

Annual Financial Report

City of Harmony

Harmony, Minnesota

For the Year Ended

December 31, 2014

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CITY OF HARMONY, MINNESOTA
 ANNUAL FINANCIAL REPORT
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INTRODUCTORY SECTION

CITY OF HARMONY
HARMONY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2014

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CITY OF HARMONY, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2014

ELECTED

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steve Donney	Mayor	12/31/14
Lynn Mensink	Council	12/13/16
Gerald Schuck	Council	12/31/14
Kyle Morem	Council	12/31/14
Debbie Swenson	Council	12/31/16

APPOINTED

Jerome Illg	Administrator
Eileen Schansberg	Deputy Clerk

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FINANCIAL SECTION
CITY OF HARMONY
HARMONY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2014

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Harmony, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Harmony, Minnesota (the City), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 City'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 City'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 financial statement presentation.

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

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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 as of December 31, 2014, and the respective changes in financial position, cash flows where applicable, thereof and the respective budgetary comparison schedules for the General, Fire, Ambulance, Revolving Loan and EDA funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 15 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

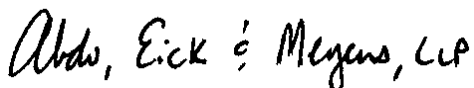
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
April 3, 2015

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Management's Discussion and Analysis

As management of the City of Harmony, Minnesota, (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2014.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$8,809,548 (net position). Of this amount \$1,460,863 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- As of the close in the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,784,105, an increase of \$138,337 in comparison with the prior year. Approximately 4.5 percent of the total amount, \$79,965, constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is not available for new spending because it is either 1) non-spendable (\$63,447) 2) restricted \$483,165), 3) committed (\$601,273), or 4) assigned (\$556,255).
- At the end of the current fiscal year, unassigned fund balance for the General fund was \$365,396, or 62.2 percent of total General fund expenditures.

The City's total debt increased by \$243,548, or 23.3 percent during the current fiscal year. This was due to the issuance of 2014 G.O. Improvement bonds for \$370,000. There were also \$126,452 of other debt payments was paid during the year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City'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 supplemental information in addition to the basic financial statements themselves.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of combining and individual fund financial statements and schedules that further explains and supports the information in the financial statements. Figure 1 shows how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included a section with combining and individual fund financial statements and schedules that provide details about nonmajor governmental funds, which are added together and presented in single columns in the basic financial statements.

**Figure 1
Required Components of the
City’s Annual Financial Report**

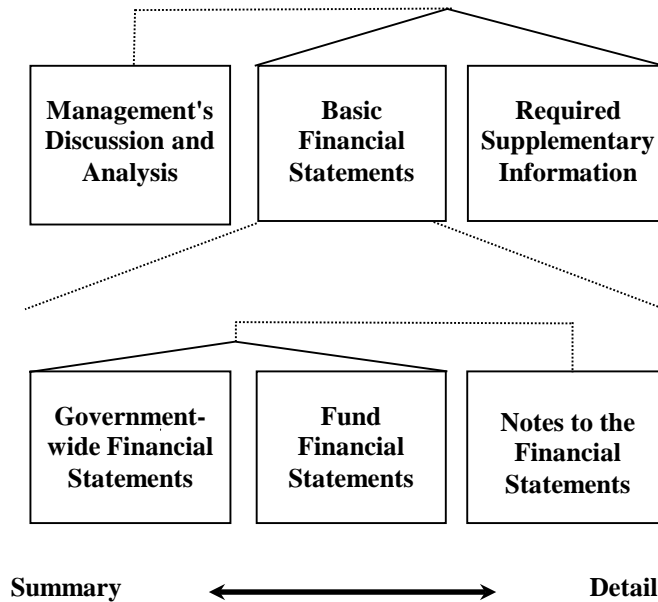


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

Figure 2
Major Features of the Government-wide and Fund Financial Statements

	Fund Financial Statements		
	Government-wide Statements	Governmental Funds	Proprietary Funds
Scope	Entire City government (except fiduciary funds) and the City’s component units	The activities of the City that are not proprietary or fiduciary, such as police, fire and parks	Activities the City operates similar to private businesses, such as the water and sewer system
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Revenues, Expenses and Changes in Fund Net Position • Statement of Cash Flows
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of deferred outflows/inflows of resources information	All deferred outflows/inflows of resources, regardless of when cash is received or paid.	Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included	All deferred outflows/inflows of resources, regardless of when cash is received or paid
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

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

The *statement of net position* presents information on all of the City’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 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 and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, streets and highway, culture and recreation, economic development and miscellaneous. The business-type activities of the City include water utility, sewer utility, refuse and recycling, electric and storm sewer.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate Economic Development Authority (EDA) for which the City is financially accountable. The EDA, although legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found starting on page 29 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, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City 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 *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact by 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 this comparison between *governmental funds* and *governmental activities*.

The City maintains 18 individual governmental funds, four of which are Debt Service funds which are considered one fund for reporting purposes. 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, the Revolving Loan fund, the Fire fund, the Ambulance fund, the 1st Ave SW Street Project fund, the Capital Projects fund and the Economic Development Authority fund all of which are considered to be major funds. Data from the other nonmajor governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements or schedules* elsewhere in this report.

The City adopts an annual appropriated budget for its General fund, the Revolving Loan fund, the Fire fund, the Ambulance fund, and the Economic Development Authority fund. Budgetary comparison statements have been provided for these funds to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found starting on page 34 of this report.

Proprietary funds. The City maintains five types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water utility, sewer utility, electric utility, storm water utility and refuse and recycling operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each of the enterprise funds which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found starting on page 46 of this report.

Fiduciary funds. The fiduciary fund financial statements can be found starting on page 52 of this report.

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 starting on page 55 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to financial statements. Combining and individual fund statements and schedules can be found starting on page 82 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$8,809,548 at the close of the most recent fiscal year.

A large portion of the City's net position (75.3 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the 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 Summary of Net Position

	Governmental Activities			Business-type Activities		
	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
Current and other assets	\$ 2,342,059	\$ 1,906,506	\$ 435,553	\$ 1,203,620	\$ 1,066,426	\$ 137,194
Capital assets	3,264,664	3,223,351	41,313	3,681,117	3,546,843	134,274
Total assets	5,606,723	5,129,857	476,866	4,884,737	4,613,269	271,468
Long-term liabilities outstanding	1,034,900	670,000	364,900	345,790	377,452	(31,662)
Other liabilities	154,345	117,703	36,642	146,877	146,162	715
Total liabilities	1,189,245	787,703	401,542	492,667	523,614	(30,947)
Net investment in capital assets	2,286,664	2,553,351	(266,687)	3,368,117	3,169,391	198,726
Restricted	715,904	179,184	536,720	-	-	-
Unrestricted	1,414,910	1,609,619	(194,709)	1,023,953	920,264	103,689
Total net position	\$ 4,417,478	\$ 4,342,154	\$ 75,324	\$ 4,392,070	\$ 4,089,655	\$ 302,415

An additional portion of the City's net assets (8.1 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (16.6 percent) may be used to meet the City's ongoing obligations to citizens and creditors.

The City's net position increased by \$377,739 during the current fiscal year. The majority of this increase is attributable to capital grants and contributions for the governmental funds through assessments.

Governmental activities. Governmental activities increased the City's net position by \$75,324. Key elements of this increase are as follows:

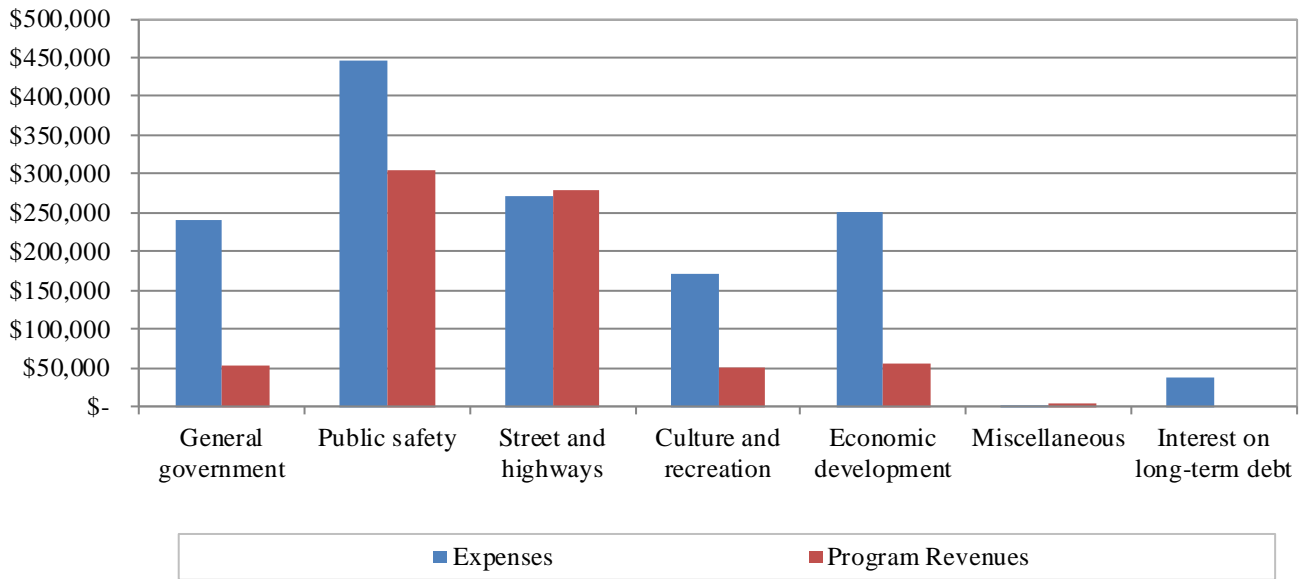
City of Harmony's Changes in Net Position

	Governmental Activities			Business-type Activities		
	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
Revenues						
Program revenues						
Charges for services	\$ 343,838	\$ 280,568	\$ 63,270	\$ 1,612,658	\$ 2,129,156	\$ (516,498)
Operating grants and contributions	85,157	31,222	53,935	-	-	-
Capital grants and contributions	317,691	37,824	279,867	-	-	-
General revenues						
Property taxes/tax increments	561,942	555,698	6,244	-	-	-
Other taxes	4,265	-	4,265	-	-	-
Grants and contributions not restricted to specific programs	340,683	347,767	(7,084)	-	-	-
Unrestricted investment earnings	3,225	10,903	(7,678)	1,623	1,972	(349)
Other	8,762	111,852	(103,090)	7,738	44,476	(36,738)
Total revenues	1,665,563	1,375,834	289,729	1,622,019	2,175,604	(553,585)
Expenses						
General government	239,922	230,674	9,248	-	-	-
Public safety	446,487	419,807	26,680	-	-	-
Streets and highways	270,820	298,208	(27,388)	-	-	-
Culture and recreation	172,249	163,976	8,273	-	-	-
Economic development	250,618	148,296	102,322	-	-	-
Miscellaneous	2,603	19,194	(16,591)	-	-	-
Interest on long-term debt	36,529	17,016	19,513	-	-	-
Water utility	-	-	-	142,941	112,020	30,921
Sewer utility	-	-	-	297,534	278,965	18,569
Electric utility	-	-	-	959,098	957,781	1,317
Senior living	-	-	-	-	508,290	(508,290)
Refuse and recycling	-	-	-	61,805	56,350	5,455
Storm sewer	-	-	-	29,237	30,455	(1,218)
Total expenses	1,419,228	1,297,171	122,057	1,490,615	1,943,861	(453,246)
Increase (decrease) in net						
assets before transfers	246,335	78,663	167,672	131,404	231,743	(100,339)
Other items	-	-	-	-	(226,698)	226,698
Transfers of capital assets	(239,511)	-	(239,511)	239,511	-	239,511
Transfers	68,500	(370,235)	438,735	(68,500)	370,235	(438,735)
Change in net position	75,324	(291,572)	366,896	302,415	375,280	(72,865)
Net position - January 1	4,342,154	4,633,726	(291,572)	4,089,655	3,714,375	375,280
Net position - December 31	<u>\$ 4,417,478</u>	<u>\$ 4,342,154</u>	<u>\$ 75,324</u>	<u>\$ 4,392,070</u>	<u>\$ 4,089,655</u>	<u>\$ 302,415</u>

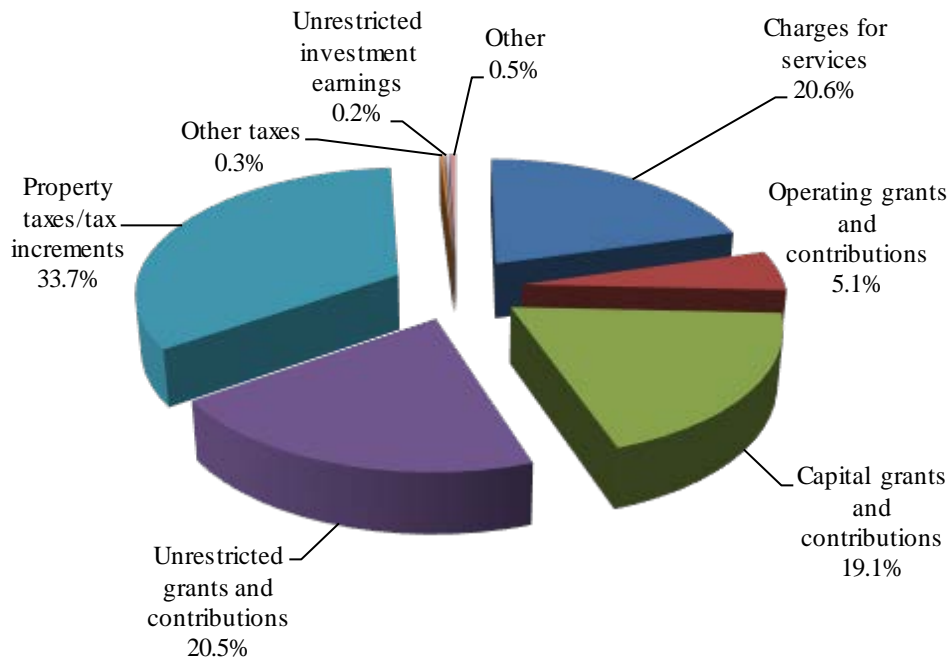
Property tax levies remained flat during the year.

The following graph depicts various governmental activities and shows the revenue and expenses directly related to those activities.

Expenses and Program Revenues - Governmental Activities

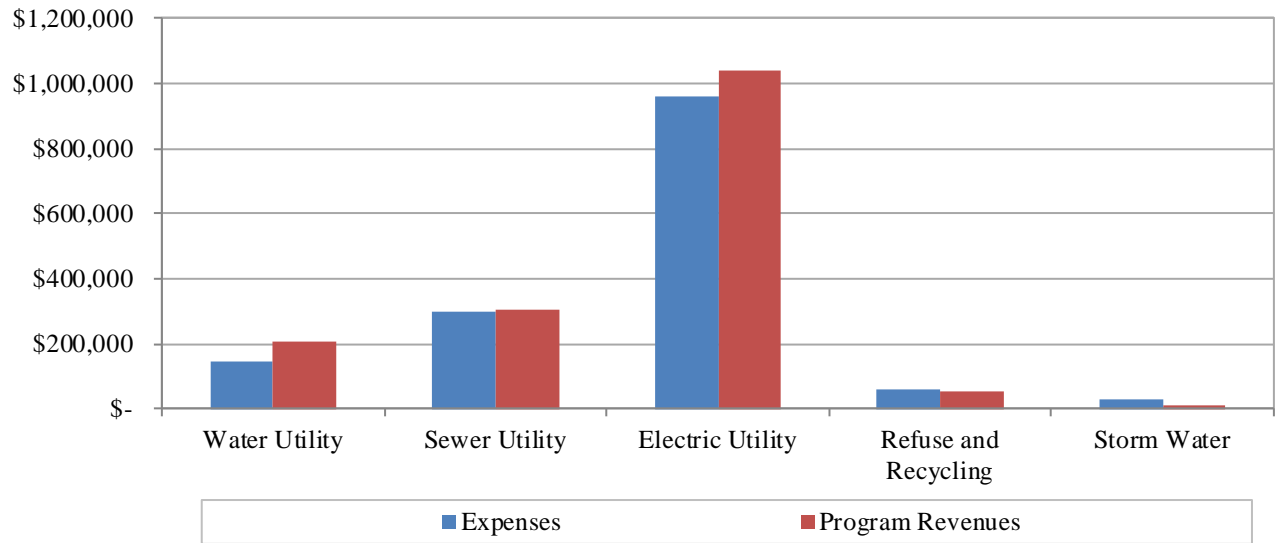


Revenues by Source - Governmental Activities

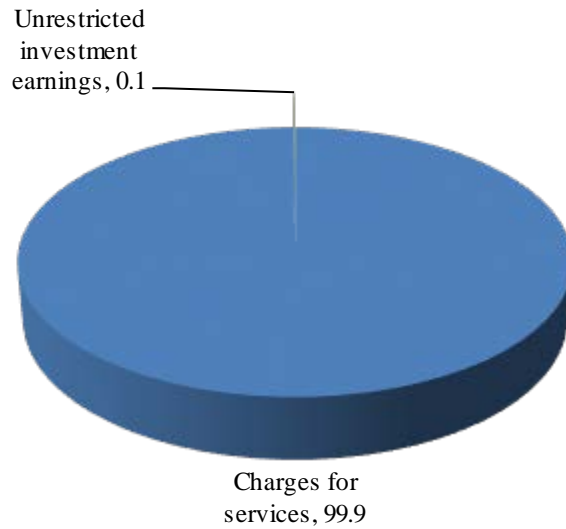


Business-type activities. Business-type activities increased the City's net position by \$302,415.

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

- As of the close in the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,784,105, an increase of \$138,337 in comparison with the prior year. Approximately 4.5 percent of the total amount, \$79,965, constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is not available for new spending because it is either 1) non-spendable (\$63,447) 2) restricted (\$483,165), 3) committed (\$601,273), or 4) assigned (\$556,255).

The General fund is the chief operating fund of the City. At the end of the current year, the fund balance of the General fund was \$674,844, \$365,396 of which was unassigned. As a measure of the General fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 114.9 percent of fund expenditures.

The fund balance of the City's General fund increased by \$115,649 during the current fiscal year. The key factor in this increase was:

- Miscellaneous revenues in excess of budget by \$18,474.
- Special assessment revenue in excess of budget by \$6,878.
- A budgeted reserve increase of \$54,023.

The Fire fund has a total deficit fund balance of \$133,316, of which \$4,416 is nonspendable and the remainder unassigned. The net increase in fund balance during the current year in this fund was \$20,734. This was due to \$10,615 of contributions and donations as well as other revenues in excess of expenditures. These contributions will be used to pay back the advance from the Electric fund that was used to purchase the fire truck.

The Ambulance fund has a total fund balance of \$202,348, of which \$1,521 is nonspendable and the remainder assigned for ambulance services. The net decrease in fund balance during the current year in this fund was \$40,756. This was due to a \$37,500 out transfer for building funding and future capital outlay expenditures.

The Revolving Loan fund has a total fund balance of \$300,081, all of which is restricted for current and future loans. The net decrease in fund balance during the current year in this fund was \$10,309 due to loan write-offs during the year.

The Economic Development Authority fund has a total fund balance of \$128,404, of which \$9 is nonspendable, \$70,410 is committed for current loans and the remainder assigned for economic development. The net decrease in fund balance during the current year in this fund was \$32,949 due to a transfer to the General fund for \$40,000 related to the sale of Heritage Grove.

The 1st Avenue Southwest Street Project fund has a total deficit fund balance of \$34,493, all of which is unassigned. The net decrease in fund balance during the current year in this fund was \$34,493 due project costs in excess of bond proceeds.

The Capital Projects fund has a total fund balance of \$530,863, all of which is committed for future capital outlay. The net increase in fund balance during the current year in this fund was \$86,585 due to transfers in from various other governmental funds for future capital outlay.

Proprietary funds. The City'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 enterprise funds at the end of the year amounted to \$1,023,953. The total growth in net position for the funds was \$302,415. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The City's General fund budget was not amended during the year. Revenues exceeded expectations by \$29,512 and expenditures were over budget by \$61,657 in 2014. The General fund budgeted for an increase in reserves by \$54,023.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of December 31, 2014, amounts to \$6,945,781 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges. The total increase in the City's investment in capital assets for the current fiscal year was 2.6 percent (a 1.3 percent increase for governmental activities and a 3.8 percent increase for business-type activities).

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

- The purchase of a maintenance truck for \$20,696.
- The purchase of a tractor/loader for \$41,975.
- The purchase of a rescue sled and trailer for \$4,771.
- The purchase of a power cot for the ambulance for \$21,907.
- The City substantially completed the 2014 1st Avenue Southwest Street Project and paid \$413,623.
- The City started construction for a Well No. 3 and paid \$48,143 during the year.

Additional information on the City's capital assets can be found in Note 3C starting on pages 67 of this report.

City of Harmony's Capital Assets (net of depreciation)

	Governmental Activities			Business-type Activities		
	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
Land	\$ 314,318	\$ 314,318	\$ -	\$ 20,550	\$ 20,550	\$ -
Construction in progress	-	13,835	(13,835)	48,183	-	48,183
Buildings and improvements	661,159	692,993	(31,834)	1,041,470	1,111,888	(70,418)
Systems and infrastructure	1,445,103	1,340,963	104,140	2,426,624	2,251,440	175,184
Equipment and machinery	239,589	194,416	45,173	144,290	162,965	(18,675)
Vehicles	604,495	666,826	(62,331)	-	-	-
Total	\$ 3,264,664	\$ 3,223,351	\$ 41,313	\$ 3,681,117	\$ 3,546,843	\$ 134,274

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$1,291,000, all of which consist of G.O. Improvement bonds, G.O. Tax Abatement bonds and G.O. Revenue bonds. While all of the City's bonds have revenue streams, they are all backed by the full faith and credit of the City.

City of Harmony's Outstanding Debt

	Governmental Activities			Business-type Activities		
	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
G.O. Improvement bonds	\$ 478,000	\$ 138,000	\$ 340,000	\$ -	\$ -	\$ -
G.O. Tax Abatement bonds	500,000	532,000	(32,000)	-	-	-
G.O. Revenue bonds	-	-	-	313,000	377,452	(64,452)
Total	\$ 978,000	\$ 670,000	\$ 308,000	\$ 313,000	\$ 377,452	\$ (64,452)

The City's total debt increased by \$243,548, or 23.3 percent during the current fiscal year. This was due to the issuance of 2014 G.O. Improvement bonds for \$370,000. There were also \$126,452 of other debt payments was paid during the year.

Minnesota statutes limit the amount of net general obligation debt a City may issue to 3 percent of the market value of taxable property within the City. The current debt limitation for the City is \$700,935. The City currently has no general obligation debt subject to this limit.

Additional information on the City's long-term debt can be found in Note 3F starting on page 71 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Fillmore County is currently 4.1 percent, which is a decrease from a rate of 4.6 percent a year ago. This compares favorably to the State's average unemployment rate of 3.6 percent and the national average rate of 6.1 percent.
- Property valuations within the City remain strong.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the City's budget for the 2015 fiscal year.

Property taxes will decrease in 2015 by approximately 8 percent due to the sale of the Heritage Grove living facility during 2013.

The City continues to budget tax levies to replenish the General fund for losses associated with the sale of Heritage Grove Senior Living Facility.

The City is in process of digging a new well due to the aging of the current well. They will receive a DEED grant of \$250,000 to assist with these costs.

The City of Harmony has a housing incentive program that pledges future taxes from newly build home(s) to the owner.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Administrator/Clerk/Treasurer, City of Harmony, P.O. Box 488, Harmony, MN 55939.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF HARMONY
HARMONY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2014

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CITY OF HARMONY, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and temporary investments	\$ 1,710,044	\$ 838,087	\$ 2,548,131
Receivables			
Interest	1,192	-	1,192
Delinquent taxes	50,811	-	50,811
Accounts	42,538	154,736	197,274
Loans	285,192	-	285,192
Special assessments	363,499	7,843	371,342
Intergovernmental	11,229	-	11,229
Internal balances	(148,215)	148,215	-
Inventories	-	38,630	38,630
Prepaid items	25,769	16,109	41,878
Capital assets			
Nondepreciable land and construction in progress	314,318	68,733	383,051
Depreciable assets (net of accumulated depreciation)	2,950,346	3,612,384	6,562,730
TOTAL ASSETS	5,606,723	4,884,737	10,491,460
LIABILITIES AND NET POSITION			
LIABILITIES			
Accounts payable	132,319	125,294	257,613
Deposits payable	-	12,645	12,645
Due to other governments	35	5,898	5,933
Accrued interest payable	10,701	1,043	11,744
Accrued salaries payable	11,290	1,997	13,287
Noncurrent liabilities			
Due within one year	104,520	49,039	153,559
Due in more than one year	930,380	296,751	1,227,131
TOTAL LIABILITIES	1,189,245	492,667	1,681,912
NET POSITION			
Net investment in capital assets	3,264,664	3,368,117	6,632,781
Restricted for			
Economic development	350,387	-	350,387
Debt service	365,517	-	365,517
Unrestricted	436,910	1,023,953	1,460,863
TOTAL NET POSITION	\$ 4,417,478	\$ 4,392,070	\$ 8,809,548

The notes to the financial statements are an integral part of this statement.

CITY OF HARMONY, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities				
General government	\$ 239,922	\$ 41,348	\$ 3,220	\$ 7,753
Public safety	446,487	247,148	21,863	34,990
Streets and highways	270,820	7,963	-	270,787
Culture and recreation	172,249	16,438	33,895	-
Economic development	250,618	26,086	26,179	4,161
Miscellaneous	2,603	4,855	-	-
Interest on long-term debt	36,529	-	-	-
Total governmental activities	<u>1,419,228</u>	<u>343,838</u>	<u>85,157</u>	<u>317,691</u>
Business-type activities				
Water utility	142,941	204,785	-	-
Sewer utility	297,534	306,407	-	-
Electric utility	959,098	1,038,922	-	-
Refuse and recycling	61,805	52,888	-	-
Storm water	29,237	9,656	-	-
Total business-type activities	<u>1,490,615</u>	<u>1,612,658</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,909,843</u>	<u>\$ 1,956,496</u>	<u>\$ 85,157</u>	<u>\$ 317,691</u>

General revenues

Property taxes, levied for general purposes
Property taxes, levied for debt service
Tax increments
Franchise taxes
Grants and contributions not restricted to specific programs
Unrestricted investment earnings
Other revenues
Transfer of capital assets
Transfers

Total general revenues and transfers

Change in net position

Net position, January 1

Net position, December 31

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and
Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (187,601)		\$ (187,601)
(142,486)		(142,486)
7,930		7,930
(121,916)		(121,916)
(194,192)		(194,192)
2,252		2,252
<u>(36,529)</u>		<u>(36,529)</u>
<u>(672,542)</u>		<u>(672,542)</u>
	\$ 61,844	61,844
	8,873	8,873
	79,824	79,824
	(8,917)	(8,917)
	<u>(19,581)</u>	<u>(19,581)</u>
	<u>122,043</u>	<u>122,043</u>
<u>(672,542)</u>	<u>122,043</u>	<u>(550,499)</u>
457,827	-	457,827
92,926	-	92,926
11,189	-	11,189
4,265	-	4,265
340,683	-	340,683
3,225	1,623	4,848
8,762	7,738	16,500
(239,511)	239,511	-
<u>68,500</u>	<u>(68,500)</u>	<u>-</u>
<u>747,866</u>	<u>180,372</u>	<u>928,238</u>
75,324	302,415	377,739
<u>4,342,154</u>	<u>4,089,655</u>	<u>8,431,809</u>
<u>\$ 4,417,478</u>	<u>\$ 4,392,070</u>	<u>\$ 8,809,548</u>

The notes to the financial statements are an integral part of this statement.

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FUND FINANCIAL STATEMENTS

CITY OF HARMONY
HARMONY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2014

CITY OF HARMONY, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014

	101	222	223
	General	Fire	Ambulance
ASSETS			
Cash and temporary investments	\$ 658,263	\$ 15,289	\$ 167,691
Receivables			
Interest	1,192	-	-
Delinquent taxes	45,195	-	-
Accounts	244	3,675	38,619
Loans	-	-	-
Special assessments	4,488	-	-
Intergovernmental	10,399	-	-
Advance to other funds	37,678	-	-
Due from other funds	2,021	-	-
Prepaid items	17,094	4,416	1,521
	<u>776,574</u>	<u>23,380</u>	<u>207,831</u>
TOTAL ASSETS	\$ 776,574	\$ 23,380	\$ 207,831
LIABILITIES			
Accounts payable	\$ 42,256	\$ 7,469	\$ 5,184
Advances from other funds	-	-	-
Accrued salaries payable	9,766	-	299
Advance from other funds	-	149,227	-
Due to other funds	-	-	-
Due to other governments	25	-	-
	<u>52,047</u>	<u>156,696</u>	<u>5,483</u>
TOTAL LIABILITIES	52,047	156,696	5,483
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	45,195	-	-
Unavailable revenue - special assessments	4,488	-	-
	<u>49,683</u>	<u>-</u>	<u>-</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	49,683	-	-
FUND BALANCES			
Nonspendable			
Prepaid items	17,094	4,416	1,521
Advance to other funds	37,678	-	-
Restricted			
Economic development	-	-	-
Debt service	-	-	-
Committed			
Capital outlay	-	-	-
Loans	-	-	-
Assigned			
Working capital	254,676	-	-
Economic development	-	-	-
Park and recreation	-	-	-
Public safety	-	-	200,827
Unassigned	365,396	(137,732)	-
	<u>674,844</u>	<u>(133,316)</u>	<u>202,348</u>
TOTAL FUND BALANCES	674,844	(133,316)	202,348
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 776,574	\$ 23,380	\$ 207,831

The notes to the financial statements are an integral part of this statement.

201 Revolving Loan	620 EDA	421 1st Ave SW Street Project	401 Capital Projects	300's Debt Service	Other Governmental Funds	Totals
\$ 60,867	\$ 57,661	\$ 34,603	\$ 530,863	\$ 132,470	\$ 52,337	\$ 1,710,044
-	-	-	-	-	-	1,192
-	-	-	-	5,332	284	50,811
-	-	-	-	-	-	42,538
167,714	70,410	-	-	-	47,068	285,192
-	120,903	-	-	238,108	-	363,499
-	522	-	-	308	-	11,229
71,500	-	-	-	-	-	109,178
-	-	-	-	-	-	2,021
-	9	-	-	-	2,729	25,769
<u>\$ 300,081</u>	<u>\$ 249,505</u>	<u>\$ 34,603</u>	<u>\$ 530,863</u>	<u>\$ 376,218</u>	<u>\$ 102,418</u>	<u>\$ 2,601,473</u>
\$ -	\$ 16	\$ 69,096	\$ -	\$ -	\$ 8,298	\$ 132,319
-	-	-	-	-	109,178	109,178
-	182	-	-	-	1,043	11,290
-	-	-	-	-	-	149,227
-	-	-	-	-	1,009	1,009
-	-	-	-	-	10	35
-	198	69,096	-	-	119,538	403,058
-	-	-	-	3,840	284	49,319
-	120,903	-	-	239,600	-	364,991
-	120,903	-	-	243,440	284	414,310
-	9	-	-	-	2,729	25,769
-	-	-	-	-	-	37,678
300,081	-	-	-	-	50,306	350,387
-	-	-	-	132,778	-	132,778
-	-	-	530,863	-	-	530,863
-	70,410	-	-	-	-	70,410
-	-	-	-	-	-	254,676
-	57,985	-	-	-	-	57,985
-	-	-	-	-	42,767	42,767
-	-	-	-	-	-	200,827
-	-	(34,493)	-	-	(113,206)	79,965
<u>300,081</u>	<u>128,404</u>	<u>(34,493)</u>	<u>530,863</u>	<u>132,778</u>	<u>(17,404)</u>	<u>1,784,105</u>
<u>\$ 300,081</u>	<u>\$ 249,505</u>	<u>\$ 34,603</u>	<u>\$ 530,863</u>	<u>\$ 376,218</u>	<u>\$ 102,418</u>	<u>\$ 2,601,473</u>

The notes to the financial statements are an integral part of this statement.

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CITY OF HARMONY, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
DECEMBER 31, 2014

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

Total fund balances - governmental funds	\$ 1,784,105
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds.	3,264,664
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of:	
Compensated absences	(56,900)
Bonds payable	(978,000)
Long-term assets are not available to pay current-period expenditures and, therefore, are reported as unavailable revenue in the funds.	
Delinquent property taxes receivable	50,811
Special assessments receivable	363,499
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(10,701)</u>
Total net position - governmental activities	<u><u>\$ 4,417,478</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF HARMONY, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	101	222	223
	General	Fire	Ambulance
REVENUES			
Taxes	\$ 208,658	\$ 29,550	\$ -
Special assessments	7,583	-	-
Licenses and permits	7,367	-	-
Intergovernmental	356,416	43,327	19,796
Charges for services	3,028	7,340	171,939
Fines and forfeits	2,046	-	-
Investment earnings	1,094	60	421
Miscellaneous	55,574	11,145	32,649
TOTAL REVENUES	641,766	91,422	224,805
EXPENDITURES			
Current			
General government	88,307	-	-
Government buildings	116,917	-	-
Public safety	115,210	58,188	178,614
Streets and highways	176,134	-	-
Culture and recreation	9,580	-	-
Economic development	5,329	-	-
Miscellaneous	2,603	-	-
Capital outlay			
General government	10,637	-	-
Public safety	-	-	49,447
Streets and highways	62,671	-	-
Culture and recreation	-	-	-
Debt service			
Principal	-	-	-
Interest and other	-	-	-
TOTAL EXPENDITURES	587,388	58,188	228,061
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	54,378	33,234	(3,256)
OTHER FINANCING SOURCES (USES)			
Bond proceeds	-	-	-
Transfers in	155,000	12,500	-
Transfers out	(93,729)	(25,000)	(37,500)
TOTAL OTHER FINANCING SOURCES (USES)	61,271	(12,500)	(37,500)
NET CHANGE IN FUND BALANCES	115,649	20,734	(40,756)
FUND BALANCES, JANUARY 1	559,195	(154,050)	243,104
PRIOR PERIOD ADJUSTMENT (NOTE 7)	-	-	-
FUND BALANCES (DEFICITS), JANUARY 1 (RESTATEd)	559,195	(154,050)	243,104
FUND BALANCES, DECEMBER 31	<u>\$ 674,844</u>	<u>\$ (133,316)</u>	<u>\$ 202,348</u>

The notes to the financial statements are an integral part of this statement.

201 Revolving Loan	620 EDA	421 1st Ave SW Street Project	401 Capital Projects	300's Debt Service	Other Governmental Funds	Totals
\$ -	\$ 97,500	\$ -	\$ -	\$ 92,926	\$ 132,439	\$ 561,073
-	4,161	-	-	77,371	-	89,115
-	-	-	-	-	-	7,367
-	-	-	-	-	28,597	448,136
-	-	-	-	-	4,017	186,324
-	-	-	-	-	417	2,463
266	66	96	1,085	104	33	3,225
14,863	31,530	-	-	-	16,238	161,999
<u>15,129</u>	<u>133,257</u>	<u>96</u>	<u>1,085</u>	<u>170,401</u>	<u>181,741</u>	<u>1,459,702</u>
-	-	-	-	-	-	88,307
-	-	-	-	-	-	116,917
-	-	-	-	-	-	352,012
-	-	-	-	-	-	176,134
-	-	-	-	-	140,625	150,205
25,438	141,206	-	-	-	77,829	249,802
-	-	-	-	-	-	2,603
-	-	-	-	-	-	10,637
-	-	-	-	-	-	49,447
-	-	399,789	-	-	-	462,460
-	-	-	-	-	6,205	6,205
-	-	-	-	62,000	-	62,000
-	-	4,800	-	20,820	7,516	33,136
<u>25,438</u>	<u>141,206</u>	<u>404,589</u>	<u>-</u>	<u>82,820</u>	<u>232,175</u>	<u>1,759,865</u>
<u>(10,309)</u>	<u>(7,949)</u>	<u>(404,493)</u>	<u>1,085</u>	<u>87,581</u>	<u>(50,434)</u>	<u>(300,163)</u>
-	-	370,000	-	-	-	370,000
-	15,000	-	195,500	-	2,729	380,729
-	(40,000)	-	(110,000)	-	(6,000)	(312,229)
-	(25,000)	370,000	85,500	-	(3,271)	438,500
<u>(10,309)</u>	<u>(32,949)</u>	<u>(34,493)</u>	<u>86,585</u>	<u>87,581</u>	<u>(53,705)</u>	<u>138,337</u>
132,583	54,993	-	444,278	45,197	(21,946)	1,303,354
177,807	106,360	-	-	-	58,247	342,414
310,390	161,353	-	444,278	45,197	36,301	1,645,768
<u>\$ 300,081</u>	<u>\$ 128,404</u>	<u>\$ (34,493)</u>	<u>\$ 530,863</u>	<u>\$ 132,778</u>	<u>\$ (17,404)</u>	<u>\$ 1,784,105</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HARMONY, MINNESOTA
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

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

Net change in fund balances - governmental funds	\$ 138,337
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense.</p>	
Capital outlay	528,749
Depreciation expense	(247,925)
Contribution of capital assets to enterprise funds	(239,511)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.</p>	
Bonds and capital lease issued	(370,000)
Principal repayments	62,000
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>	
	(3,393)
<p>Delinquent property taxes receivable will be collected this year, but is not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.</p>	
	12,445
<p>Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.</p>	
Special assessments	193,416
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	
Compensated absences	1,206
Change in net position - governmental activities	\$ 75,324

The notes to the financial statements are an integral part of this statement.

CITY OF HARMONY, MINNESOTA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 212,746	\$ 212,746	\$ 208,658	\$ (4,088)
Special assessments	1,500	1,500	7,583	6,083
Licenses and permits	6,375	6,375	7,367	992
Intergovernmental	350,683	350,683	356,416	5,733
Charges for services	600	600	3,028	2,428
Fines and forfeits	750	750	2,046	1,296
Investment earnings	2,500	2,500	1,094	(1,406)
Miscellaneous	37,100	37,100	55,574	18,474
TOTAL REVENUES	612,254	612,254	641,766	29,512
EXPENDITURES				
Current				
General government	232,251	232,251	205,224	27,027
Public safety	113,890	113,890	115,210	(1,320)
Streets and highways	157,370	157,370	176,134	(18,764)
Culture and recreation	6,575	6,575	9,580	(3,005)
Economic development	8,000	8,000	5,329	2,671
Miscellaneous	4,145	4,145	2,603	1,542
Capital outlay				
General government	1,000	1,000	10,637	(9,637)
Public safety	2,500	2,500	-	2,500
Streets and highways	-	-	62,671	(62,671)
TOTAL EXPENDITURES	525,731	525,731	587,388	(61,657)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	86,523	86,523	54,378	(32,145)
OTHER FINANCING SOURCES (USES)				
Transfers in	63,500	63,500	155,000	91,500
Transfers out	(96,000)	(96,000)	(93,729)	2,271
TOTAL OTHER FINANCING SOURCES (USES)	(32,500)	(32,500)	61,271	93,771
NET CHANGE IN FUND BALANCES	54,023	54,023	115,649	61,626
FUND BALANCES, JANUARY 1	559,195	559,195	559,195	-
FUND BALANCES, DECEMBER 31	\$ 613,218	\$ 613,218	\$ 674,844	\$ 61,626

The notes to the financial statements are an integral part of this statement.

CITY OF HARMONY, MINNESOTA
 FIRE FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 29,550	\$ 29,550	\$ 29,550	\$ -
Intergovernmental	40,000	40,000	43,327	3,327
Charges for services	5,000	5,000	7,340	2,340
Investment earnings	-	-	60	60
Miscellaneous				
Contributions and donations	-	-	10,615	10,615
Other	3,500	3,500	530	(2,970)
	<u>78,050</u>	<u>78,050</u>	<u>91,422</u>	<u>13,372</u>
TOTAL REVENUES				
EXPENDITURES				
Current				
Public safety				
Personal services	13,136	13,136	15,225	(2,089)
Supplies	10,050	10,050	9,891	159
Other services	22,875	22,875	19,105	3,770
Other charges	8,850	8,850	13,967	(5,117)
	<u>54,911</u>	<u>54,911</u>	<u>58,188</u>	<u>(3,277)</u>
TOTAL EXPENDITURES				
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	<u>23,139</u>	<u>23,139</u>	<u>33,234</u>	<u>10,095</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	12,500	12,500	12,500	-
Transfers out	(35,000)	(35,000)	(25,000)	10,000
	<u>(22,500)</u>	<u>(22,500)</u>	<u>(12,500)</u>	<u>10,000</u>
TOTAL FINANCING SOURCES (USES)				
	<u>(22,500)</u>	<u>(22,500)</u>	<u>(12,500)</u>	<u>10,000</u>
NET CHANGE IN FUND BALANCES				
	639	639	20,734	20,095
FUND BALANCES, JANUARY 1				
	<u>(154,050)</u>	<u>(154,050)</u>	<u>(154,050)</u>	<u>-</u>
FUND BALANCES, DECEMBER 31				
	<u>\$ (153,411)</u>	<u>\$ (153,411)</u>	<u>\$ (133,316)</u>	<u>\$ 20,095</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HARMONY, MINNESOTA
 AMBULANCE FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	\$ 21,196	\$ 21,196	\$ 19,796	\$ (1,400)
Charges for services	160,000	160,000	171,939	11,939
Investment earnings	1,000	1,000	421	(579)
Miscellaneous				
Other	5,500	5,500	32,649	27,149
TOTAL REVENUES	<u>187,696</u>	<u>187,696</u>	<u>224,805</u>	<u>37,109</u>
EXPENDITURES				
Current				
Public safety				
Personal services	84,413	84,413	104,316	(19,903)
Supplies	14,700	14,700	16,076	(1,376)
Other services	18,584	18,584	19,027	(443)
Other charges	42,300	42,300	39,195	3,105
Capital outlay				
Public safety	10,000	10,000	49,447	(39,447)
TOTAL EXPENDITURES	<u>169,997</u>	<u>169,997</u>	<u>228,061</u>	<u>(58,064)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	17,699	17,699	(3,256)	(20,955)
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(37,500)</u>	<u>(37,500)</u>	<u>(37,500)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(19,801)	(19,801)	(40,756)	(20,955)
FUND BALANCES, JANUARY 1	<u>243,104</u>	<u>243,104</u>	<u>243,104</u>	<u>-</u>
FUND BALANCES, DECEMBER 31	<u>\$ 223,303</u>	<u>\$ 223,303</u>	<u>\$ 202,348</u>	<u>\$ (20,955)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HARMONY, MINNESOTA
 REVOLVING LOAN FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Investment earnings	\$ -	\$ -	\$ 266	\$ 266
Miscellaneous				
Loan interest	25,000	25,000	14,613	(10,387)
Other	-	-	250	250
	<u>25,000</u>	<u>25,000</u>	<u>15,129</u>	<u>(9,871)</u>
TOTAL REVENUES				
EXPENDITURES				
Current				
Economic Development				
Other services and charges	1,000	1,000	25,438	(24,438)
Loans made	25,000	25,000	-	25,000
	<u>26,000</u>	<u>26,000</u>	<u>25,438</u>	<u>562</u>
TOTAL EXPENDITURES				
NET CHANGE IN FUND BALANCES	(1,000)	(1,000)	(10,309)	(9,309)
FUND BALANCES, JANUARY 1	<u>310,390</u>	<u>310,390</u>	<u>310,390</u>	<u>-</u>
FUND BALANCES, DECEMBER 31	<u>\$ 309,390</u>	<u>\$ 309,390</u>	<u>\$ 300,081</u>	<u>\$ (9,309)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HARMONY, MINNESOTA
ECONOMIC DEVELOPMENT AUTHORITY FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 97,500	\$ 97,500	\$ 97,500	\$ -
Special assessments	2,700	2,700	4,161	1,461
Investment earnings	-	-	66	66
Miscellaneous				
Contributions and donations	-	-	26,179	26,179
Other	-	-	5,351	5,351
	<u>100,200</u>	<u>100,200</u>	<u>133,257</u>	<u>33,057</u>
TOTAL REVENUES				
EXPENDITURES				
Current				
Economic development				
Personal services	15,685	15,685	15,647	38
Supplies	250	250	352	(102)
Other services and charges	99,630	99,630	125,207	(25,577)
	<u>115,565</u>	<u>115,565</u>	<u>141,206</u>	<u>(25,641)</u>
TOTAL EXPENDITURES				
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(15,365)</u>	<u>(15,365)</u>	<u>(7,949)</u>	<u>7,416</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	15,000	15,000	15,000	-
Transfers out	-	-	(40,000)	(40,000)
	<u>15,000</u>	<u>15,000</u>	<u>(25,000)</u>	<u>(40,000)</u>
TOTAL FINANCING SOURCES (USES)				
NET CHANGE IN FUND BALANCES	(365)	(365)	(32,949)	(32,584)
FUND BALANCES, JANUARY 1	<u>161,353</u>	<u>161,353</u>	<u>161,353</u>	<u>-</u>
FUND BALANCES, DECEMBER 31	<u>\$ 160,988</u>	<u>\$ 160,988</u>	<u>\$ 128,404</u>	<u>\$ (32,584)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HARMONY, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2014

	Business-type Activities - Enterprise Funds		
	601	602	603
	Water Utility	Sewer Utility	Refuse and Recycling
ASSETS			
CURRENT ASSETS			
Cash and temporary investments	\$ 126,406	\$ 179,985	\$ 5,141
Receivables			
Accounts	27,284	29,472	4,570
Special assessments	-	3,681	-
Advance to other funds - current	-	-	-
Inventories	12,395	-	-
Prepaid items	3,558	4,828	40
TOTAL CURRENT ASSETS	169,643	217,966	9,751
NONCURRENT ASSETS			
Advance to other funds	-	-	-
Capital assets, at cost			
Land	1,150	14,400	-
Construction in Progress	48,183	-	-
Buildings and improvements	-	1,925,510	-
Systems and infrastructure	926,984	658,772	-
Equipment and machinery	138,621	73,841	-
Vehicles	-	-	-
Less accumulated depreciation	(269,871)	(1,127,584)	-
Total capital assets (net of accumulated depreciation)	845,067	1,544,939	-
TOTAL NONCURRENT ASSETS	845,067	1,544,939	-
TOTAL ASSETS	1,014,710	1,762,905	9,751
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	29,090	11,705	2,389
Deposits payable	-	-	-
Due to other governments	157	-	213
Due to other funds	-	-	-
Accrued salaries payable	563	815	195
Accrued interest payable	-	1,043	-
Bonds payable - current	-	33,000	-
Compensated absences payable - current	4,786	6,799	1,438
TOTAL CURRENT LIABILITIES	34,596	53,362	4,235
NONCURRENT LIABILITIES			
Compensated absences payable, noncurrent	4,654	6,468	1,782
Bonds payable, noncurrent	-	280,000	-
TOTAL NONCURRENT LIABILITIES	4,654	286,468	1,782
TOTAL LIABILITIES	39,250	339,830	6,017
NET POSITION			
Net investment in capital assets	845,067	1,231,939	-
Unrestricted	130,393	191,136	3,734
TOTAL NET POSITION	\$ 975,460	\$ 1,423,075	\$ 3,734

The notes to the financial statements are an integral part of this statement.

Business-type Activities - Enterprise Funds

604		605		
Electric Utility		Storm Water Utility		Totals
\$	526,555	\$	-	\$ 838,087
	92,578		832	154,736
	4,162		-	7,843
	12,173		-	12,173
	26,235		-	38,630
	6,768		915	16,109
	<u>668,471</u>		<u>1,747</u>	<u>1,067,578</u>
	137,054		-	137,054
	5,000		-	20,550
	-		-	48,183
	187,008		-	2,112,518
	1,552,813		764,100	3,902,669
	38,347		40,971	291,780
	28,700		-	28,700
	<u>(1,030,037)</u>		<u>(295,791)</u>	<u>(2,723,283)</u>
	<u>781,831</u>		<u>509,280</u>	<u>3,681,117</u>
	<u>918,885</u>		<u>509,280</u>	<u>3,818,171</u>
	<u>1,587,356</u>		<u>511,027</u>	<u>4,885,749</u>
	82,110		-	125,294
	12,645		-	12,645
	5,528		-	5,898
	-		1,012	1,012
	420		4	1,997
	-		-	1,043
	-		-	33,000
	2,644		372	16,039
	<u>103,347</u>		<u>1,388</u>	<u>196,928</u>
	3,567		280	16,751
	-		-	280,000
	<u>3,567</u>		<u>280</u>	<u>296,751</u>
	<u>106,914</u>		<u>1,668</u>	<u>493,679</u>
	781,831		509,280	3,368,117
	<u>698,611</u>		<u>79</u>	<u>1,023,953</u>
\$	<u>1,480,442</u>	\$	<u>509,359</u>	\$ <u>4,392,070</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HARMONY, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Business-type Activities - Enterprise Funds			Business-ty
	601	602	603	604
	Water Utility	Sewer Utility	Refuse and Recycling	Electric Utility
OPERATING REVENUES				
Charges for services	\$ 204,222	\$ 305,160	\$ 52,888	1,024,763
OPERATING EXPENSES				
Personal services	48,396	57,730	14,732	26,484
Supplies	8,623	26,823	1,196	2,530
Other services and charges	12,166	28,026	43,727	11,667
Insurance	4,211	6,121	-	9,174
Utilities	14,883	59,849	-	20,584
Purchased power	-	-	-	818,993
Repairs and maintenance	31,356	27,316	2,150	22,615
Depreciation	23,306	88,284	-	47,051
TOTAL OPERATING EXPENSES	142,941	294,149	61,805	959,098
OPERATING INCOME (LOSS)	61,281	11,011	(8,917)	65,665
NONOPERATING REVENUES (EXPENSES)				
Special assessments	-	234	-	3,819
Other income	563	1,013	-	18,078
Investment earnings	267	321	26	1,012
Interest and other expense	-	(3,385)	-	-
TOTAL NONOPERATING REVENUES (EXPENSES)	830	(1,817)	26	22,909
INCOME (LOSS) BEFORE CONTRIBUTIONS	62,111	9,194	(8,891)	88,574
CAPITAL CONTRIBUTIONS FROM GOVERNMENTAL FUNDS	225,442	12,584	-	1,485
TRANSFERS OUT	(33,500)	(3,500)	(11,000)	(18,000)
CHANGE IN NET POSITION	254,053	18,278	(19,891)	72,059
NET POSITION, JANUARY 1	721,407	1,404,797	23,625	1,408,383
NET POSITION, DECEMBER 31	\$ 975,460	\$ 1,423,075	\$ 3,734	\$ 1,480,442

The notes to the financial statements are an integral part of this statement.

pe Activities - Enterprise Funds

605

Storm Water Utility	Totals
\$ 9,656	\$ 1,596,689
1,902	149,244
372	39,544
-	95,586
1,291	20,797
-	95,316
-	818,993
3,839	87,276
21,833	180,474
<u>29,237</u>	<u>1,487,230</u>
<u>(19,581)</u>	<u>109,459</u>
-	4,053
-	19,654
(3)	1,623
-	(3,385)
<u>(3)</u>	<u>21,945</u>
(19,584)	131,404
-	239,511
<u>(2,500)</u>	<u>(68,500)</u>
(22,084)	302,415
<u>531,443</u>	<u>4,089,655</u>
<u>\$ 509,359</u>	<u>\$ 4,392,070</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HARMONY, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Business-type Activities - Enterprise Funds		
	601	602	603
	Water Utility	Sewer Utility	Refuse and Recycling
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 197,981	\$ 307,151	\$ 53,680
Payments to suppliers and vendors	(70,781)	(143,096)	(44,698)
Payments to and on behalf of employees	(48,727)	(58,345)	(14,162)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	78,473	105,710	(5,180)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Principal received on advances to other funds	-	-	-
Miscellaneous income	563	1,013	-
Transfers to other funds	(33,500)	(3,500)	(11,000)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(32,937)	(2,487)	(11,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Special assessments received	-	971	-
Acquisition of capital assets	(23,711)	-	-
Principal paid on bonds payable	-	(64,452)	-
Interest and fees paid on bonds payable	-	(3,986)	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(23,711)	(67,467)	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received on cash and temporary investments	267	321	26
NET INCREASE (DECREASE) IN CASH AND TEMPORARY INVESTMENTS	22,092	36,077	(16,154)
CASH AND TEMPORARY INVESTMENTS, JANUARY 1	104,314	143,908	21,295
CASH AND TEMPORARY INVESTMENTS, DECEMBER 31	\$ 126,406	\$ 179,985	\$ 5,141
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ 61,281	\$ 11,011	\$ (8,917)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	23,306	88,284	-
(Increase) decrease in assets			
Accounts receivable	(6,241)	1,991	792
Inventories	(937)	-	-
Prepaid items	(751)	(396)	(13)
Increase (decrease) in liabilities			
Accounts payable	2,233	5,435	2,389
Due to other governments	(87)	-	(1)
Deposits payable	-	-	-
Accrued salaries payable	29	(7)	61
Accrued interest payable	-	-	-
Compensated absences payable	(360)	(608)	509
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 78,473	\$ 105,710	\$ (5,180)
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Capital contributions			
Infrastructure contributed from governmental funds	\$ 225,442	\$ 12,584	\$ -
Capital assets acquired on account	24,472	-	-

The notes to the financial statements are an integral part of this statement.

Business-type Activities - Enterprise Funds

604		605		
Electric Utility		Storm Water Utility		Totals
\$	1,038,729	\$	9,684	\$ 1,607,225
	(888,206)		(5,520)	(1,152,301)
	(25,839)		(1,828)	(148,901)
	<u>124,684</u>		<u>2,336</u>	<u>306,023</u>
	22,787		167	22,954
	18,078		-	19,654
	(18,000)		(2,500)	(68,500)
	<u>22,865</u>		<u>(2,333)</u>	<u>(25,892)</u>
	197		-	1,168
	(27,054)		-	(50,765)
	-		-	(64,452)
	-		-	(3,986)
	<u>(26,857)</u>		<u>-</u>	<u>(118,035)</u>
	<u>1,012</u>		<u>(3)</u>	<u>1,623</u>
	121,704		-	163,719
	<u>404,851</u>		<u>-</u>	<u>674,368</u>
<u>\$</u>	<u>526,555</u>	<u>\$</u>	<u>-</u>	<u>\$ 838,087</u>
\$	65,665	\$	(19,581)	\$ 109,459
	47,051		21,833	180,474
	13,966		28	10,536
	(1,441)		-	(2,378)
	(524)		(18)	(1,702)
	(1,648)		-	8,409
	(1)		-	(89)
	971		-	971
	124		1	208
	<u>521</u>		<u>73</u>	<u>135</u>
<u>\$</u>	<u>124,684</u>	<u>\$</u>	<u>2,336</u>	<u>\$ 306,023</u>
\$	1,485	\$	-	\$ 239,511
	-		-	24,472

The notes to the financial statements are an integral part of this statement.

CITY OF HARMONY, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
TRUST FUND
DECEMBER 31, 2014

ASSETS

Cash and cash equivalents

\$ 10,104

NET POSITION

Unrestricted

\$ 10,104

The notes to the financial statements are an integral part of this statement.

CITY OF HARMONY, MINNESOTA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
TRUST FUND
DECEMBER 31, 2014

ADDITIONS	
Investment income	<u>\$ 106</u>
DEDUCTIONS	
Expenditures	<u> 4,489</u>
CHANGE IN NET POSITION	(4,383)
NET POSITION, JANUARY 1	<u> 14,487</u>
NET POSITION, DECEMBER 31	<u><u> \$ 10,104</u></u>

The notes to the financial statements are an integral part of this statement.

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CITY OF HARMONY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The City of Harmony (the City) operates under “Optional Plan A” as defined in the State of Minnesota statutes. The City is governed by an elected Mayor and a four-member Council. The Council exercises legislative authority and determines all matters of policy. The Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City’s financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization’s governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. Blended component units, although legally separate entities are, in substance, part of the City’s operations and so data from these units are combined with data of the primary government.

Blended Component Unit. The Harmony Economic Development Authority (EDA) was established under Minnesota statutes, 469.090 through 469.108 for the purpose of promoting economic development within the City. The EDA has a December 31 year-end and is reported as a special revenue fund. Separate financial statements are not issued for the EDA. The EDA is considered blended because the City has significant influence on the EDA activities and its sole purposes is to encourage future development within the City.

B. 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 primary government and its component units. 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. Amounts reported as *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, proprietary funds and fiduciary 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 THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

C. 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 and fiduciary 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.

The 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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, franchise taxes, licenses, 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current 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 transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when 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 specified 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 can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF HARMONY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The City reports the following major governmental funds:

The *General fund* is the City's primary operating fund. It accounts for all financial resources of the general government, 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 giving loans to businesses in the community and promoting economic development within the City.

The *Economic Development Authority fund* accounts for economic development and growth within the City.

The *1st Ave. S.W. Street Project fund* accounts for construction costs and related revenues for the 1st Avenue Southwest Street Improvement project.

The *Capital Projects fund* accounts for the acquisition of capital equipment for governmental activities of the City.

The *Debt Service fund* accounts for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources and special assessment bond principal and interest from special assessment levies when the City is obligated in some manner for the payment.

The City reports the following major proprietary funds:

The *Water Utility fund* accounts for costs associated with the City's water system and ensure that user charges are sufficient to pay for those costs.

The *Sewer Utility fund* accounts for the costs associated with the City's sewer system and ensure that user charges are sufficient to pay for those costs.

The *Refuse and Recycling fund* accounts for the costs associated with the City's refuse and recycling collection and ensure that user charges are sufficient to pay for those costs.

The *Electric Utility fund* accounts for the costs associated with the City's electric system and ensure that user charges are sufficient to pay for those costs.

The *Storm Water fund* accounts for the costs associated with the City's storm water system and ensure that user charges are sufficient to pay for those costs.

Additionally, the City reports the following fund types:

The *Sanderson Memorial Trust fund* accounts for a non-expendable trust fund for assets held by the government in a trustee capacity or as an agent on behalf of others.

As a general rule the effect of interfund activity has been eliminated from government-wide financial statements. Exceptions to this general rule are charges between the City's water, sewer, electric, and refuse functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

CITY OF HARMONY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - 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. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. 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.

D. Assets, liabilities, deferred inflows of resources, and net position/fund balance

Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The proprietary funds' portion in the government-wide cash and temporary investments pool is considered to be cash and cash equivalents for purposes of the Statements of Cash Flows.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The City may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
6. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
7. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
8. Guaranteed investment contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

Investments for the City are reported at fair value. The Minnesota Municipal Money Market Fund is regulated by Minnesota Statutes and the Board of Directors of the League of Minnesota Cities and is an external investment pool not register with the Securities Exchange Commission (SEC) that followed the same regulatory rules of the SEC under rule 2a7. The City's investment in this trust is measured at the net asset value per share provided by the pool, which is based on an amortized cost method that approximate fair value. Financial statements of the 4M Fund can be obtained by contacting RBC Global Asset Management at 100 South Fifth Street, Suite 2300, Minneapolis, MN 55402-1240.

CITY OF HARMONY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property taxes

The Council annually adopts a tax levy and certifies it to the County in December for collection the following year. The County is responsible for collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Treasurer and tax settlements are made to the City during January, June and November each year.

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by a deferred inflow of resources for delinquent taxes not received within 60 days after year end in the fund financial statements.

Accounts receivable

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2014. The City annually certifies delinquent utility accounts to the County for collection. As a result, there is no allowance for uncollectible accounts.

Special assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue when they are annually certified to the County or received in cash or within 60 days after year end. All governmental special assessments receivable are offset by a deferred inflow of resources in the governmental fund financial statements.

Interfund receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Inventories and prepaid items

All inventories are stated at the lower of cost or market on the first-in, first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

CITY OF HARMONY, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2014

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 City as assets with an initial estimated useful life in excess of one year. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements.

In the case of initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include items dating back to June 30, 1980. The City was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the City constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the City values these capital assets at the estimated fair value of the item at the date of its donation. 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.

For financial statement purposes only, a capitalization threshold is \$1,000 and is established for each capital asset category.

Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	10-50
Streets	20-30
Storm sewers	40
Water mains	50
Sanitary sewers	50
Sidewalks	20
Curb and gutter	30
Electric distribution	10-50
Machinery and equipment	5-25
Computer software and equipment	5-10

Compensated absences

It is the government's policy to permit employees to accumulate a limited amount of earned but unused paid time off. Select employees also have earned but unused sick leave earned prior to the implementation of a paid time off policy. All personal time off up to a maximum limit is accrued when incurred in the government-wide and proprietary fund financial statements. Employees with 20 years or more of service with the City receive 10 percent of the accumulated sick leave upon termination. A liability for these amounts has been accrued in the government-wide and proprietary fund financial statements. The total amount of compensated absences accrued for 2014 was \$89,690. The General fund is typically used to liquidate governmental compensated absences payable.

CITY OF HARMONY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Postemployment benefits other than pensions

In August 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for the City's fiscal year 2009. Statement No. 45 requires accrual-based measurement, recognition and disclosure of other postemployment benefits (OPEB) expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability, net of any plan assets. During the year 2012, the City calculated its OPEB liability using the alternative measurement method and determined that the calculated liability was immaterial. At this point, the City anticipates it will not incur material future explicit or implicit OPEB costs for its employees and therefore, no liability will be recorded.

Deferred inflows of resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies as needing to be reported in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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 statement of net position. The recognition of bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period incurred.

In the fund financial statements, governmental fund types recognized 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 THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fund balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

Nonspendable - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

Restricted - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council (the Council), which is the City's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Council modifies or rescinds the commitment by resolution.

Assigned - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the Council itself or by an official to which the governing body delegates the authority. The Council has adopted a fund balance policy which delegates the authority to assign amounts for specific purposes to the City Administrator/Clerk.

Unassigned - The residual classification for the General fund and also negative residual amounts in other funds.

The City considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The City has formally adopted a fund balance policy for the General fund. The City's policy is to assign 50 percent of budgeted operating expenditures for cash-flow timing needs.

Net position

Net position represents the difference between assets and liabilities. Net position is displayed in three components:

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net position - Consists of net position balances restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position balances that do not meet the definition of "restricted" or "Net investment in capital assets".

CITY OF HARMONY, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2014

Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General, Fire, Ambulance, Revolving Loan and Economic Development Authority funds. The City does not use encumbrance accounting.

In July of each year, all departments of the City submit requests for appropriations to the Administrator so that a budget may be prepared. Before September 30, the proposed budget is presented to the Council for review. The Council holds public hearings and a final budget is prepared and adopted in early December.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Administrator. The legal level of budgetary control is the department level. Budgeted amounts are as originally adopted, or as amended by the Council. No budget amendments were made during the year.

B. Excess expenditures over appropriations

Fund	Budget	Actual	Excess of Expenditures Over Appropriations
General	\$ 525,731	\$ 587,388	\$ 61,657
Special revenue			
Fire	54,911	58,188	3,277
Ambulance	169,997	228,061	58,064
Economic Development Authority	115,565	141,206	25,641

The above funds' actual expenditures in excess of budget were offset by an excess of actual revenues and transfers above budget and available fund balance.

C. Deficit fund equity

The following funds had fund equity deficits at December 31, 2014:

Fund	Amount
Major	
Fire	\$ 133,316
1st Ave SW Street Project	34,493
Special Revenue	
Library	4,223
Capital Projects	
TIF District #5	37,571
TIF District #6	71,144

The above deficits will be eliminated through transfers from other funds and future tax collections.

CITY OF HARMONY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 3: DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Deposits

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the City's deposits and investments may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the Council, the City maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rate "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any federal agency.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the government entity.

At year end, the City's carrying amount of deposits was \$2,269,866 and the bank balance was \$2,286,570. Of the bank balance, \$258,830 was covered by federal depository insurance. The remaining balance of \$2,027,740 was collateralized with securities held by the pledging financial institution's trust department in the City's name.

CITY OF HARMONY, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2014

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Investments

As of December 31, 2014, the City had the following investments that are insured or registered, or securities held by the City or its agent in the City's name.

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Fair Value and Carrying Amount
Pooled investments			
Minnesota Municipal Money Market (4M) fund	N/A	less than 6 months	<u>\$ 278,100</u>

The investments of the City are subject to the following risks:

- *Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota Statutes limit the City's investments.
- *Custodial Credit Risk.* The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.
- *Concentration of Credit Risk.* The concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.
- *Interest Rate Risk.* The interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The City has not adopted a formal investment policy outlining objectives and procedures for investing idle funds or that addresses interest rate and credit risk.

CITY OF HARMONY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Cash on hand

Cash in the possession of the City, consisting of petty cash and change funds, totals \$165.

Cash and investments summary

A reconciliation of cash and investments as shown on the Statement of Net Position for the City follows:

Deposits	\$ 2,269,866
Investments	278,100
Cash on hand	<u>165</u>
Total cash and temporary investments	<u><u>\$ 2,548,131</u></u>

B. Notes receivable

The City has made various economic development loans to businesses through its revolving loan program. These loans are receivable by the City over three to ten year periods with interest rates at 3 percent to 7 percent per annum. These loans are secured by equipment and other assets. The remaining balance at December 31, 2014 is \$167,714.

The Economic Development Authority has also made commercial rehabilitation loans to businesses. The City will collect on these loans only if there is an ownership change of the improved property. If ownership is retained over the five year period the loans are forgive. The balance of these loans is reduced annually. The balance on the loans receivable at December 31, 2014 was \$70,410.

Under a Small Cities Development Program Grant through the Minnesota Department of Trade and Economic Development, loans are made to eligible homeowners to assist with residential and commercial improvements. The City will collect these loans only if there is an ownership change of the improved property. If the residential owners do not sell their property over a ten year period the loans are forgiven. The balance on all loans receivable at December 31, 2014 is \$47,068. A portion of the commercial notes are paid back to the City which totals \$3,961. These loans are secured by equipment and other assets.

CITY OF HARMONY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

C. Capital assets

Capital asset activity for the City for the year ended December 31, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 314,318	\$ -	\$ -	\$ 314,318
Construction in progress	13,835	399,789	(413,624)	-
Total capital assets being depreciated	<u>328,153</u>	<u>399,789</u>	<u>(413,624)</u>	<u>314,318</u>
Capital assets being depreciated				
Buildings and improvements	1,183,625	-	-	1,183,625
Systems and infrastructure	3,165,160	189,155	-	3,354,315
Equipment and machinery	566,939	93,222	(64,860)	595,301
Vehicles	1,211,077	20,696	-	1,231,773
Total capital assets being depreciated	<u>6,126,801</u>	<u>303,073</u>	<u>(64,860)</u>	<u>6,365,014</u>
Less accumulated depreciation for				
Buildings and improvements	(490,632)	(31,834)	-	(522,466)
Systems and infrastructure	(1,824,197)	(85,015)	-	(1,909,212)
Equipment and machinery	(372,523)	(48,049)	64,860	(355,712)
Vehicles	(544,251)	(83,027)	-	(627,278)
Total accumulated depreciation	<u>(3,231,603)</u>	<u>(247,925)</u>	<u>64,860</u>	<u>(3,414,668)</u>
Total capital assets being depreciated, net	<u>2,895,198</u>	<u>55,148</u>	<u>-</u>	<u>2,950,346</u>
Governmental activities capital assets, net	<u>\$ 3,223,351</u>	<u>\$ 454,937</u>	<u>\$ (413,624)</u>	<u>\$ 3,264,664</u>

CITY OF HARMONY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	\$ 20,550	\$ -	\$ -	\$ 20,550
Construction in progress	-	48,183	-	48,183
Total capital assets not being depreciated	20,550	48,183	-	68,733
Capital assets being depreciated				
Buildings and improvements	2,112,518	-	-	2,112,518
Systems and infrastructure	3,636,104	266,565	-	3,902,669
Equipment and machinery	291,780	-	-	291,780
Vehicles	28,700	-	-	28,700
Total capital assets being depreciated	6,069,102	266,565	-	6,335,667
Less accumulated depreciation for				
Buildings and improvements	(1,000,630)	(70,418)	-	(1,071,048)
Systems and infrastructure	(1,384,664)	(91,381)	-	(1,476,045)
Equipment and machinery	(128,815)	(18,675)	-	(147,490)
Vehicles	(28,700)	-	-	(28,700)
Total accumulated depreciation	(2,542,809)	(180,474)	-	(2,723,283)
Total capital assets being depreciated, net	3,526,293	86,091	-	3,612,384
Business-type activities capital assets, net	\$ 3,546,843	\$ 134,274	\$ -	\$ 3,681,117

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities		
General government		\$ 33,925
Public safety		96,665
Streets and highways		94,686
Culture and recreation		22,388
Economic development		261
Total depreciation expense - governmental activities		<u>\$ 247,925</u>
Business-type activities		
Water utility		\$ 23,306
Sewer utility		88,284
Electric utility		47,051
Storm water utility		21,833
Total depreciation expense - business-type activities		<u>\$ 180,474</u>

CITY OF HARMONY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Construction commitment

The City has an active construction project as of December 31, 2014. At year end the City's commitments are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Engineering, Well No. 3	\$ 20,243	\$ 47,757
Construction, Well No. 3	24,472	405,223
Total	<u>\$ 44,715</u>	<u>\$ 452,980</u>

D. Interfund receivables, payables and transfers

The composition of interfund balances at December 31, 2014 is as follows:

Advances to/from other funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental TIF District #5	\$ 37,678
Revolving Loan	Nonmajor governmental TIF District #6	71,500
Electric Utility	Fire	137,054
Totals		<u>\$ 246,232</u>

The General fund advanced \$37,678 to the TIF District #5 in order to fund the cash deficit from the preliminary costs of the tax increment project. The advance will be paid back from future tax increment received with semi-annual payments at an interest rate of 5.0 percent.

The Revolving Loan fund advanced \$71,500 to the TIF District #6 in order to fund the initial developer loan for tax increment project costs related to this district. These funds should be repaid back through the term of the district by future tax increment revenue. If the future increment does not generate enough dollars to pay back the advance the developer shall pay back any shortfall of the advance. This loan shall be paid back at a fixed interest rate of 3 percent.

The Electric Utility fund advance the Fire fund \$149,277 to assist in the purchase of a fire truck. This advance shall be paid back with semi-annual payments. There is no interest rate on this advance.

Due to/from other funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Enterprise Storm Water Utility	\$ 1,012
	Nonmajor Governmental Library	1,009
Total		<u>\$ 2,021</u>

CITY OF HARMONY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Interfund transfers

Fund	Transfers in					Total
	General	Fire Fund	EDA	Capital Projects	Nonmajor Governmental Funds	
Transfers out						
Governmental						
General	\$ -	\$ -	\$ -	\$ 91,000	\$ 2,729	\$ 93,729
Fire	-	-	-	25,000	-	25,000
Ambulance	-	12,500	-	25,000	-	37,500
EDA	40,000	-	-	-	-	40,000
Capital Projects	110,000	-	-	-	-	110,000
Nonmajor Governmental	-	-	-	6,000	-	6,000
Business-type						
Water Utility	1,000	-	-	32,500	-	33,500
Sewer Utility	1,000	-	-	2,500	-	3,500
Refuse Utility	1,000	-	-	10,000	-	11,000
Electric Utility	2,000	-	15,000	1,000	-	18,000
Storm Water Utility	-	-	-	2,500	-	2,500
Total	\$ 155,000	\$ 12,500	\$ 15,000	\$ 195,500	\$ 2,729	\$ 380,729

In the year ended December 31, 2014, the City made the following transfers:

- A budgeted transfer from the Economic Development authority to the General fund of \$40,000 for the loss on the sale of Heritage Grove.
- A transfer of \$2,729 made to close TIF District #1 fund, a nonmajor governmental fund, from the General fund.
- An annual operating transfer from the Ambulance fund to the Fire fund of \$12,500 to fund the fire building.
- Transfers from the General, Fire, Ambulance and nonmajor governmental funds to the Capital Project fund of \$91,000, \$25,000, \$25,000 and \$6,000, respectively for future capital outlay.
- A transfer from the Capital Projects fund to the General fund of \$110,000 for seal coating (\$50,000), the purchase of a truck (\$20,000) and the purchase of a tractor (\$40,000).
- Transfers from the Water, Sewer, Refuse and Electric funds of \$1,000, \$1,000, \$1,000 and \$2,000 to the General fund for payment-in-lieu of taxes.
- An operating and budgeted transfer from the Electric fund to the EDA fund of \$15,000.
- A transfer from the Water fund to the Capital Projects fund of \$32,500 for water tower related future capital outlay.
- A transfer from the Sewer fund to the Capital Projects fund of \$2,500 for the future purchase of a Rodder.
- A transfer from the Refuse fund to the Capital Projects fund of \$10,000 for the future purchase of equipment.
- A transfer from the Electric fund to the Capital Projects fund of \$1,000 for the future purchase of equipment.
- A transfer from the Storm Water utility fund to the Capital Projects fund of \$2,500 for future purchase of a street sweeper.

CITY OF HARMONY, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2014

Note 3: DETAILED NOTES ON ALL FUNDS – CONTINUED

E. Leases

Operating leases

The City entered into an operating lease during 2013 to rent portion of the City’s facilities to Independent School District No. 2198. The future minimum rental payments are as follows:

Year Ending December 31	Amount
2015	\$ 19,750

F. Long-term debt

General obligation bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenues. In addition, general obligation bonds have been issued to refund special assessments related bonds.

G.O. improvement bonds

The following bonds were issued to finance various improvements and will be repaid primarily from special assessments levied on the properties benefiting from the improvements. Some issues, however, are partly financed by ad valorem tax levies. All special assessment debt is backed by the full faith and credit of the City. General obligation bonds currently outstanding are as follows:

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Improvement Bonds of 2010	\$ 203,600	3.25 %	09/01/10	03/01/18	\$ 108,000
G.O. Improvement Bonds of 2014	37,000	2.25	08/01/14	02/01/22	370,000
Total General Obligation Improvement Bonds					\$ 478,000

Annual requirement to maturity for long-term liabilities is as follows:

Year Ending December 31,	G.O. Improvement Bonds Governmental Activities		
	Principal	Interest	Total
2015	\$ 30,000	\$ 11,591	\$ 41,591
2016	76,000	10,099	86,099
2017	83,000	8,016	91,016
2018	68,000	5,818	73,818
2019	54,000	4,365	58,365
2020 - 2022	167,000	5,704	172,704
Total	\$ 478,000	\$ 45,593	\$ 523,593

CITY OF HARMONY, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2014

Note 3: DETAILED NOTES ON ALL FUNDS – CONTINUED

G.O. tax abatement bonds

The following bonds were issued to finance the sale of the Assisted Living Facility and to refund the USDA promissory Notes. They will be retired from tax abatement revenues and ad valorem tax levies.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Tax Abatement Bonds, 2013A	\$ 313,000	2.20 %	01/14/13	10/01/24	\$ 250,000
G.O. Tax Abatement Bonds, 2013B	250,000	4.50	08/29/13	02/01/24	<u>250,000</u>
Total General Obligation Tax Abatement Bonds					<u><u>\$ 500,000</u></u>

The expected annual debt service requirements to maturity for general obligation revenues bonds are as follows:

Year Ending December 31,	G.O. Tax Abatement Bonds Governmental Activities		
	Principal	Interest	Total
2015	\$ 53,000	\$ 16,300	\$ 69,300
2016	54,000	14,652	68,652
2017	56,000	12,958	68,958
2018	58,000	11,198	69,198
2019	60,000	9,370	69,370
2020 - 2024	<u>219,000</u>	<u>21,457</u>	<u>240,457</u>
Total	<u><u>\$ 500,000</u></u>	<u><u>\$ 85,935</u></u>	<u><u>\$ 585,935</u></u>

CITY OF HARMONY, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2014

Note 3: DETAILED NOTES ON ALL FUNDS – CONTINUED

G.O. revenue bonds

The following bonds were issued to financial capital improvements in the enterprise funds. They will be retired from net revenues of the enterprise funds.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
2004 Public Facilities Authority Bonds	\$ 625,465	1.00 %	05/13/04	08/20/23	<u>\$ 313,000</u>

Annual revenues form charges for service, principal and interest payments, and percentage of revenue required to cover principal and interest payments are as follows:

	<u>Sewer Utility</u>
Revenues	\$ 305,160
Principal and interest	68,438
Percentage of revenues	22.4%

The expected annual debt service requirements to maturity for general obligation revenue bonds are as follows:

Year Ending December 31,	G.O. Revenue Bonds Business-type Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 33,000	\$ 3,130	\$ 36,130
2016	34,000	2,800	36,800
2017	34,000	2,460	36,460
2018	34,000	2,120	36,120
2019	35,000	1,780	36,780
2020 - 2023	<u>143,000</u>	<u>3,590</u>	<u>146,590</u>
Total	<u>\$ 313,000</u>	<u>\$ 15,880</u>	<u>\$ 328,880</u>

CITY OF HARMONY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 3: DETAILED NOTES ON ALL FUNDS – CONTINUED

Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Net adjustment	Ending Balance	Due Within One Year
Governmental activities						
Bonds payable						
G.O. Improvement bonds	\$ 138,000	\$ 370,000	\$ (30,000)	\$ -	\$ 478,000	\$ 30,000
G.O. Tax Abatement bonds	532,000	-	(32,000)	-	500,000	53,000
Compensated absences payable	58,106	-	-	(1,206)	56,900	21,520
Governmental activities long-term liabilities	<u>\$ 728,106</u>	<u>\$ 370,000</u>	<u>\$ (62,000)</u>	<u>\$ (1,206)</u>	<u>\$ 1,034,900</u>	<u>\$ 104,520</u>
Business-type activities						
Bonds payable						
G.O. revenue bonds	\$ 377,452	\$ -	\$ (64,452)	\$ -	\$ 313,000	\$ 33,000
Compensated absences payable	32,655	-	-	135	32,790	16,039
Business-type activities long-term liabilities	<u>\$ 410,107</u>	<u>\$ -</u>	<u>\$ (64,452)</u>	<u>\$ 135</u>	<u>\$ 345,790</u>	<u>\$ 49,039</u>

Conduit debt obligation

To provide for the acquisition and construction of various multi-family housing projects by a non-profit corporation, the City of Harmony, Minnesota issue \$12,000,000 of Housing Revenue Bonds during 1996. 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 the rental income sources of the non-profit corporation. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. These bonds were paid off in 2014.

CITY OF HARMONY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 4: DEFINED BENEFIT PENSION PLAN - STATEWIDE

A. Plan description

All full-time and certain part-time employees of the City of Harmony are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota statutes, chapters 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota statute, and vest after five 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 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. 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 the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity 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 death of the retiree--no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be 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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

CITY OF HARMONY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 4: DEFINED BENEFIT PENSION PLAN - STATEWIDE - CONTINUED

B. 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 Minnesota statutes. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.25 percent, respectively, of their annual covered salary in 2014. In 2014, the City was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan members and 7.25 percent for Coordinated Plan members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2014, 2013 and 2012 were \$28,727, \$31,696, and \$29,431, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute. Contribution rates will increase on January 1, 2015 in the Coordinated Plan (6.50 percent for members and 7.50 percent for employers) and the Police and Fire Fund (10.80 percent for members and 16.20 percent for employers).

Note 5: DEFINED BENEFIT PENSION PLAN - FIRE RELIEF ASSOCIATION

A. Plan description

All members of the Harmony Fire Department (the Department) are covered by a defined benefit plan administered by the Harmony Firefighters' Relief Association (the Association). The plan is a single employer retirement plan and is established and administered in accordance with Minnesota statute, chapter 69.

The Association maintains a separate Special fund to accumulate assets to fund the retirement benefits earned by the Department's membership. Funding for the Association is derived from an insurance premium tax in accordance with the Volunteer Firefighter's Relief Association Financing Guidelines Act of 1971 (chapter 261 as amended by chapter 509 of Minnesota statutes 1980). Funds are also derived from investment income.

The Association issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Harmony Firefighters' Relief Association, PO Box 67, Harmony, MN 55939.

CITY OF HARMONY, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2014

Note 5: DEFINED BENEFIT PENSION PLAN - FIRE RELIEF ASSOCIATION - CONTINUED

B. Funding policy

The financial requirements of the Special fund are determined in accordance with section 69.772 of the Minnesota statutes, which requires the payment of pension benefits in a lump sum or optionally in annual installments. The benefits are payable after age 50, 10 years of service, and 10 years of Association membership or upon death. The City's annual pension cost for the current year and related information for the plan is as follows:

Annual pension cost	\$ 23,233
Contributions made	
City (voluntary)	7,500
State aid	15,733
Actuarial valuation date	12/31/14
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	
Normal cost	20 years
Prior service cost	10 years
Asset valuation method	Market
Actuarial assumptions	
Investment rate of return	5%
Projected salary increases	N/A
Inflation rate	N/A
Cost of living adjustments	None

Three Year Trend Information

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/14	\$ 23,233	100.0 %	\$ -
12/31/13	22,593	100.0 %	-
12/31/12	14,546	100.0	-

Required Supplementary Information

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Assets in Excess of (Unfunded) Accrued Liability	Funded Rate	Pension Benefit Per Year of Service
12/31/14	*	*	*	*	\$ 775
12/31/13	\$ 316,721	\$ 285,453	\$ 31,268	110.95 %	750
12/31/12	273,102	269,228	3,874	101.44	750

* Information not available at time of audit

CITY OF HARMONY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 5: OTHER INFORMATION

A. 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 for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT) which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City's coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The City's management is not aware of any incurred but not reported claims.

B. Legal debt margin

The City's statutory debt limit is three percent of estimated taxable market value of real and personal property located in the City. The taxable market value was \$75,887,800 at December 31, 2014 for a limit of \$2,276,634. The City currently has no general obligation debt subject to this limit. Debt financed partially or entirely by special assessments or by operations of enterprise funds is excluded from this computation by statute.

C. Concentrations

The City receives a significant amount of its annual General fund revenues from the State of Minnesota from the Local Government Aid (LGA) program. The amount received in 2014 was \$339,819 for LGA. This accounted for 53.0 percent of General fund revenues.

D. Tax increment districts

The City's tax increment districts are subject to review by the State of Minnesota Office of the State Auditor (OSA). Any disallowed claims or misuse of tax increments could become a liability of the applicable fund. Management has indicated that they are not aware of any instance of noncompliance which would have a material effect on the financial statements.

CITY OF HARMONY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 6: PRIOR PERIOD RESTATEMENT

In accordance with GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions," unavailable revenue for loans was written off in order to properly offset the loan balance with committed fund balance.

Changes related to the restatement are reflected in the financial statements and schedules and related note disclosures. The restatement had not effect on the government-wide financial statements.

As a result of the prior period restatement to beginning balances, the following schedule reconciles the previously reported December 31, 2013 balances to the December 31, 2014 financial statements:

Fund	December 31, 2014		
	Fund Balance December 31, 2013 as Previously Reported	Prior Period Restatement (2)	Net Position January 1, 2014 as Restated
Governmental			
Small Cities Grant	\$ 1,404	\$ 58,247	\$ 59,651
Revolving Loan	132,583	177,807	310,390
Economic Development Authority	54,993	106,360	161,353
Total	<u>\$ 187,576</u>	<u>\$ 284,167</u>	<u>\$ 471,743</u>

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**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

CITY OF HARMONY
HARMONY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2014

CITY OF HARMONY, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2014

	Special Revenue			
	251	211	202	261
	Park Fund	Library Fund	Small Cities Grant	Arts Fund
ASSETS				
Cash and temporary investments	\$ 40,510	\$ 40	\$ 3,238	\$ 8,086
Receivables				
Delinquent taxes	-	-	-	-
Loans	-	-	47,068	-
Prepaid items	2,461	268	-	-
Advances to other funds	-	-	-	-
TOTAL ASSETS	<u>\$ 42,971</u>	<u>\$ 308</u>	<u>\$ 50,306</u>	<u>\$ 8,086</u>
LIABILITIES				
Accounts payable	\$ 5,818	\$ 2,480	\$ -	\$ -
Due to other governments	-	10	-	-
Accrued salaries payable	11	1,032	-	-
Advances from other funds	-	-	-	-
Due to other funds	-	1,009	-	-
TOTAL LIABILITIES	<u>5,829</u>	<u>4,531</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	-	-	-	-
FUND BALANCES				
Nonspendable				
Prepaid items	2,461	268	-	-
Restricted				
Economic development	-	-	50,306	-
Assigned				
Culture and recreation	34,681	-	-	8,086
Unassigned	-	(4,491)	-	-
TOTAL FUND BALANCES	<u>37,142</u>	<u>(4,223)</u>	<u>50,306</u>	<u>8,086</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 42,971</u>	<u>\$ 308</u>	<u>\$ 50,306</u>	<u>\$ 8,086</u>

Capital Project

405 TIF District #1	418 TIF District #5	420 TIF District #6	Total Nonmajor Funds
\$ -	\$ 107	\$ 356	\$ 52,337
-	284	-	284
-	-	-	47,068
-	-	-	2,729
<u>\$ -</u>	<u>\$ 391</u>	<u>\$ 356</u>	<u>\$ 102,418</u>
\$ -	\$ -	\$ -	\$ 8,298
-	-	-	10
-	-	-	1,043
-	37,678	71,500	109,178
-	-	-	1,009
-	37,678	71,500	119,538
-	284	-	284
-	-	-	2,729
-	-	-	50,306
-	-	-	42,767
-	(37,571)	(71,144)	(113,206)
-	(37,571)	(71,144)	(17,404)
<u>\$ -</u>	<u>\$ 391</u>	<u>\$ 356</u>	<u>\$ 102,418</u>

CITY OF HARMONY, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2014

	Special Revenue			
	251	211	202	261
	Park Fund	Library Fund	Small Cities Grant	Arts Fund
REVENUES				
Property taxes	\$ 46,000	\$ 75,250	\$ -	\$ -
Tax increments	-	-	-	-
Intergovernmental	-	28,297	-	300
Charges for services	2,409	1,608	-	-
Fines and forfeits	-	417	-	-
Investment earnings	47	(39)	5	23
Miscellaneous	8,854	7,337	-	47
TOTAL REVENUES	57,310	112,870	5	370
EXPENDITURES				
Current				
Culture and recreation	29,712	107,523	-	3,390
Economic development	-	-	9,350	-
Capital outlay				
Culture and recreation	-	6,205	-	-
Debt service				
Interest and other	-	-	-	-
TOTAL EXPENDITURES	29,712	113,728	9,350	3,390
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	27,598	(858)	(9,345)	(3,020)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	(6,000)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(6,000)	-	-	-
NET CHANGE IN FUND BALANCES	21,598	(858)	(9,345)	(3,020)
FUND BALANCES, JANUARY 1	15,544	(3,365)	1,404	11,106
PRIOR PERIOD ADJUSTMENT (NOTE 6)	-	-	58,247	-
FUND BALANCES, JANUARY 1 , RESTATED	15,544	(3,365)	59,651	11,106
FUND BALANCES, DECEMBER 31	<u>\$ 37,142</u>	<u>\$ (4,223)</u>	<u>\$ 50,306</u>	<u>\$ 8,086</u>

Capital Project

405 TIF District #1	418 TIF District #5	420 TIF District #6	Total Nonmajor Funds
\$ -	\$ -	\$ -	\$ 121,250
-	11,189	-	11,189
-	-	-	28,597
-	-	-	4,017
-	-	-	417
-	6	(9)	33
-	-	-	16,238
-	11,195	(9)	181,741
-	-	-	140,625
2,729	348	65,402	77,829
-	-	-	6,205
-	1,783	5,733	7,516
2,729	2,131	71,135	232,175
(2,729)	9,064	(71,144)	(50,434)
2,729	-	-	2,729
-	-	-	(6,000)
2,729	-	-	(3,271)
-	9,064	(71,144)	(53,705)
-	(46,635)	-	(21,946)
-	-	-	58,247
-	(46,635)	-	36,301
<u>\$ -</u>	<u>\$ (37,571)</u>	<u>\$ (71,144)</u>	<u>\$ (17,404)</u>

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CITY OF HARMONY, MINNESOTA
GENERAL FUND
COMPARATIVE BALANCE SHEETS
DECEMBER 31, 2014 AND 2013

	2014	2013
ASSETS		
Cash and temporary investments	\$ 658,263	\$ 528,521
Receivables		
Interest	1,192	1,145
Special assessments	4,488	8,688
Delinquent taxes	45,195	34,318
Accounts	244	529
Intergovernmental	10,399	5,444
Advance to other funds	37,678	46,834
Due from other funds	2,021	1,826
Prepaid items	17,094	16,271
	\$ 776,574	\$ 643,576
LIABILITIES		
Accounts payable	\$ 42,256	\$ 31,102
Accrued salaries payable	9,766	10,258
Due to other governments	25	15
	52,047	41,375
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue - property taxes	45,195	34,318
Unavailable revenue - special assessment	4,488	8,688
	49,683	43,006
FUND BALANCES		
Nonspendable		
Prepaid items	17,094	16,271
Advance to other funds	37,678	46,834
Assigned	254,676	293,744
Unassigned	365,396	202,346
	674,844	559,195
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES		
	\$ 776,574	\$ 643,576

CITY OF HARMONY, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CONTINUED ON THE FOLLOWING PAGES
FOR THE YEAR ENDED DECEMBER 31, 2014
(With Comparative Actual Amounts for Year Ended December 31, 2013)

	2014			Variance with Final Budget	2013
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
REVENUES					
Taxes					
Property taxes	\$ 204,246	\$ 204,246	\$ 198,521	\$ (5,725)	\$ 237,127
Franchise fees	3,500	3,500	4,265	765	4,259
Lodging	5,000	5,000	5,872	872	5,256
Total taxes	212,746	212,746	208,658	(4,088)	246,642
Special Assessments	1,500	1,500	7,583	6,083	15,775
Licenses and permits					
Business	3,625	3,625	3,875	250	3,650
Nonbusiness	2,750	2,750	3,492	742	2,936
Total licenses and permits	6,375	6,375	7,367	992	6,586
State					
Local government aid	339,819	339,819	339,819	-	320,299
Property tax credits and aids	-	-	-	-	10
Fire aid	10,000	10,000	15,733	5,733	16,594
Other state aids	864	864	864	-	864
Total state	350,683	350,683	356,416	5,733	337,767
Charges for services					
General government	100	100	78	(22)	39
Public safety	-	-	150	150	-
Streets and highways	500	500	2,800	2,300	2,584
Total charges for services	600	600	3,028	2,428	2,623
Fines and forfeits	750	750	2,046	1,296	1,515
Investment earnings	2,500	2,500	1,094	(1,406)	1,137
Miscellaneous					
Rents	26,000	26,000	22,413	(3,587)	27,888
Contributions and donations	4,000	4,000	5,670	1,670	3,289
Refunds and reimbursements	5,000	5,000	9,937	4,937	13,135
Other	2,100	2,100	17,554	15,454	87,402
Total miscellaneous	37,100	37,100	55,574	18,474	131,714
TOTAL REVENUES	612,254	612,254	641,766	29,512	743,759

CITY OF HARMONY, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014
(With Comparative Actual Amounts for Year Ended December 31, 2013)

	2014				2013
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Budget			
EXPENDITURES					
Current					
General government					
Mayor and Council					
Personal services	\$ 7,350	\$ 7,350	\$ 7,421	\$ (71)	\$ 7,321
Materials and supplies	350	350	166	184	2,395
Other services and charges	2,025	2,025	1,543	482	1,107
Total Mayor and Council	9,725	9,725	9,130	595	10,823
Finance and administration					
Personal services	68,843	68,843	55,834	13,009	56,861
Materials and supplies	3,400	3,400	4,278	(878)	2,956
Printing and publication	3,000	3,000	2,142	858	1,259
Training	750	750	423	327	-
Repairs and maintenance	1,000	1,000	1,247	(247)	2,118
Professional fees	6,150	6,150	6,400	(250)	6,181
Miscellaneous	2,048	2,048	471	1,577	369
Total finance and administration	85,191	85,191	70,795	14,396	69,744
Elections	1,365	1,365	934	431	249
Professional services					
Legal	7,500	7,500	7,448	52	4,623
Total general government	103,781	103,781	88,307	15,474	85,439
Government buildings					
Visitor center					
Personal services	9,826	9,826	9,183	643	7,930
Materials and supplies	3,000	3,000	2,357	643	2,427
Insurance	1,415	1,415	1,298	117	1,335
Repairs and maintenance	3,750	3,750	1,365	2,385	1,976
Utilities	7,100	7,100	7,382	(282)	6,754
Total visitor center	25,091	25,091	21,585	3,506	20,422
Community center					
Personal services	41,615	41,615	32,690	8,925	31,640
Materials and supplies	6,750	6,750	6,187	563	5,773
Insurance	15,414	15,414	14,119	1,295	13,989
Repairs and maintenance	8,750	8,750	6,703	2,047	6,737
Utilities	30,750	30,750	35,615	(4,865)	30,775
Professional fees	-	-	-	-	13,533
Miscellaneous	100	100	18	82	30
Total community center	103,379	103,379	95,332	8,047	102,477
Total government buildings	128,470	128,470	116,917	11,553	122,899

CITY OF HARMONY, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014
(With Comparative Actual Amounts for Year Ended December 31, 2013)

EXPENDITURES - CONTINUED	2014				2013
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Current - continued					
Public safety					
Police					
Contracted services	\$ 83,500	\$ 83,500	\$ 80,327	\$ 3,173	\$ 74,555
Vehicle expense	3,000	3,000	3,409	(409)	3,431
Materials and supplies	600	600	954	(354)	164
Insurance	452	452	511	(59)	449
Repairs and maintenance	1,050	1,050	228	822	214
Miscellaneous	775	775	718	57	591
Total police	<u>89,377</u>	<u>89,377</u>	<u>86,147</u>	<u>3,230</u>	<u>79,404</u>
Fire					
Firemen's relief	<u>17,000</u>	<u>17,000</u>	<u>23,233</u>	<u>(6,233)</u>	<u>22,594</u>
Civil defense					
Personal services	660	660	646	14	646
Repairs and maintenance	500	500	-	500	708
Other charges	<u>1,428</u>	<u>1,428</u>	<u>1,566</u>	<u>(138)</u>	<u>1,392</u>
Civil defense	<u>2,588</u>	<u>2,588</u>	<u>2,212</u>	<u>376</u>	<u>2,746</u>
Animal control					
Personal services	4,375	4,375	3,119	1,256	2,857
Materials and supplies	350	350	406	(56)	198
Other services	<u>200</u>	<u>200</u>	<u>93</u>	<u>107</u>	<u>79</u>
Animal and pest control	<u>4,925</u>	<u>4,925</u>	<u>3,618</u>	<u>1,307</u>	<u>3,134</u>
Total public safety	<u>113,890</u>	<u>113,890</u>	<u>115,210</u>	<u>(1,320)</u>	<u>107,878</u>
Streets and highways					
Personal services	18,680	18,680	17,954	726	19,227
Vehicle expenses	3,000	3,000	3,454	(454)	3,033
Materials and supplies	10,525	10,525	13,337	(2,812)	15,322
Insurance	2,933	2,933	1,530	1,403	2,514
Repairs and maintenance	65,900	65,900	77,102	(11,202)	83,852
Snow and ice	32,318	32,318	31,928	390	40,373
Building maintenance	<u>24,014</u>	<u>24,014</u>	<u>30,829</u>	<u>(6,815)</u>	<u>23,923</u>
Total streets and highways	<u>157,370</u>	<u>157,370</u>	<u>176,134</u>	<u>(18,764)</u>	<u>188,244</u>
Culture and recreation					
Community events	<u>6,575</u>	<u>6,575</u>	<u>9,580</u>	<u>(3,005)</u>	<u>8,751</u>
Economic development					
Lodging tax	5,000	5,000	4,417	583	5,236
Community development	<u>3,000</u>	<u>3,000</u>	<u>912</u>	<u>2,088</u>	<u>3,986</u>
Total economic development	<u>8,000</u>	<u>8,000</u>	<u>5,329</u>	<u>2,671</u>	<u>9,222</u>
Unallocated					
Insurance	<u>4,145</u>	<u>4,145</u>	<u>2,603</u>	<u>1,542</u>	<u>3,321</u>
Total current	<u>522,231</u>	<u>522,231</u>	<u>514,080</u>	<u>8,151</u>	<u>525,754</u>

CITY OF HARMONY, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014
(With Comparative Actual Amounts for Year Ended December 31, 2013)

	2014				2013
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Capital outlay					
Finance and administration	1,000	1,000	-	1,000	3,352
Government buildings	-	-	10,637	(10,637)	-
Public safety	2,500	2,500	-	2,500	30,208
Streets and highways	-	-	62,671	(62,671)	91,280
Total capital outlay	<u>3,500</u>	<u>3,500</u>	<u>73,308</u>	<u>(69,808)</u>	<u>124,840</u>
Debt service					
Principal	-	-	-	-	334,337
Interest and other	-	-	-	-	6,077
Total debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>340,414</u>
TOTAL EXPENDITURES	<u>525,731</u>	<u>525,731</u>	<u>587,388</u>	<u>(61,657)</u>	<u>991,008</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>86,523</u>	<u>86,523</u>	<u>54,378</u>	<u>(32,145)</u>	<u>(247,249)</u>
OTHER FINANCING SOURCES (USES)					
Bond proceeds	-	-	-	-	312,482
Gain on sale of capital assets	-	-	-	-	4,810
Transfers in	63,500	63,500	155,000	91,500	150,000
Transfers out	<u>(96,000)</u>	<u>(96,000)</u>	<u>(93,729)</u>	<u>2,271</u>	<u>(276,041)</u>
TOTAL FINANCING SOURCES (USES)	<u>(32,500)</u>	<u>(32,500)</u>	<u>61,271</u>	<u>93,771</u>	<u>191,251</u>
NET CHANGE IN FUND BALANCES	54,023	54,023	115,649	61,626	(55,998)
FUND BALANCES, JANUARY 1	<u>559,195</u>	<u>559,195</u>	<u>559,195</u>	<u>-</u>	<u>615,193</u>
FUND BALANCES, DECEMBER 31	<u>\$ 613,218</u>	<u>\$ 613,218</u>	<u>\$ 674,844</u>	<u>\$ 61,626</u>	<u>\$ 559,195</u>

CITY OF HARMONY, MINNESOTA
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2014

	314	315	316
	2010 G.O.	2013A G.O	2013B G.O.
	Improvement	Tax Abatement	Tax Abatement
	Bonds	Bonds	Bonds
ASSETS			
Cash and temporary investments	\$ 42,465	\$ 493	\$ 19,149
Delinquent taxes	2,016	1,824	1,492
Special assessments	32,394	-	-
Intergovernmental	308	-	-
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 77,183</u>	<u>\$ 2,317</u>	<u>\$ 20,641</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	2,016	1,824	-
Unavailable revenue - special assessments	32,394	-	1,492
	<hr/>	<hr/>	<hr/>
TOTAL DEFERRED INFLOWS OF RESOURCES	34,410	1,824	1,492
FUND BALANCES			
Restricted for debt service	<hr/> 42,773	<hr/> 493	<hr/> 19,149
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 77,183</u>	<u>\$ 2,317</u>	<u>\$ 20,641</u>

317
 2014A G.O.
 Improvement
 Bonds

<u>Bonds</u>	<u>Totals</u>
\$ 70,363	\$ 132,470
-	5,332
205,714	238,108
-	308
<u>\$ 276,077</u>	<u>\$ 376,218</u>
-	3,840
205,714	239,600
205,714	243,440
70,363	132,778
<u>\$ 276,077</u>	<u>\$ 376,218</u>

CITY OF HARMONY, MINNESOTA
DEBT SERVICE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2014

	314 2010 G.O. Improvement Bonds	315 2013A G.O. Tax Abatement Bonds	316 2013B G.O. Tax Abatement
REVENUES			
Property taxes	\$ 27,328	\$ 36,082	\$ 29,516
Special assessments	7,024	-	-
Investment earnings	70	10	8
	<u>34,422</u>	<u>36,092</u>	<u>29,524</u>
TOTAL REVENUES			
EXPENDITURES			
Debt service			
Principal	30,000	32,000	-
Interest and other	4,241	6,204	10,375
	<u>34,241</u>	<u>38,204</u>	<u>10,375</u>
TOTAL EXPENDITURES			
NET CHANGE IN FUND BALANCES	181	(2,112)	19,149
FUND BALANCES, JANUARY 1	<u>42,592</u>	<u>2,605</u>	<u>-</u>
FUND BALANCES, DECEMBER 31	<u>\$ 42,773</u>	<u>\$ 493</u>	<u>\$ 19,149</u>

317
 2014A G.O.
 Improvement
 Bonds

<u>Bonds</u>	<u>Totals</u>
\$ -	\$ 92,926
70,347	77,371
16	104
70,363	170,401
-	62,000
-	20,820
-	82,820
70,363	87,581
-	45,197
<u>\$ 70,363</u>	<u>\$ 132,778</u>

CITY OF HARMONY, MINNESOTA
SUMMARY FINANCIAL REPORT
REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS -
GOVERNMENTAL FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Total 2014	Total 2013	Percent Increase (Decrease)	
REVENUES				
Taxes	\$ 561,073	\$ 559,314	0.31	%
Special assessments	89,115	32,057	177.99	
Licenses and permits	7,367	6,586	11.86	
Intergovernmental	448,136	438,783	2.13	
Charges for services	186,324	199,532	(6.62)	
Fines and forfeits	2,463	2,450	0.53	
Investment earnings	3,225	10,869	(70.33)	
Miscellaneous	161,999	188,977	(14.28)	
TOTAL REVENUES	\$ 1,459,702	\$ 1,438,568	1.47	%
Per Capita	\$ 1,430	\$ 1,417	0.87	%
EXPENDITURES				
Current				
General government	\$ 205,224	\$ 211,690	(3.05)	%
Public safety	352,012	321,068	9.64	
Streets and highways	176,134	193,481	(8.97)	
Culture and recreation	150,205	208,650	(28.01)	
Economic development	249,802	121,539	105.53	
Miscellaneous	2,603	21,437	(87.86)	
Capital outlay				
General government	10,637	-	100.00	
Public safety	49,447	153,746	(67.84)	
Streets and highways	462,460	86,043	437.48	
Culture and recreation	6,205	-	100.00	
Debt service				
Principal	62,000	461,663	(86.57)	
Interest and other charges	33,136	6,017	450.71	
TOTAL EXPENDITURES	\$ 1,759,865	\$ 1,785,334	(1.43)	%
Per Capita	\$ 1,724	\$ 1,759	(2.01)	%
Total Long-term Indebtedness	\$ 478,000	\$ 138,000	246.38	%
Per Capita	468	136	244.34	
General Fund Balance - December 31	\$ 674,844	\$ 559,195	20.68	%
Per Capita	661	551	19.97	

The purpose of this report is to provide a summary of financial information concerning the City of Harmony to interested citizens. The complete financial statements may be examined at City Hall, 225 3rd Ave SW, Harmony, Minnesota. Questions about this report should be directed to Jerome Illg, Administrator at (507) 886-8122.

OTHER REQUIRED REPORTS

CITY OF HARMONY
HARMONY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2014

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INDEPENDENT AUDITOR'S REPORT ON
MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and City Council
City of Harmony, Minnesota

We have audited, in accordance with auditing standard generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Harmony, Minnesota (the City) as of and for the year ended December 31, 2014, and the notes to the financial statements, and have issued our report thereon dated April 3, 2015.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute §6.65, contains seven 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 audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Abdo, Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP

Mankato, Minnesota

April 3, 2015 April 3, 2015 April 3, 2015 April 3, 2015

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and City Council
City of Harmony, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Harmony, Minnesota (the City), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 3, 2015 April 3, 2015 April 3, 2015 April 3, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses as items 2014-001 and 2014-002, we identified a certain deficiencies in internal control that we consider to be a material weaknesses and other deficiencies that we consider to be a significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2014-002 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as items 2014-001 to be a significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Abdo, Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
April 3, 2015

CITY OF HARMONY, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2014

Finding

Description

2014-001

Segregation of duties

Condition: During our audit we reviewed internal control procedures over payroll, disbursements, cash receipts, utility billing and investments and found the City to have limited segregation of duties in these areas as noted below.

Criteria: There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.

Effect: The existence of this limited segregation of duties increases the risk of fraud and misstatement.

Internal control over payroll

Cause: The Administrator controls and maintains the control over the ACH, sets up employee records, posts activity to the general ledger, prepares payroll tax returns, and maintains the payroll records as well as reconciling the bank statements.

Recommendation: While we recognize the number of staff is not large enough to eliminate this deficiency it is important that the Council is aware of this condition and monitor all financial information. We recommend that in addition to approving payroll disbursements and wage rates, the Council review amounts earned and accrued for compensated absences on an annual basis to compensate for control deficiencies with respect to payroll accruals. Also bank reconciliations should be reviewed by clerk with emphasis on reviewing approved ACH payments and confirm proper payment amount.

Management response:

The council will continue to review the ACH payments along with compensated absences reports and the Deputy Clerk will compare approved payments to the bank reconciliation upon review. It is important that these procedures are document that these procedures are completed.

Internal control over cash disbursements

Cause: The Deputy Clerk has control over the check stock, sets up and maintains vendors, prepares checks and enters transactions into the accounting system.

Recommendation: While we recognize staff is not large enough to eliminate this deficiency, we recommend that an individual separate from the Administrator review cancelled checks received with bank statement and investigate items such as: voided checks, inconsistencies in check sequence, possible alterations, and unusual payees. It is important that the Council is aware of this condition and monitor all financial information. The Deputy Clerk should enter disbursements and mail disbursements. The Administrator will sign checks.

Management response:

The Administrator will review the cancelled checks that are received with the bank statements and look for any inconsistencies in check numbers along with mail disbursements.

CITY OF HARMONY, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014

Finding

Description

2014-001

Segregation of duties - Continued

Internal control over cash receipts

Cause: The Deputy Clerk sets up and maintains customers, generates billing statements, maintains receipts journal, posts to the general ledger, prepares deposits and delivers to the bank.

Recommendation: We recommend that an individual separate from the Administrator, such as the Deputy Clerk, review bank reconciliations for accuracy and timeliness of preparation. The City could also look at a point of sale software to assist with documenting receipts. It is important that the Council is aware of this condition and monitor all financial information.

Management response:

The Council has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes review of deposits, regular review of financial statements, regular review of bank reconciliations and budget comparisons.

Internal control over utility billing

Cause: The Deputy Clerk approves new accounts, sets up customers and rates in the billing systems, generates statements, enters readings, prepares the deposit and makes adjustments to accounts.

Recommendation: We recommend that an individual, separate from the Administrator such as the Deputy Clerk, review bank reconciliations for accuracy and timeliness of preparation. The utility billing adjustment reports should be reviewed and documented any adjustments made to the utility billing system. It is important that the Council is aware of this condition and monitor all financial information.

Management response:

The City Administrator will review the utility adjustment report and the Deputy Clerk with review the bank reconciliation.

Internal control over investment transactions

Cause: As a result of the number of staff, the Administrator receives investment statements in the mail, initiates investment transactions, maintains investment subledger and spreadsheet and reconciles investment accounts.

Recommendation: It is important that the Council is aware of this condition and monitor all financial information. We recommend the City adopt an investment policy which outlines procedures for investment transactions that can be followed by the Administrator.

Management response:

The City will implement an investment policy for 2015.

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CITY OF HARMONY, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014

<u>Finding</u>	<u>Description</u>
2014-002	Material audit adjustments
<i>Condition:</i>	During our audit, adjustments were needed for adjusting capital assets, accounts payable, compensated absences and recording special assessments.
<i>Criteria:</i>	The financial statements are the responsibility of the City's management.
<i>Cause:</i>	City staff has not prepared a year-end trial balance reflecting all necessary accounting entries.
<i>Effect:</i>	It is likely that if a misstatement were to occur, it would not be detected by the City's system of internal control. The audit firm cannot serve as a compensating control over this deficiency.
<i>Recommendation:</i>	We recommend that management review each journal entry, obtain an understanding of why the entry was necessary and modify current procedures to ensure that future corrections are not needed.
<i>Management response:</i>	Management thoroughly reviews journal entries prepared for the audit and asks questions throughout the year to attempt to eliminate future material adjustments.