Abatement	Total Nonmajor Governmental Funds 2013
\$ 3,625	\$ 79	\$	\$ 42,296	\$ 2,605	\$	\$ 74,597
2,729			1,318			4,047
			37,593			37,593
	120		296			58,247
						416
						2,563
<u>\$ 6,354</u>	<u>\$ 199</u>	<u>\$</u>	<u>\$ 81,503</u>	<u>\$ 2,605</u>	<u>\$</u>	<u>\$ 177,463</u>
\$ 3,625	\$	\$	\$	\$	\$	\$ 5,641
	46,834					869
						47,815
<u>3,625</u>	<u>46,834</u>					<u>54,325</u>
2,729			1,318			4,047
			37,593			37,593
						58,247
<u>2,729</u>			<u>38,911</u>			<u>99,887</u>
						2,563
			42,592	2,605		45,197
	(46,635)					25,750
						(50,259)
	<u>(46,635)</u>		<u>42,592</u>	<u>2,605</u>		<u>23,251</u>
<u>\$ 6,354</u>	<u>\$ 199</u>	<u>\$</u>	<u>\$ 81,503</u>	<u>\$ 2,605</u>	<u>\$</u>	<u>\$ 177,463</u>

CITY OF HARMONY, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2013

	Special Revenue			
	251	211	202	261
	Park	Library	Small Cities Grant	Arts
REVENUES				
General property taxes	\$ 46,000	\$ 68,960	\$	\$
Tax increment				
Special assessments				
Intergovernmental revenues		28,091		10,000
Charges for services	1,396	2,056		
Investment income	27	(44)	2	45
Miscellaneous revenues	14,114	654	1,508	
TOTAL REVENUES	61,537	99,717	1,510	10,045
EXPENDITURES				
Public safety				
Library		103,882		
Park and recreation	90,492			14,276
Economic development				
Debt service				
Unallocated	13			
TOTAL EXPENDITURES	90,505	103,882		14,276
Excess (deficiency) of revenues over (under) expenditures	(28,968)	(4,165)	1,510	(4,231)
OTHER FINANCING SOURCES (USES)				
Bond proceeds				
Transfers In	20,000			
Transfers out	(6,000)			
Total other financing sources (uses)	14,000			
Net change in fund balances	(14,968)	(4,165)	1,510	(4,231)
Fund Balance - Beginning	30,512	800	(106)	15,337
Fund Balance - Ending	\$ 15,544	\$ (3,365)	\$ 1,404	\$ 11,106

		Debt Service				Total Nonmajor Governmental Funds 2013
405 TIF #1	418 TIF #5	312 2002 G.O. Improvement Bonds	314 2010 G.O. Improvement Bonds	315 2013A G.O. Tax Abatement Refunding	316 2013B G.O. Tax Abatement	
\$ 3,625	\$ 9,468	\$ 1,200	\$ 27,884	\$ 38,000	\$	\$ 182,044
		5,450	7,285			13,093
	8		92	3		12,735
						38,091
						3,452
						133
						16,276
<u>3,625</u>	<u>9,476</u>	<u>6,650</u>	<u>35,261</u>	<u>38,003</u>		<u>265,824</u>
						103,882
3,625	250					104,768
	2,107	51,075	33,168	35,916	5,000	3,875
	130					127,266
<u>3,625</u>	<u>2,487</u>	<u>51,075</u>	<u>33,168</u>	<u>35,916</u>	<u>5,000</u>	<u>143</u>
	6,989	(44,425)	2,093	2,087	(5,000)	(74,110)
				518	250,000	250,518
		11,306			5,000	36,306
					(250,000)	(256,000)
		<u>11,306</u>		<u>518</u>	<u>5,000</u>	<u>30,824</u>
	6,989	(33,119)	2,093	2,605		(43,286)
	(53,624)	33,119	40,499			66,537
<u>\$</u>	<u>\$ (46,635)</u>	<u>\$</u>	<u>\$ 42,592</u>	<u>\$ 2,605</u>	<u>\$</u>	<u>\$ 23,251</u>

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CITY OF HARMONY, MINNESOTA

SUPPLEMENTAL INFORMATION

DECEMBER 31, 2013

**CITY OF HARMONY, MINNESOTA
WATER FUND
Statement of Revenues, Expenses
and Changes in Fund Net Position**
For the Year Ended December 31, 2013
With Comparative Totals for the Year Ended December 31, 2012

	2013	2012
Operating Revenue		
Sales and rentals	\$ 192,162	\$ 187,122
Operating Expenses		
Salaries and wages	44,352	42,814
Service contracts	850	850
Materials and supplies	8,761	34,546
Utilities	14,291	13,507
Repairs and maintenance	11,269	7,794
Travel and training	2,899	2,309
Professional services	3,050	2,950
Miscellaneous	2,054	1,394
Insurance	3,273	3,007
Depreciation/amortization	21,221	21,030
Total Operating Expenses	112,020	130,201
Operating Income	80,142	56,921
Nonoperating Revenues (Expenses)		
Investment income	210	45
Other revenue	30	687
Total Nonoperating Revenues (Expenses)	240	732
INCOME BEFORE TRANSFERS	80,382	57,653
Transfers out	(33,500)	(33,500)
Change in net position	46,882	24,153
Net Position - Beginning of Year	674,525	650,372
Net Position - End of Year	\$ 721,407	\$ 674,525

CITY OF HARMONY, MINNESOTA
SEWER FUND
Statement of Revenues, Expenses
and Changes in Fund Net Position
For the Year Ended December 31, 2013
With Comparative Totals for the Year Ended December 31, 2012

	2013	2012
Operating Revenue		
Sales and rentals	\$ 299,355	\$ 294,461
Operating Expenses		
Salaries and wages	60,025	51,384
Service contracts	5,495	1,611
Materials and supplies	16,766	10,357
Utilities	55,593	52,349
Repairs and maintenance	22,391	30,153
Travel and training	4,513	3,059
Professional fees	15,493	10,613
Miscellaneous	1,601	3,176
Insurance	4,432	3,712
Depreciation/amortization	86,727	84,621
Total Operating Expenses	<u>273,036</u>	<u>251,035</u>
Operating Income	<u>26,319</u>	<u>43,426</u>
Nonoperating Revenues (Expenses)		
Special assessments	258	295
Investment income	423	775
Other revenue	50	1,480
Interest expense and fiscal charges	(5,929)	(11,283)
Total Nonoperating Revenues (Expenses)	<u>(5,198)</u>	<u>(8,733)</u>
INCOME BEFORE TRANSFERS	21,121	34,693
Transfers in	41,940	41,940
Transfers out	<u>(3,500)</u>	<u>(3,500)</u>
Change in net position	59,561	73,133
Net Position - Beginning of Year	<u>1,345,236</u>	<u>1,272,103</u>
Net Position - End of Year	<u>\$ 1,404,797</u>	<u>\$ 1,345,236</u>

CITY OF HARMONY, MINNESOTA
ELECTRIC FUND
Statement of Revenues, Expenses
and Changes in Fund Net Position
For the Year Ended December 31, 2013
With Comparative Totals for the Year Ended December 31, 2012

	2013	2012
Operating Revenue		
Sales and rentals	\$ 1,014,577	\$ 973,342
Operating Expenses		
Salaries and wages	25,219	25,135
Purchased power	821,468	786,585
Materials and supplies	3,696	23,941
Utilities	19,438	17,225
Repairs and maintenance	16,968	25,272
Professional fees	5,390	5,275
Miscellaneous	13,632	3,074
Insurance	7,786	7,164
Depreciation/amortization	44,184	42,250
Total Operating Expenses	957,781	935,921
Operating Income	56,796	37,421
Nonoperating Revenues (Expenses)		
Special assessments	438	
Investment income	1,260	1,207
Other revenue	27,202	11,468
Total Nonoperating Revenues (Expenses)	28,900	12,675
INCOME BEFORE TRANSFERS	85,696	50,096
Transfers out	(18,000)	(18,000)
Change in net position	67,696	32,096
Net Position - Beginning of Year	1,340,687	1,308,591
Net Position - End of Year	\$ 1,408,383	\$ 1,340,687

CITY OF HARMONY, MINNESOTA
HERITAGE GROVE FUND
Statement of Revenues, Expenses
and Changes in Fund Net Position
For the Year Ended December 31, 2013
With Comparative Totals for the Year Ended December 31, 2012

	2013	2012
Operating Revenue		
Sales and rentals	\$ 560,377	\$ 748,866
Operating Expenses		
Salaries and wages	212,700	350,487
Service contracts	24,768	34,196
Materials and supplies	46,221	67,577
Utilities	29,173	41,260
Repairs and maintenance	17,663	33,364
Travel and training	936	550
Professional fees	1,542	3,714
Miscellaneous	39,623	20,099
Insurance	20,376	31,811
Depreciation/amortization	61,058	100,653
Total Operating Expenses	454,060	683,711
Operating Income	106,317	65,155
Nonoperating Revenues (Expenses)		
Investment income	10	20
Interest expense and fiscal charges	(54,230)	(96,749)
Total Nonoperating Revenues (Expenses)	(54,220)	(96,729)
INCOME (LOSS) BEFORE TRANSFERS AND SPECIAL ITEM	52,097	(31,574)
Gain on sale	16,498	
Loss on early extinguishment of debt	(226,698)	
Transfers in	386,795	70,000
Change in net position	228,692	38,426
Net Position - Beginning of Year (as restated, Note 14)	(228,692)	(267,118)
Net Position - End of Year	\$	\$ (228,692)

**CITY OF HARMONY, MINNESOTA
GARBAGE AND RECYCLING FUND
Statement of Revenues, Expenses
and Changes in Fund Net Position**
For the Year Ended December 31, 2013
With Comparative Totals for the Year Ended December 31, 2012

	2013	2012
Operating Revenue		
Sales and rentals	\$ 53,037	\$ 52,615
Operating Expenses		
Salaries and wages	13,607	11,503
Service contracts	37,614	34,451
Materials and supplies	1,542	1,753
Repairs and maintenance	537	
Professional services	3,050	2,950
Miscellaneous		315
Total Operating Expenses	56,350	50,972
Operating Income (Loss)	(3,313)	1,643
Nonoperating Revenues (Expenses)		
Investment income	69	111
INCOME (LOSS) BEFORE TRANSFERS	(3,244)	1,754
Transfers out	(1,000)	(1,000)
Change in net position	(4,244)	754
Net Position - Beginning of Year	27,869	27,115
Net Position - End of Year	\$ 23,625	\$ 27,869

CITY OF HARMONY, MINNESOTA
STORM WATER FUND
Statement of Revenues, Expenses
and Changes in Fund Net Position
For the Year Ended December 31, 2013
With Comparative Totals for the Year Ended December 31, 2012

	2013	2012
Operating Revenue		
Sales and rentals	\$ 9,648	\$ 9,602
Operating Expenses		
Salaries and wages	3,317	2,721
Materials and supplies	133	190
Repairs and maintenance	4,379	3,412
Insurance	797	690
Depreciation/amortization	21,834	20,468
Total Operating Expenses	30,460	27,481
Operating Loss	(20,812)	(17,879)
Nonoperating Revenues (Expenses)		
Interest expense	5	6
Other revenue	452	452
Total Nonoperating Revenues (Expenses)	5	458
LOSS BEFORE TRANSFERS	(20,807)	(17,421)
Transfers in		40,000
Transfers out	(2,500)	(2,500)
Change in net position	(23,307)	20,079
Net Position - Beginning of Year	554,750	534,671
Net Position - End of Year	\$ 531,443	\$ 554,750

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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, 2013 and have issued our report thereon dated March 21, 2014.

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 21, 2014