

Annual Financial Report

City of Harmony

Harmony, Minnesota

For the Year Ended

December 31, 2015

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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, 2015

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CITY OF HARMONY, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2015

ELECTED

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steve Donney	Mayor	12/31/16
Lynn Mensink	Council	12/13/16
Steve Sagen	Council	12/31/18
Kyle Morem	Council	12/31/18
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, 2015

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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, 2015, 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. The prior year comparative information has been derived from the City's 2014 financial statements and, in our report dated April 3, 2015 we expressed unmodified opinions on the respective proprietary fund financial statements. 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.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-Type Activities	Qualified
General Fund	Unmodified
Fire Fund	Unmodified
Ambulance Fund	Unmodified
Revolving Loan Fund	Unmodified
Economic Development Fund	Unmodified
1 st Ave SW Street Project	Unmodified
Capital Projects Funds	Unmodified
Debt Service Funds	Unmodified
Aggregate remaining fund information	Unmodified
Water Utility Fund	Qualified
Sewer Utility Fund	Qualified
Refuse and Recycling Fund	Qualified
Electric Utility Fund	Qualified
Storm Water Utility Fund	Qualified
Aggregate Remaining Fund Information	Unmodified

Basis for Qualified Opinions

The City has not adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions, for the Public Employee Retirement Association nor the pension amounts related to the Harmony Firefighters' Relief Association, in the governmental activities, business-type activities, and each major proprietary fund and, accordingly, has not shown activity related to this standard. Accounting principles generally accepted in the United States of America require that pension balances be shown, which would report deferred outflows of resources, deferred inflows of resources and liabilities or assets, while changing the net position in the applicable statements.

Qualified Opinions

In our opinion, except for the possible effects of the matter described in the "Basis for Qualified Opinions", the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities and each major proprietary fund of the City as of December 31, 2015, and the results of its operations for the year ended in conformity with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining governmental fund information of the City as of December 31, 2015, and the budgetary comparisons for the General, Fire, Ambulance, Revolving Loan and Economic Development Authority funds for the year then ended in accordance 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

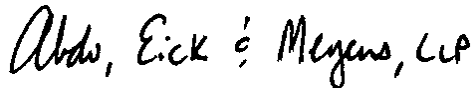
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and combining and individual fund financial statements and schedules are presented for purposes of additional analysis and 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 combining and individual fund financial statements are 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 1, 2016, 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 1, 2016

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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, 2015.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$9,344,651 (net position). Of this amount \$2,563,252 (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 \$2,039,739, an increase of \$255,634 in comparison with the prior year. Approximately 13.3 percent of the total amount, \$271,446, 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) nonspendable (\$53,617) 2) restricted (\$547,734), 3) committed (\$575,819), or 4) assigned (\$591,123).
- At the end of the current fiscal year, unassigned fund balance for the General fund was \$462,957, or 77.9 percent of total General fund expenditures.

The City's total debt increased by \$94,760, or 7.3 percent during the current fiscal year. This was due to the issuance of 2015 Public Facilities Authority bonds for \$210,760. There were also \$116,000 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

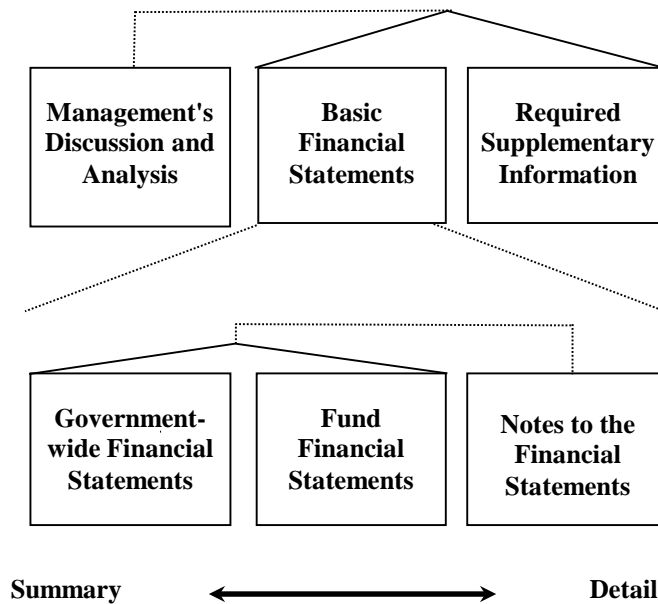


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the 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 17 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 Fire fund, the Ambulance fund, the Revolving Loan fund, the Economic Development Authority fund, the 1st Ave SW Street Project fund, the Capital Projects fund and the Debt Service funds 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, refuse and recycling operations, electric utility and storm water utility.

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 80 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 \$9,344,651 at the close of the most recent fiscal year.

A large portion of the City's net position (69.0 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		
	2015	2014	Increase (Decrease)	2015	2014	Increase (Decrease)
Current and other assets	\$ 2,514,149	\$ 2,342,059	\$ 172,090	\$ 1,363,719	\$ 1,203,620	\$ 160,099
Capital assets	3,143,980	3,264,664	(120,684)	4,242,349	3,681,117	561,232
Total assets	5,658,129	5,606,723	51,406	5,606,068	4,884,737	721,331
Long-term liabilities outstanding	952,944	1,034,900	(81,956)	523,681	345,790	177,891
Other liabilities	141,215	154,345	(13,130)	301,706	146,877	154,829
Total liabilities	1,094,159	1,189,245	(95,086)	825,387	492,667	332,720
Net investment in capital assets	2,695,980	3,264,664	(568,684)	3,751,589	3,368,117	383,472
Restricted	333,830	715,904	(382,074)	-	-	-
Unrestricted	1,534,160	436,910	1,097,250	1,029,092	1,023,953	5,139
Total net position	\$ 4,563,970	\$ 4,417,478	\$ 146,492	\$ 4,780,681	\$ 4,392,070	\$ 388,611

An additional portion of the City's net assets (3.6 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (27.4 percent) may be used to meet the City's ongoing obligations to citizens and creditors.

The City's net position increased by \$535,103 during the current fiscal year. The majority of this increase is attributable to capital grants and contributions for the business type funds through grant revenues.

Governmental activities. Governmental activities increased the City's net position by \$146,492. Key elements of this increase are as follows:

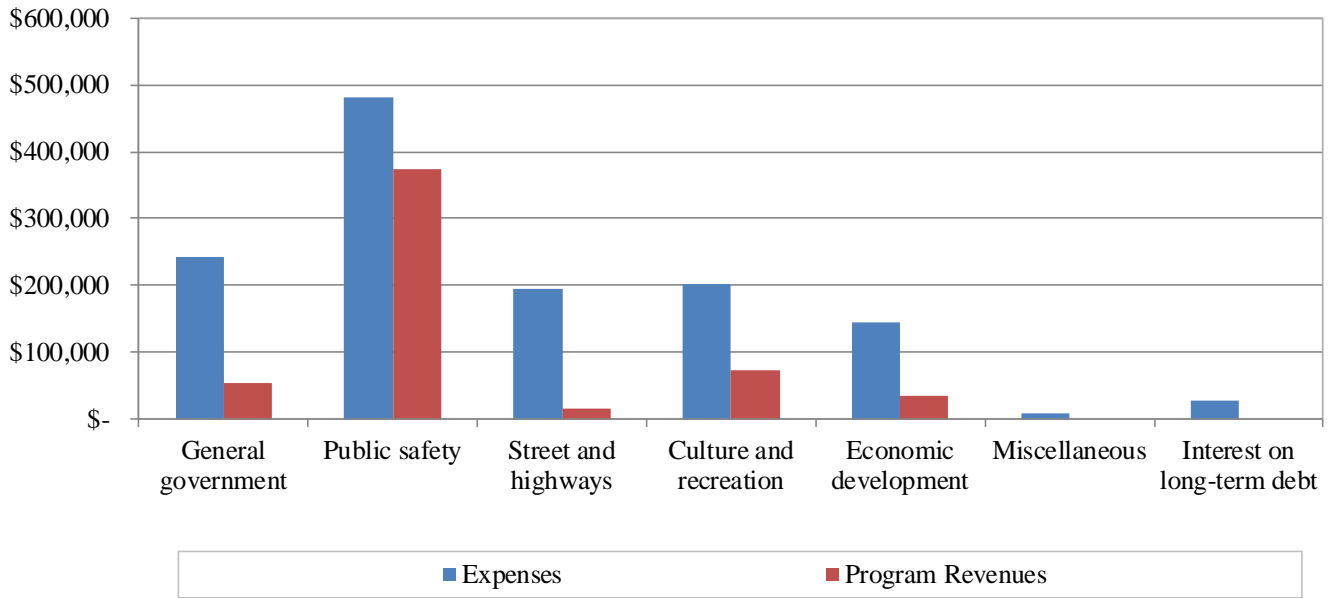
City of Harmony's Changes in Net Position

	Governmental Activities			Business-type Activities		
	2015	2014	Increase (Decrease)	2015	2014	Increase (Decrease)
Revenues						
Program revenues						
Charges for services	\$ 346,523	\$ 343,838	\$ 2,685	\$ 1,558,087	\$ 1,612,658	\$ (54,571)
Operating grants and contributions	109,644	85,157	24,487	-	-	-
Capital grants and contributions	95,758	317,691	(221,933)	219,618	-	219,618
General revenues						
Property taxes/tax increments	561,943	561,942	1	-	-	-
Other taxes	4,282	4,265	17	-	-	-
Grants and contributions not restricted to specific programs	342,539	340,683	1,856	-	-	-
Unrestricted investment earnings	4,262	3,225	1,037	2,370	1,623	747
Gain on sale of fixed assets	7,730	-	7,730	-	-	-
Other	25,118	8,762	16,356	6,352	7,738	(1,386)
Total revenues	<u>1,497,799</u>	<u>1,665,563</u>	<u>(167,764)</u>	<u>1,786,427</u>	<u>1,622,019</u>	<u>164,408</u>
Expenses						
General government	241,968	239,922	2,046	-	-	-
Public safety	481,036	446,487	34,549	-	-	-
Streets and highways	194,636	270,820	(76,184)	-	-	-
Culture and recreation	201,994	172,249	29,745	-	-	-
Economic development	143,549	250,618	(107,069)	-	-	-
Miscellaneous	8,186	2,603	5,583	-	-	-
Interest on long-term debt	28,438	36,529	(8,091)	-	-	-
Water utility	-	-	-	132,019	142,941	(10,922)
Sewer utility	-	-	-	269,975	297,534	(27,559)
Electric utility	-	-	-	954,515	959,098	(4,583)
Refuse and recycling	-	-	-	63,851	61,805	2,046
Storm sewer	-	-	-	28,956	29,237	(281)
Total expenses	<u>1,299,807</u>	<u>1,419,228</u>	<u>(119,421)</u>	<u>1,449,316</u>	<u>1,490,615</u>	<u>(41,299)</u>
Increase (decrease) in net assets before transfers	197,992	246,335	(48,343)	337,111	131,404	205,707
Transfers of capital assets	-	(239,511)	239,511	-	239,511	(239,511)
Transfers	(51,500)	68,500	(120,000)	51,500	(68,500)	120,000
Change in net position	146,492	75,324	71,168	388,611	302,415	86,196
Net position - January 1	<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>
Net position - December 31	<u>\$ 4,563,970</u>	<u>\$ 4,417,478</u>	<u>\$ 146,492</u>	<u>\$ 4,780,681</u>	<u>\$ 4,392,070</u>	<u>\$ 388,611</u>

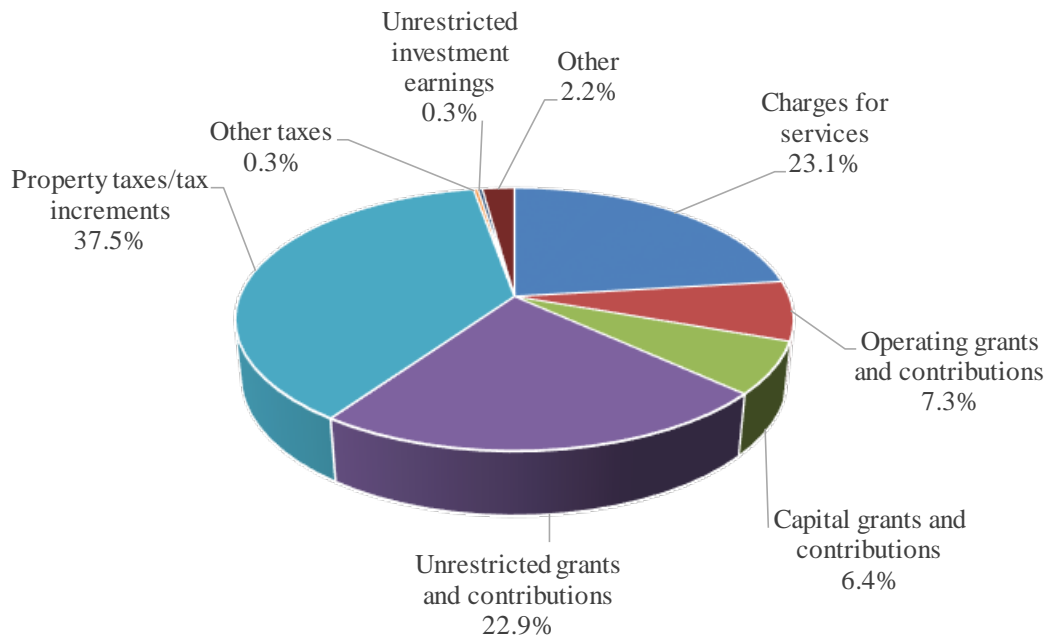
Property tax levies remained flat during the year.

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

Expenses and Program Revenues - Governmental Activities

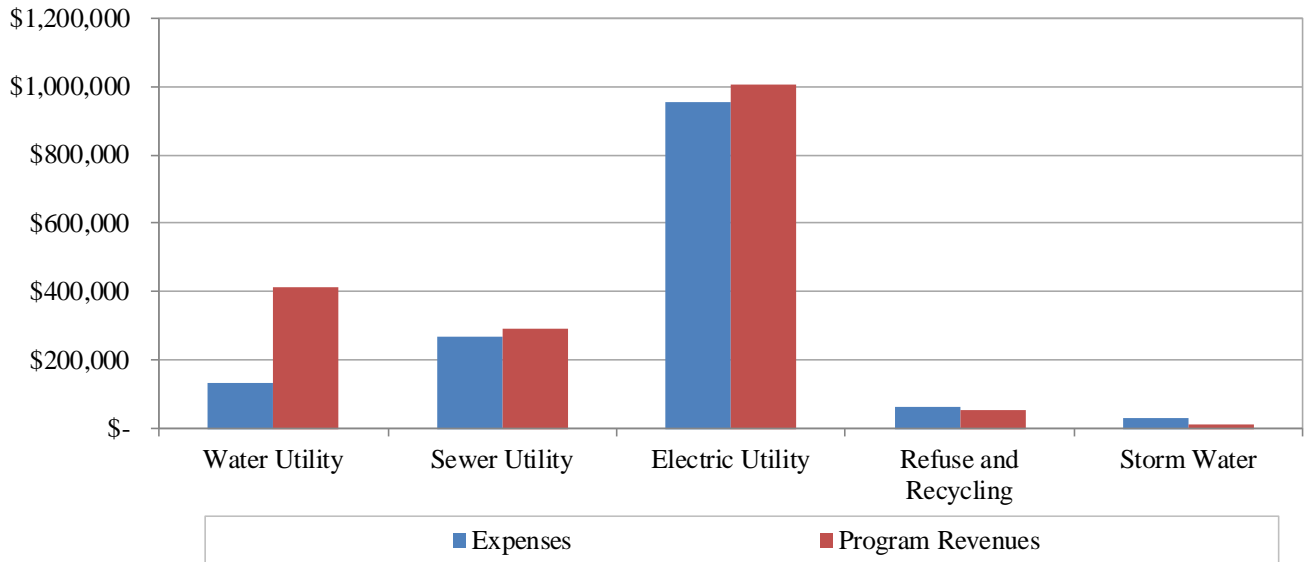


Revenues by Source - Governmental Activities

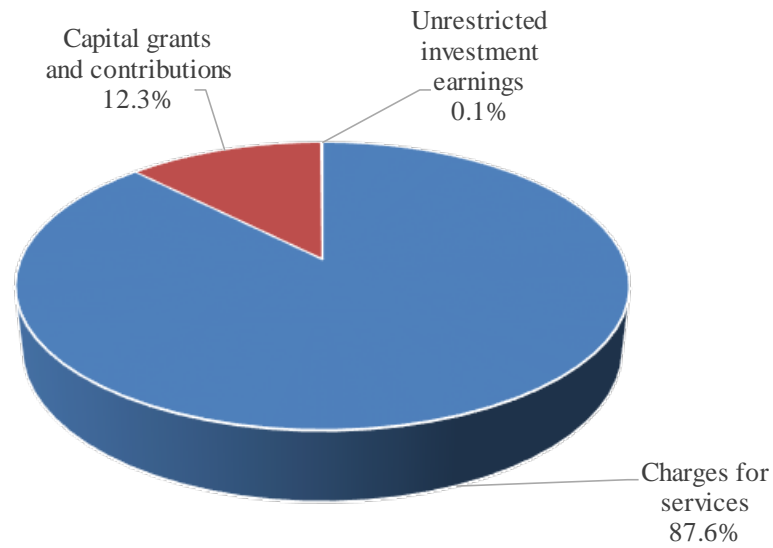


Business-type activities. Business-type activities increased the City's net position by \$388,611.

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 \$2,039,739, an increase of \$255,634 in comparison with the prior year. Approximately 13.3 percent of the total amount, \$271,446, 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) nonspendable (\$53,617) 2) restricted (\$547,734), 3) committed (\$575,819), or 4) assigned (\$591,123).

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 \$771,600, \$462,957 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 129.8 percent of fund expenditures.

The fund balance of the City's General fund increased by \$96,756 during the current fiscal year. The key factors in this increase were:

- Miscellaneous revenues in excess of budget by \$38,268.
- Intergovernmental revenue in excess of budget by \$63,458.

The Fire fund has a total deficit fund balance of \$83,459, of which \$4,394 is nonspendable and the remainder unassigned. The net increase in fund balance during the current year in this fund was \$49,857. This was due to \$29,497 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 a fire truck.

The Ambulance fund has a total fund balance of \$188,878, of which \$1,966 is nonspendable and the remainder assigned for ambulance services. The net decrease in fund balance during the current year in this fund was \$13,470. This was due to a \$37,500 transfer out for building funding and future capital outlay expenditures.

The Revolving Loan fund has a total fund balance of \$305,483, all of which is restricted for current and future loans. The net increase in fund balance during the current year in this fund was \$5,402 due to interest revenue exceeding expenses during the year and no additional loans made during the year.

The Economic Development Authority fund has a total fund balance of \$121,929, of which \$10 is nonspendable, \$38,101 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 \$6,475 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 fund balance of \$0. The net increase in fund balance during the current year in this fund was \$34,493 due a transfer from the general fund of \$21,291 to cover the cash deficit in the fund.

The Capital Projects fund has a total fund balance of \$537,718, all of which is committed for future capital outlay. The net increase in fund balance during the current year in this fund was \$6,855 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 \$1,029,092. The total growth in net position for the funds was \$388,611. 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 \$118,411 and expenditures were over budget by \$39,972 in 2015. The General fund budgeted for an increase in reserves by \$608.

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, 2015, amounts to \$7,386,329 (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 6.3 percent (a 3.7 percent decrease for governmental activities and a 15.2 percent increase for business-type activities).

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

- The purchase of a civil defense siren and a generator for \$56,608. A grant was received to offset the costs of \$35,000.
- The purchase of a 2016 Ford truck for \$59,605.
- The City started construction on a wastewater treatment plant and paid \$194,579 during the year.
- The City continued construction for Well No. 3 and a Wellhouse and paid \$504,888 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		
	2015	2014	Increase (Decrease)	2015	2014	Increase (Decrease)
Land	\$ 312,031	\$ 314,318	\$ (2,287)	\$ 36,415	\$ 20,550	\$ 15,865
Construction in progress	-	-	-	747,650	48,183	699,467
Buildings and improvements	629,324	661,159	(31,835)	971,052	1,041,470	(70,418)
Systems and infrastructure	1,365,778	1,445,103	(79,325)	2,355,217	2,426,624	(71,407)
Equipment and machinery	250,715	239,589	11,126	132,015	144,290	(12,275)
Vehicles	586,132	604,495	(18,363)	-	-	-
Total	\$ 3,143,980	\$ 3,264,664	\$ (120,684)	\$ 4,242,349	\$ 3,681,117	\$ 561,232

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$1,385,760, 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		
	2015	2014	Increase (Decrease)	2015	2014	Increase (Decrease)
G.O. Improvement bonds	\$ 448,000	\$ 478,000	\$ (30,000)	\$ -	\$ -	\$ -
G.O. Tax Abatement bonds	447,000	500,000	(53,000)	-	-	-
G.O. Revenue bonds	-	-	-	490,760	313,000	177,760
Total	\$ 895,000	\$ 978,000	\$ (83,000)	\$ 490,760	\$ 313,000	\$ 177,760

The City's total debt increased by \$94,760, or 7.3 percent during the current fiscal year. This was due to the issuance of 2015 Public Facilities Authority bonds for \$210,760. There were also \$116,000 of other debt payments was paid during the year. Undrawn bond proceeds totaled \$646,340 in business-type activities.

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 \$1,361,032. 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 72 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Fillmore County is currently 3.9 percent, which is a decrease from a rate of 4.1 percent a year ago. This compares unfavorably to the State's average unemployment rate of 3.6 percent and favorable to the national average rate of 4.8 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 2016 fiscal year.

Property taxes will increase in 2016 by approximately 6.2 percent.

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 received 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, 2015

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CITY OF HARMONY, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2015

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and temporary investments	\$ 2,000,403	\$ 1,040,569	\$ 3,040,972
Receivables			
Interest	1,262	-	1,262
Delinquent taxes	43,966	-	43,966
Accounts	62,320	138,958	201,278
Loans	184,324	-	184,324
Special assessments	299,049	9,137	308,186
Intergovernmental	5,095	8,858	13,953
Internal balances	(108,196)	108,196	-
Inventories	-	42,015	42,015
Prepaid items	25,926	15,986	41,912
Capital assets			
Nondepreciable land and construction in progress	312,031	784,065	1,096,096
Depreciable assets (net of accumulated depreciation)	2,831,949	3,458,284	6,290,233
TOTAL ASSETS	5,658,129	5,606,068	11,264,197
LIABILITIES AND NET POSITION			
LIABILITIES			
Accounts payable	124,737	280,871	405,608
Deposits payable	-	12,770	12,770
Due to other governments	21	5,066	5,087
Accrued interest payable	9,820	1,070	10,890
Accrued salaries payable	6,637	1,929	8,566
Noncurrent liabilities			
Due within one year	153,883	59,377	213,260
Due in more than one year	799,061	464,304	1,263,365
TOTAL LIABILITIES	1,094,159	825,387	1,919,546
NET POSITION			
Net investment in capital assets	2,695,980	3,751,589	6,447,569
Restricted			
Economic development	329,705	-	329,705
Streets	4,125	-	4,125
Unrestricted	1,534,160	1,029,092	2,563,252
TOTAL NET POSITION	\$ 4,563,970	\$ 4,780,681	\$ 9,344,651

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, 2015

<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	\$ 241,968	\$ 50,096	\$ -	\$ 3,321
Public safety	481,036	261,045	46,878	65,024
Streets and highways	194,636	1,884	-	14,282
Culture and recreation	201,994	14,305	59,622	-
Economic development	143,549	19,193	3,144	13,131
Miscellaneous	8,186	-	-	-
Interest and other costs	28,438	-	-	-
Total governmental activities	<u>1,299,807</u>	<u>346,523</u>	<u>109,644</u>	<u>95,758</u>
Business-type activities				
Water utility	132,019	195,971	-	219,618
Sewer utility	269,975	294,293	-	-
Electric utility	954,515	1,005,166	-	-
Refuse and recycling	63,851	52,655	-	-
Storm water	28,956	10,002	-	-
Total business-type activities	<u>1,449,316</u>	<u>1,558,087</u>	<u>-</u>	<u>219,618</u>
Total	<u>\$ 2,749,123</u>	<u>\$ 1,904,610</u>	<u>\$ 109,644</u>	<u>\$ 315,376</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
Gain on sale 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
\$ (188,551)		\$ (188,551)
(108,089)		(108,089)
(178,470)		(178,470)
(128,067)		(128,067)
(108,081)		(108,081)
(8,186)		(8,186)
(28,438)		(28,438)
<u>(747,882)</u>		<u>(747,882)</u>
	\$ 283,570	283,570
	24,318	24,318
	50,651	50,651
	(11,196)	(11,196)
	<u>(18,954)</u>	<u>(18,954)</u>
	328,389	328,389
<u>(747,882)</u>	<u>328,389</u>	<u>(419,493)</u>
417,021	-	417,021
130,318	-	130,318
14,604	-	14,604
4,282	-	4,282
342,539	-	342,539
4,262	2,370	6,632
25,118	6,352	31,470
7,730	-	7,730
<u>(51,500)</u>	<u>51,500</u>	<u>-</u>
<u>894,374</u>	<u>60,222</u>	<u>954,596</u>
146,492	388,611	535,103
<u>4,417,478</u>	<u>4,392,070</u>	<u>8,809,548</u>
<u>\$ 4,563,970</u>	<u>\$ 4,780,681</u>	<u>\$ 9,344,651</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, 2015

CITY OF HARMONY, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	101	222	223
	<u>General</u>	<u>Fire</u>	<u>Ambulance</u>
ASSETS			
Cash and temporary investments	\$ 783,064	\$ 21,023	\$ 133,757
Receivables			
Interest	1,262	-	-
Delinquent taxes	36,710	-	-
Accounts	194	4,125	58,001
Loans	-	-	-
Special assessments	3,087	-	-
Intergovernmental	3,768	-	-
Due from other funds	2,021	-	-
Advances to other funds	27,691	-	-
Prepaid items	16,892	4,394	1,966
	<u>16,892</u>	<u>4,394</u>	<u>1,966</u>
TOTAL ASSETS	<u><u>\$ 874,689</u></u>	<u><u>\$ 29,542</u></u>	<u><u>\$ 193,724</u></u>
LIABILITIES			
Accounts payable	\$ 60,189	\$ 3,793	\$ 2,539
Advances from other funds	-	109,208	-
Accrued salaries payable	3,092	-	2,307
Due to other funds	-	-	-
Due to other governments	11	-	-
	<u>11</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>63,292</u>	<u>113,001</u>	<u>4,846</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	36,710	-	-
Unavailable revenue - special assessments	3,087	-	-
	<u>3,087</u>	<u>-</u>	<u>-</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>39,797</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Nonspendable			
Prepaid items	16,892	4,394	1,966
Advances to other funds	27,691	-	-
Restricted			
Economic development	-	-	-
Streets	4,125	-	-
Debt service	-	-	-
Committed			
Capital outlay	-	-	-
Loans	-	-	-
Assigned			
Working capital	259,935	-	-
Economic development	-	-	-
Park and recreation	-	-	-
Public safety	-	-	186,912
Unassigned	462,957	(87,853)	-
	<u>462,957</u>	<u>(87,853)</u>	<u>-</u>
TOTAL FUND BALANCES	<u>771,600</u>	<u>(83,459)</u>	<u>188,878</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u><u>\$ 874,689</u></u>	<u><u>\$ 29,542</u></u>	<u><u>\$ 193,724</u></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
\$ 112,052	\$ 84,022	\$ 54,998	\$ 537,718	\$ 212,580	\$ 61,189	\$ 2,000,403
-	-	-	-	-	-	1,262
-	-	-	-	7,253	3	43,966
-	-	-	-	-	-	62,320
122,004	38,101	-	-	-	24,219	184,324
-	108,510	-	-	187,452	-	299,049
-	-	-	-	1,327	-	5,095
-	-	-	-	-	-	2,021
71,500	-	-	-	-	-	99,191
-	10	-	-	-	2,664	25,926
<u>\$ 305,556</u>	<u>\$ 230,643</u>	<u>\$ 54,998</u>	<u>\$ 537,718</u>	<u>\$ 408,612</u>	<u>\$ 88,075</u>	<u>\$ 2,723,557</u>
\$ 73	\$ 16	\$ 54,998	\$ -	\$ -	\$ 3,129	\$ 124,737
-	-	-	-	-	99,191	208,399
-	188	-	-	-	1,050	6,637
-	-	-	-	-	1,009	1,009
-	-	-	-	-	10	21
<u>73</u>	<u>204</u>	<u>54,998</u>	<u>-</u>	<u>-</u>	<u>104,389</u>	<u>340,803</u>
-	-	-	-	7,253	3	43,966
-	108,510	-	-	187,452	-	299,049
-	108,510	-	-	194,705	3	343,015
-	10	-	-	-	2,664	25,926
-	-	-	-	-	-	27,691
305,483	-	-	-	-	24,219	329,702
-	-	-	-	-	-	4,125
-	-	-	-	213,907	-	213,907
-	-	-	537,718	-	-	537,718
-	38,101	-	-	-	-	38,101
-	-	-	-	-	-	259,935
-	83,818	-	-	-	4,484	88,302
-	-	-	-	-	55,974	55,974
-	-	-	-	-	-	186,912
-	-	-	-	-	(103,658)	271,446
<u>305,483</u>	<u>121,929</u>	<u>-</u>	<u>537,718</u>	<u>213,907</u>	<u>(16,317)</u>	<u>2,039,739</u>
<u>\$ 305,556</u>	<u>\$ 230,643</u>	<u>\$ 54,998</u>	<u>\$ 537,718</u>	<u>\$ 408,612</u>	<u>\$ 88,075</u>	<u>\$ 2,723,557</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, 2015

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

Total fund balances - governmental funds	\$ 2,039,739
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds.	3,143,980
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	(57,944)
Bonds payable	(895,000)
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	43,966
Special assessments receivable	299,049
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(9,820)</u>
Total net position - governmental activities	<u><u>\$ 4,563,970</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, 2015

	101	222	223
	<u>General</u>	<u>Fire</u>	<u>Ambulance</u>
REVENUES			
Taxes	\$ 189,080	\$ 29,550	\$ -
Special assessments	2,982	-	-
Licenses and permits	7,752	-	-
Intergovernmental	415,874	57,157	29,871
Charges for services	883	3,790	176,165
Fines and forfeits	1,432	-	-
Investment earnings	1,580	84	439
Miscellaneous	71,568	33,772	5,935
TOTAL REVENUES	<u>691,151</u>	<u>124,353</u>	<u>212,410</u>
EXPENDITURES			
Current			
General government	90,805	-	-
Government buildings	115,731	-	-
Public safety	132,625	59,571	188,380
Streets and highways	98,595	-	-
Culture and recreation	10,252	-	-
Economic development	6,870	-	-
Miscellaneous	8,186	-	-
Capital outlay			
General government	10,127	-	-
Public safety	56,608	2,425	-
Streets and highways	64,805	-	-
Debt service			
Principal	-	-	-
Interest and other costs	-	-	-
TOTAL EXPENDITURES	<u>594,604</u>	<u>61,996</u>	<u>188,380</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>96,547</u>	<u>62,357</u>	<u>24,030</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	115,000	12,500	-
Sale of capital assets	-	-	-
Transfers out	(114,791)	(25,000)	(37,500)
TOTAL OTHER FINANCING SOURCES (USES)	<u>209</u>	<u>(12,500)</u>	<u>(37,500)</u>
NET CHANGE IN FUND BALANCES	96,756	49,857	(13,470)
FUND BALANCES, JANUARY 1	<u>674,844</u>	<u>(133,316)</u>	<u>202,348</u>
FUND BALANCES, DECEMBER 31	<u>\$ 771,600</u>	<u>\$ (83,459)</u>	<u>\$ 188,878</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	\$ -	\$ -	\$ 130,318	\$ 134,885	\$ 581,333
-	13,131	-	-	58,800	-	74,913
-	-	-	-	-	-	7,752
-	-	-	-	-	31,241	534,143
-	-	-	-	-	2,428	183,266
-	-	-	-	-	370	1,802
206	129	-	1,355	402	67	4,262
7,561	6,827	14,098	-	-	34,132	173,893
<u>7,767</u>	<u>117,587</u>	<u>14,098</u>	<u>1,355</u>	<u>189,520</u>	<u>203,123</u>	<u>1,561,364</u>
-	-	-	-	-	-	90,805
-	-	-	-	-	-	115,731
-	-	-	-	-	-	380,576
-	-	-	-	-	-	98,595
-	-	-	-	-	169,700	179,952
2,365	109,079	-	-	-	24,958	143,272
-	-	-	-	-	-	8,186
-	-	-	-	-	-	10,127
-	-	-	-	-	-	59,033
-	-	846	-	-	-	65,651
-	-	-	-	83,000	-	83,000
-	-	50	-	27,891	1,378	29,319
<u>2,365</u>	<u>109,079</u>	<u>896</u>	<u>-</u>	<u>110,891</u>	<u>196,036</u>	<u>1,264,247</u>
<u>5,402</u>	<u>8,508</u>	<u>13,202</u>	<u>1,355</u>	<u>78,629</u>	<u>7,087</u>	<u>297,117</u>
-	15,000	21,291	185,500	2,500	-	351,791
-	10,017	-	-	-	-	10,017
-	(40,000)	-	(180,000)	-	(6,000)	(403,291)
-	(14,983)	21,291	5,500	2,500	(6,000)	(41,483)
5,402	(6,475)	34,493	6,855	81,129	1,087	255,634
300,081	128,404	(34,493)	530,863	132,778	(17,404)	1,784,105
<u>\$ 305,483</u>	<u>\$ 121,929</u>	<u>\$ -</u>	<u>\$ 537,718</u>	<u>\$ 213,907</u>	<u>\$ (16,317)</u>	<u>\$ 2,039,739</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, 2015

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

Net change in fund balances - governmental funds	\$ 255,634
<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	133,965
Depreciation expense	(252,362)
<p>The net effect of various miscellaneous transactions involving capital assets.</p>	
Book value of capital assets sold	(2,287)
<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>	
Principal repayments	83,000
<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>	
	881
<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>	
	(6,845)
<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	(64,450)
<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	<u>(1,044)</u>
Change in net position - governmental activities	<u><u>\$ 146,492</u></u>

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, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 176,299	\$ 176,299	\$ 189,080	\$ 12,781
Special assessments	1,500	1,500	2,982	1,482
Licenses and permits	6,375	6,375	7,752	1,377
Intergovernmental	352,416	352,416	415,874	63,458
Charges for services	600	600	883	283
Fines and forfeits	750	750	1,432	682
Investment earnings	1,500	1,500	1,580	80
Miscellaneous	33,300	33,300	71,568	38,268
TOTAL REVENUES	572,740	572,740	691,151	118,411
EXPENDITURES				
Current				
General government	234,844	234,844	206,536	28,308
Public safety	115,033	115,033	132,625	(17,592)
Streets and highways	159,081	159,081	98,595	60,486
Culture and recreation	6,575	6,575	10,252	(3,677)
Economic development	8,000	8,000	6,870	1,130
Miscellaneous	7,599	7,599	8,186	(587)
Capital outlay				
General government	1,000	1,000	10,127	(9,127)
Public safety	22,500	22,500	56,608	(34,108)
Streets and highways	-	-	64,805	(64,805)
TOTAL EXPENDITURES	554,632	554,632	594,604	(39,972)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	18,108	18,108	96,547	78,439
OTHER FINANCING SOURCES (USES)				
Transfers in	73,500	73,500	115,000	41,500
Transfers out	(91,000)	(91,000)	(114,791)	(23,791)
TOTAL OTHER FINANCING SOURCES (USES)	(17,500)	(17,500)	209	17,709
NET CHANGE IN FUND BALANCES	608	608	96,756	96,148
FUND BALANCES, JANUARY 1	674,844	674,844	674,844	-
FUND BALANCES, DECEMBER 31	<u>\$ 675,452</u>	<u>\$ 675,452</u>	<u>\$ 771,600</u>	<u>\$ 96,148</u>

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, 2015
(With Comparative Actual Amounts for Year Ended December 31, 2014)

	2015				2014
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Property taxes	\$ 29,550	\$ 29,550	\$ 29,550	\$ -	\$ 29,550
Intergovernmental	42,500	42,500	57,157	14,657	43,327
Charges for services	5,000	5,000	3,790	(1,210)	7,340
Investment earnings	-	-	84	84	60
Miscellaneous					
Contributions and donations	-	-	29,497	29,497	10,615
Other	3,500	3,500	4,275	775	530
TOTAL REVENUES	80,550	80,550	124,353	43,803	91,422
EXPENDITURES					
Current					
Public safety					
Personal services	14,369	14,369	24,310	(9,941)	15,225
Supplies	10,550	10,550	6,742	3,808	9,891
Other services	22,565	22,565	18,940	3,625	19,105
Other charges	9,150	9,150	9,579	(429)	13,967
Capital outlay					
Public safety					
Fire	34,000	34,000	2,425	31,575	-
TOTAL EXPENDITURES	90,634	90,634	61,996	28,638	58,188
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(10,084)	(10,084)	62,357	72,441	33,234
OTHER FINANCING SOURCES (USES)					
Transfers in	12,500	12,500	12,500	-	12,500
Transfers out	(35,000)	(35,000)	(25,000)	10,000	(25,000)
TOTAL OTHER FINANCING SOURCES (USES)	(22,500)	(22,500)	(12,500)	10,000	(12,500)
NET CHANGE IN FUND BALANCES	(32,584)	(32,584)	49,857	82,441	20,734
FUND BALANCES, JANUARY 1	(133,316)	(133,316)	(133,316)	-	(154,050)
FUND BALANCES, DECEMBER 31	\$ (165,900)	\$ (165,900)	\$ (83,459)	\$ 82,441	\$ (133,316)

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, 2015
 (With Comparative Actual Amounts for Year Ended December 31, 2014)

	2015				2014
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Intergovernmental	\$ 21,196	\$ 21,196	\$ 29,871	\$ 8,675	\$ 19,796
Charges for services	160,000	160,000	176,165	16,165	171,939
Investment earnings	1,000	1,000	439	(561)	421
Miscellaneous					
Other	5,500	5,500	5,935	435	32,649
TOTAL REVENUES	<u>187,696</u>	<u>187,696</u>	<u>212,410</u>	<u>24,714</u>	<u>224,805</u>
EXPENDITURES					
Current					
Public safety					
Personal services	93,258	93,258	123,128	(29,870)	104,316
Supplies	14,700	14,700	9,177	5,523	16,076
Other services	20,113	20,113	17,602	2,511	19,027
Other charges	43,720	43,720	38,473	5,247	39,195
Capital outlay					
Public safety	30,000	30,000	-	30,000	49,447
TOTAL EXPENDITURES	<u>201,791</u>	<u>201,791</u>	<u>188,380</u>	<u>13,411</u>	<u>228,061</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(14,095)	(14,095)	24,030	38,125	(3,256)
OTHER FINANCING SOURCES (USES)					
Transfers out	(37,500)	(37,500)	(37,500)	-	(37,500)
NET CHANGE IN FUND BALANCES	(51,595)	(51,595)	(13,470)	38,125	(40,756)
FUND BALANCES, JANUARY 1	<u>202,348</u>	<u>202,348</u>	<u>202,348</u>	<u>-</u>	<u>243,104</u>
FUND BALANCES, DECEMBER 31	<u>\$ 150,753</u>	<u>\$ 150,753</u>	<u>\$ 188,878</u>	<u>\$ 38,125</u>	<u>\$ 202,348</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, 2015
 (With Comparative Actual Amounts for Year Ended December 31, 2014)

	2015				2014
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Investment earnings	\$ 500	\$ 500	\$ 206	\$ (294)	\$ 266
Miscellaneous					
Loan interest	8,500	8,500	6,811	(1,689)	14,613
Other	250	250	750	500	250
TOTAL REVENUES	9,250	9,250	7,767	(1,483)	15,129
EXPENDITURES					
Current					
Economic development					
Other services and charges	1,000	1,000	2,365	(1,365)	25,438
Loans made	25,000	25,000	-	25,000	-
TOTAL EXPENDITURES	26,000	26,000	2,365	23,635	25,438
NET CHANGE IN FUND BALANCES	(16,750)	(16,750)	5,402	22,152	(10,309)
FUND BALANCES, JANUARY 1	300,081	300,081	300,081	-	310,390
FUND BALANCES, DECEMBER 31	<u>\$ 283,331</u>	<u>\$ 283,331</u>	<u>\$ 305,483</u>	<u>\$ 22,152</u>	<u>\$ 300,081</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, 2015
(With Comparative Actual Amounts for Year Ended December 31, 2014)

	2015				2014
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Property taxes	\$ 97,500	\$ 97,500	\$ 97,500	\$ -	\$ 97,500
Special assessments	2,700	2,700	13,131	10,431	4,161
Investment earnings	-	-	129	129	66
Miscellaneous					
Contributions and donations	-	-	500	500	26,179
Rents	-	-	3,000	3,000	-
Other	-	-	3,327	3,327	5,351
TOTAL REVENUES	100,200	100,200	117,587	17,387	133,257
EXPENDITURES					
Current					
Economic development					
Personal services	16,041	16,041	16,707	(666)	15,647
Supplies	250	250	-	250	352
Other services and charges	100,433	100,433	92,372	8,061	125,207
TOTAL EXPENDITURES	116,724	116,724	109,079	7,645	141,206
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(16,524)	(16,524)	8,508	25,032	(7,949)
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	-	-	10,017	10,017	-
Transfers in	15,000	15,000	15,000	-	15,000
Transfers out	-	-	(40,000)	(40,000)	(40,000)
TOTAL FINANCING SOURCES (USES)	15,000	15,000	(14,983)	(29,983)	(25,000)
NET CHANGE IN FUND BALANCES	(1,524)	(1,524)	(6,475)	(4,951)	(32,949)
FUND BALANCES, JANUARY 1	128,404	128,404	128,404	-	161,353
FUND BALANCES, DECEMBER 31	\$ 126,880	\$ 126,880	\$ 121,929	\$ (4,951)	\$ 128,404

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

CITY OF HARMONY, MINNESOTA
STATEMENTS OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2015 AND 2014

	Business-type Activities - Enterprise Funds			
	601		602	
	Water Utility		Sewer Utility	
	2015	2014	2015	2014
ASSETS				
CURRENT ASSETS				
Cash and temporary investments	\$ 181,873	\$ 126,406	\$ 182,525	\$ 179,985
Receivables				
Accounts	25,845	27,284	28,625	29,472
Special assessments	-	-	2,945	3,681
Intergovernmental	8,858	-	-	-
Advance to other funds - current	-	-	-	-
Inventories	16,058	12,395	-	-
Prepaid items	3,620	3,558	4,669	4,828
TOTAL CURRENT ASSETS	236,254	169,643	218,764	217,966
NONCURRENT ASSETS				
Advance to other funds	-	-	-	-
Capital assets, at cost				
Land	17,015	1,150	14,400	14,400
Construction in Progress	553,071	48,183	194,579	-
Buildings and improvements	-	-	1,925,510	1,925,510
Systems and infrastructure	926,984	926,984	658,772	658,772
Equipment and machinery	138,621	138,621	84,924	73,841
Vehicles	-	-	-	-
Less accumulated depreciation	(295,264)	(269,871)	(1,216,322)	(1,127,584)
Total capital assets (net of accumulated depreciation)	1,340,427	845,067	1,661,863	1,544,939
TOTAL NONCURRENT ASSETS	1,340,427	845,067	1,661,863	1,544,939
TOTAL ASSETS	1,576,681	1,014,710	1,880,627	1,762,905
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	29,413	29,090	141,053	11,705
Deposits payable	-	-	-	-
Due to other governments	169	157	-	-
Due to other funds	-	-	-	-
Accrued salaries payable	644	563	879	815
Accrued interest payable	137	-	933	1,043
Bonds payable - current	11,100	-	34,000	33,000
Compensated absences payable - current	3,985	4,786	5,726	6,799
TOTAL CURRENT LIABILITIES	45,448	34,596	182,591	53,362
NONCURRENT LIABILITIES				
Compensated absences payable, noncurrent	5,679	4,654	7,604	6,468
Bonds payable, noncurrent	199,660	-	246,000	280,000
TOTAL NONCURRENT LIABILITIES	205,339	4,654	253,604	286,468
TOTAL LIABILITIES	250,787	39,250	436,195	339,830
NET POSITION				
Net investment in capital assets	1,129,667	845,067	1,381,863	1,231,939
Unrestricted	196,227	130,393	62,569	191,136
TOTAL NET POSITION	\$ 1,325,894	\$ 975,460	\$ 1,444,432	\$ 1,423,075

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

Business-type Activities - Enterprise Funds

603		604		605		Totals	
Refuse and Recycling		Electric Utility		Storm Water Utility			
2015	2014	2015	2014	2015	2014	2015	2014
\$ 561	\$ 5,141	\$ 675,242	\$ 526,555	\$ 368	\$ -	\$ 1,040,569	\$ 838,087
4,657	4,570	78,965	92,578	866	832	138,958	154,736
-	-	6,192	4,162	-	-	9,137	7,843
-	-	-	-	-	-	8,858	-
-	-	12,173	12,173	-	-	12,173	12,173
-	-	25,957	26,235	-	-	42,015	38,630
42	40	6,765	6,768	890	915	15,986	16,109
5,260	9,751	805,294	668,471	2,124	1,747	1,267,696	1,067,578
-	-	97,035	137,054	-	-	97,035	137,054
-	-	5,000	5,000	-	-	36,415	20,550
-	-	-	-	-	-	747,650	48,183
-	-	187,008	187,008	-	-	2,112,518	2,112,518
-	-	1,575,265	1,552,813	764,100	764,100	3,925,121	3,902,669
-	-	33,825	38,347	40,971	40,971	298,341	291,780
-	-	28,700	28,700	-	-	28,700	28,700
-	-	(1,077,184)	(1,030,037)	(317,626)	(295,791)	(2,906,396)	(2,723,283)
-	-	752,614	781,831	487,445	509,280	4,242,349	3,681,117
-	-	849,649	918,885	487,445	509,280	4,339,384	3,818,171
5,260	9,751	1,654,943	1,587,356	489,569	511,027	5,607,080	4,885,749
250	2,389	110,155	82,110	-	-	280,871	125,294
-	-	12,770	12,645	-	-	12,770	12,645
213	213	4,684	5,528	-	-	5,066	5,898
-	-	-	-	1,012	1,012	1,012	1,012
145	195	257	420	4	4	1,929	1,997
-	-	-	-	-	-	1,070	1,043
-	-	-	-	-	-	45,100	33,000
1,517	1,438	2,744	2,644	305	372	14,277	16,039
2,125	4,235	130,610	103,347	1,321	1,388	362,095	196,928
1,605	1,782	3,415	3,567	341	280	18,644	16,751
-	-	-	-	-	-	445,660	280,000
1,605	1,782	3,415	3,567	341	280	464,304	296,751
3,730	6,017	134,025	106,914	1,662	1,668	826,399	493,679
-	-	752,614	781,831	487,445	509,280	3,751,589	3,368,117
1,530	3,734	768,304	698,611	462	79	1,029,092	1,023,953
\$ 1,530	\$ 3,734	\$ 1,520,918	\$ 1,480,442	\$ 487,907	\$ 509,359	\$ 4,780,681	\$ 4,392,070

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

CITY OF HARMONY, MINNESOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	Business-type Activities - Enterprise Funds			
	601		602	
	Water Utility		Sewer Utility	
	2015	2014	2015	2014
OPERATING REVENUES				
Charges for services	\$ 195,971	\$ 204,222	\$ 293,909	\$ 305,160
OPERATING EXPENSES				
Personal services	47,849	48,396	67,486	57,730
Supplies	3,762	8,623	18,261	26,823
Other services and charges	15,210	12,166	28,576	28,026
Insurance	4,780	4,211	6,368	6,121
Utilities	14,818	14,883	41,158	59,849
Purchased power	-	-	-	-
Repairs and maintenance	20,070	31,356	16,368	27,316
Depreciation	25,393	23,306	88,738	88,284
TOTAL OPERATING EXPENSES	131,882	142,941	266,955	294,149
OPERATING INCOME (LOSS)	64,089	61,281	26,954	11,011
NONOPERATING REVENUES (EXPENSES)				
Special assessments	-	-	184	234
Other income	-	563	200	1,013
Investment earnings	364	267	539	321
Interest and other expense	(137)	-	(3,020)	(3,385)
TOTAL NONOPERATING REVENUES (EXPENSES)	227	830	(2,097)	(1,817)
INCOME (LOSS) BEFORE CONTRIBUTIONS	64,316	62,111	24,857	9,194
CAPITAL CONTRIBUTIONS	219,618	-	-	-
CAPITAL CONTRIBUTIONS FROM GOVERNMENTAL FUNDS	-	225,442	-	12,584
TRANSFERS IN	100,000	-	-	-
TRANSFERS OUT	(33,500)	(33,500)	(3,500)	(3,500)
CHANGE IN NET POSITION	350,434	254,053	21,357	18,278
NET POSITION, JANUARY 1	975,460	721,407	1,423,075	1,404,797
NET POSITION, DECEMBER 31	\$ 1,325,894	\$ 975,460	\$ 1,444,432	\$ 1,423,075

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

Business-type Activities - Enterprise Funds

603		604		605		Totals	
Refuse and Recycling		Electric Utility		Storm Water Utility			
2015	2014	2015	2014	2015	2014	2015	2014
\$ 52,655	\$ 52,888	\$ 999,284	\$ 1,024,763	\$ 9,628	\$ 9,656	\$ 1,551,447	\$ 1,596,689
14,557	14,732	25,792	26,484	3,089	1,902	158,773	149,244
778	1,196	4,592	2,530	518	372	27,911	39,544
44,516	43,727	11,414	11,667	-	-	99,716	95,586
-	-	9,712	9,174	1,296	1,291	22,156	20,797
-	-	18,306	20,584	-	-	74,282	95,316
-	-	799,724	818,993	-	-	799,724	818,993
4,000	2,150	37,828	22,615	2,218	3,839	80,484	87,276
-	-	47,147	47,051	21,835	21,833	183,113	180,474
63,851	61,805	954,515	959,098	28,956	29,237	1,446,159	1,487,230
(11,196)	(8,917)	44,769	65,665	(19,328)	(19,581)	105,288	109,459
-	-	2,383	3,819	-	-	2,567	4,053
-	-	9,851	18,078	374	-	10,425	19,654
(8)	26	1,473	1,012	2	(3)	2,370	1,623
-	-	-	-	-	-	(3,157)	(3,385)
(8)	26	13,707	22,909	376	(3)	12,205	21,945
(11,204)	(8,891)	58,476	88,574	(18,952)	(19,584)	117,493	131,404
-	-	-	-	-	-	219,618	-
-	-	-	1,485	-	-	-	239,511
10,000	-	-	-	-	-	110,000	-
(1,000)	(11,000)	(18,000)	(18,000)	(2,500)	(2,500)	(58,500)	(68,500)
(2,204)	(19,891)	40,476	72,059	(21,452)	(22,084)	388,611	302,415
3,734	23,625	1,480,442	1,408,383	509,359	531,443	4,392,070	4,089,655
\$ 1,530	\$ 3,734	\$ 1,520,918	\$ 1,480,442	\$ 487,907	\$ 509,359	\$ 4,780,681	\$ 4,392,070

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

CITY OF HARMONY, MINNESOTA
STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	Business-type Activities - Enterprise Funds			
	601		602	
	Water Utility		Sewer Utility	
	2015	2014	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 197,410	\$ 197,981	\$ 294,756	\$ 307,151
Payments to suppliers and vendors	(37,558)	(70,781)	(109,667)	(143,096)
Payments to and on behalf of employees	(47,544)	(48,727)	(67,359)	(58,345)
Other receipts	-	563	200	1,013
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	112,308	79,036	117,930	106,723
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Principal received on advances to other funds	-	-	-	-
Transfers from other funds	100,000	-	-	-
Transfers to other funds	(33,500)	(33,500)	(3,500)	(3,500)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	66,500	(33,500)	(3,500)	(3,500)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Special assessments received	-	-	920	971
Acquisition of capital assets	(545,225)	(23,711)	(77,219)	-
Principal paid on bonds payable	-	-	(33,000)	(64,452)
Interest and fees paid on bonds payable	-	-	(3,130)	(3,986)
Net proceeds on sale	-	-	-	-
Intergovernmental contributions for capital assets	219,618	-	-	-
Proceeds from bonds issued	201,902	-	-	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(123,705)	(23,711)	(112,429)	(67,467)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received on cash and temporary investments	364	267	539	321
NET INCREASE (DECREASE) IN CASH AND TEMPORARY INVESTMENTS	55,467	22,092	2,540	36,077
CASH AND TEMPORARY INVESTMENTS, JANUARY 1	126,406	104,314	179,985	143,908
CASH AND TEMPORARY INVESTMENTS, DECEMBER 31	\$ 181,873	\$ 126,406	\$ 182,525	\$ 179,985
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 64,089	\$ 61,281	\$ 26,954	\$ 11,011
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Other income related to operations	-	563	200	1,013
Depreciation	25,393	23,306	88,738	88,284
(Increase) decrease in assets				
Accounts receivable	1,439	(6,241)	847	1,991
Inventories	(3,663)	(937)	-	-
Prepaid items	(62)	(751)	159	(396)
Increase (decrease) in liabilities				
Accounts payable	24,795	2,233	905	5,435
Due to other governments	12	(87)	-	-
Deposits payable	-	-	-	-
Accrued salaries payable	81	29	64	(7)
Compensated absences payable	224	(360)	63	(608)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 112,308	\$ 79,036	\$ 117,930	\$ 106,723
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Capital contributions				
Infrastructure contributed from governmental funds	\$ -	\$ 225,442	\$ -	\$ 12,584
Capital assets acquired on account	-	24,472	128,443	-

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

Business-type Activities - Enterprise Funds

603		604		605		Totals	
Refuse and Recycling		Electric Utility		Storm Water Utility			
2015	2014	2015	2014	2015	2014	2015	2014
\$ 52,568	\$ 53,680	\$ 1,012,897	\$ 1,038,729	\$ 9,594	\$ 9,684	\$ 1,567,225	\$ 1,607,225
(51,435)	(44,698)	(853,969)	(888,206)	(4,007)	(5,520)	(1,056,636)	(1,152,301)
(14,705)	(14,162)	(26,007)	(25,839)	(3,095)	(1,828)	(158,710)	(148,901)
-	-	9,851	18,078	374	-	10,425	19,654
(13,572)	(5,180)	142,772	142,762	2,866	2,336	362,304	325,677
-	-	40,019	22,787	-	167	40,019	22,954
10,000	-	-	-	-	-	110,000	-
(1,000)	(11,000)	(18,000)	(18,000)	(2,500)	(2,500)	(58,500)	(68,500)
9,000	(11,000)	22,019	4,787	(2,500)	(2,333)	91,519	(45,546)
-	-	353	197	-	-	1,273	1,168
-	-	(22,452)	(27,054)	-	-	(644,896)	(50,765)
-	-	-	-	-	-	(33,000)	(64,452)
-	-	-	-	-	-	(3,130)	(3,986)
-	-	4,522	-	-	-	4,522	-
-	-	-	-	-	-	219,618	-
-	-	-	-	-	-	201,902	-
-	-	(17,577)	(26,857)	-	-	(253,711)	(118,035)
(8)	26	1,473	1,012	2	(3)	2,370	1,623
(4,580)	(16,154)	148,687	121,704	368	-	202,482	163,719
5,141	21,295	526,555	404,851	-	-	838,087	674,368
<u>\$ 561</u>	<u>\$ 5,141</u>	<u>\$ 675,242</u>	<u>\$ 526,555</u>	<u>\$ 368</u>	<u>\$ -</u>	<u>\$ 1,040,569</u>	<u>\$ 838,087</u>
\$ (11,196)	\$ (8,917)	\$ 44,769	\$ 65,665	\$ (19,328)	\$ (19,581)	\$ 105,288	\$ 109,459
-	-	9,851	18,078	374	-	10,425	19,654
-	-	47,147	47,051	21,835	21,833	183,113	180,474
(87)	792	13,613	13,966	(34)	28	15,778	10,536
-	-	278	(1,441)	-	-	(3,385)	(2,378)
(2)	(13)	3	(524)	25	(18)	123	(1,702)
(2,139)	2,389	28,045	(1,648)	-	-	51,606	8,409
-	(1)	(844)	(1)	-	-	(832)	(89)
-	-	125	971	-	-	125	971
(50)	61	(163)	124	-	1	(68)	208
(98)	509	(52)	521	(6)	73	131	135
<u>\$ (13,572)</u>	<u>\$ (5,180)</u>	<u>\$ 142,772</u>	<u>\$ 142,762</u>	<u>\$ 2,866</u>	<u>\$ 2,336</u>	<u>\$ 362,304</u>	<u>\$ 325,677</u>
\$ -	\$ -	\$ -	\$ 1,485	\$ -	\$ -	\$ -	\$ 239,511
-	-	-	-	-	-	128,443	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, 2015

ASSETS	
Cash and cash equivalents	<u>\$ 10,207</u>
NET POSITION	
Unrestricted	<u>\$ 10,207</u>

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
FOR THE YEAR ENDED DECEMBER 31, 2015

ADDITIONS	
Investment income	\$ 103
DEDUCTIONS	
Expenditures	<u>-</u>
CHANGE IN NET POSITION	103
NET POSITION, JANUARY 1	<u>10,104</u>
NET POSITION, DECEMBER 31	<u><u>\$ 10,207</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, 2015

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 purpose 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, 2015

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, 2015

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, storm water, electric, and refuse and recycling 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.

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.

CITY OF HARMONY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. 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.
8. 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.
9. 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, 2015

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 2015. 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, 2015

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:

<u>Assets</u>	<u>Years</u>
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 2015 was \$90,865. The General fund is typically used to liquidate governmental compensated absences payable.

CITY OF HARMONY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

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, 2015

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".

Comparative data/reclassifications

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation.

CITY OF HARMONY, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2015

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	\$ 554,632	\$ 594,604	\$ 39,972

The above fund's 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, 2015:

Fund	Amount
Major	
Fire	\$ 83,459
Special Revenue	
Library	4,487
Capital Projects	
TIF District #5	27,576
TIF District #6	71,325

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, 2015

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, bonds, or irrevocable standby letters of credit from Federal Home Loan Banks.

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 \$2,772,868 and the bank balance was \$2,775,050. Of the bank balance, \$500,000 was covered by federal depository insurance. The remaining balance of \$2,275,050 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, 2015

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Investments

As of December 31, 2015, 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>\$ 278,146</u>

(1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.

N/A indicates not applicable or available.

(2) Interest rate risk is disclosed using the segmented time distribution method.

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.

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	\$ 2,772,868
Investments	278,146
Cash on hand	<u>165</u>
 Total cash and temporary investments	 <u>\$ 3,051,179</u>
 Cash and temporary investments	 \$ 3,040,972
Fiduciary fund cash	<u>10,207</u>
 Total	 <u>\$ 3,051,179</u>

CITY OF HARMONY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

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, 2015 is \$122,004.

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, 2015 was \$38,101.

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, 2015 is \$24,219. A portion of the commercial notes are paid back to the City which totals \$2,567. These loans are secured by equipment and other assets.

C. Capital assets

Capital asset activity for the City for the year ended December 31, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 314,318	\$ -	\$ (2,287)	\$ 312,031
Capital assets being depreciated				
Buildings and improvements	1,183,625	-	-	1,183,625
Systems and infrastructure	3,354,315	10,127	-	3,364,442
Equipment and machinery	595,301	64,233	(6,304)	653,230
Vehicles	1,231,773	59,605	-	1,291,378
Total capital assets being depreciated	6,365,014	133,965	(6,304)	6,492,675
Less accumulated depreciation for				
Buildings and improvements	(522,466)	(31,835)	-	(554,301)
Systems and infrastructure	(1,909,212)	(89,452)	-	(1,998,664)
Equipment and machinery	(355,712)	(53,107)	6,304	(402,515)
Vehicles	(627,278)	(77,968)	-	(705,246)
Total accumulated depreciation	(3,414,668)	(252,362)	6,304	(3,660,726)
Total capital assets being depreciated, net	2,950,346	(118,397)	-	2,831,949
Governmental activities capital assets, net	<u>\$ 3,264,664</u>	<u>\$ (118,397)</u>	<u>\$ (2,287)</u>	<u>\$ 3,143,980</u>

CITY OF HARMONY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

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	\$ 15,865	\$ -	\$ 36,415
Construction in progress	48,183	699,467	-	747,650
Total capital assets not being depreciated	<u>68,733</u>	<u>715,332</u>	<u>-</u>	<u>784,065</u>
Capital assets being depreciated				
Buildings and improvements	2,112,518	-	-	2,112,518
Systems and infrastructure	3,902,669	22,452	-	3,925,121
Equipment and machinery	291,780	6,561	-	298,341
Vehicles	28,700	-	-	28,700
Total capital assets being depreciated	<u>6,335,667</u>	<u>29,013</u>	<u>-</u>	<u>6,364,680</u>
Less accumulated depreciation for				
Buildings and improvements	(1,071,048)	(70,418)	-	(1,141,466)
Systems and infrastructure	(1,476,045)	(93,859)	-	(1,569,904)
Equipment and machinery	(147,490)	(18,836)	-	(166,326)
Vehicles	(28,700)	-	-	(28,700)
Total accumulated depreciation	<u>(2,723,283)</u>	<u>(183,113)</u>	<u>-</u>	<u>(2,906,396)</u>
Total capital assets being depreciated, net	<u>3,612,384</u>	<u>(154,100)</u>	<u>-</u>	<u>3,458,284</u>
Business-type activities capital assets, net	<u>\$ 3,681,117</u>	<u>\$ 561,232</u>	<u>\$ -</u>	<u>\$ 4,242,349</u>

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

Governmental activities		
General government		\$ 34,625
Public safety		101,014
Streets and highways		95,195
Culture and recreation		21,267
Economic development		261
Total depreciation expense - governmental activities		<u>\$ 252,362</u>
Business-type activities		
Water utility		\$ 25,393
Sewer utility		88,738
Electric utility		47,147
Storm water utility		21,835
Total depreciation expense - business-type activities		<u>\$ 183,113</u>

CITY OF HARMONY, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2015

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Construction commitment

The City has an active construction project as of December 31, 2015. At year end the City's commitments are as follows:

Project	Spent-to-Date	Remaining Commitment
Engineering, Well No. 3/Wellhouse	\$ 113,835	\$ 19,865
Construction, Well No. 3	373,675	21,581
Construction, Wellhouse	65,561	625,598
Construction, WWTP	98,641	170,359
Total	<u>\$ 651,712</u>	<u>\$ 837,403</u>

D. Interfund receivables, payables and transfers

The composition of interfund balances at December 31, 2015 is as follows:

Advances to/from other funds

Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental TIF District #5	\$ 27,691
Revolving Loan	Nonmajor governmental TIF District #6	71,500
Electric Utility	Fire	109,208
Totals		<u>\$ 208,399</u>

The General fund advanced \$27,691 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 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 \$109,208 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

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

CITY OF HARMONY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Interfund transfers

In the year ended December 31, 2015, the City made the following transfers:

Fund	Transfers in				
	General	Fire Fund	EDA	1st Ave SW Street Project	Capital Projects
Transfers out					
Governmental					
General	\$ -	\$ -	\$ -	\$ 21,291	\$ 91,000
Fire	-	-	-	-	25,000
Ambulance	-	12,500	-	-	25,000
EDA	40,000	-	-	-	-
Capital Projects	70,000	-	-	-	-
Nonmajor Governmental	-	-	-	-	6,000
Business-type					
Water Utility	1,000	-	-	-	32,500
Sewer Utility	1,000	-	-	-	2,500
Refuse Utility	1,000	-	-	-	-
Electric Utility	2,000	-	15,000	-	1,000
Storm Water Utility	-	-	-	-	2,500
Total	<u>\$ 115,000</u>	<u>\$ 12,500</u>	<u>\$ 15,000</u>	<u>\$ 21,291</u>	<u>\$ 185,500</u>
Transfers in					
Fund	Debt Service	Governmental Funds	Water Utility	Sewer Utility	Total
Transfers out					
Governmental					
General	\$ 2,500	\$ -	\$ -	\$ -	\$ 114,791
Fire	-	-	-	-	25,000
Ambulance	-	-	-	-	37,500
EDA	-	-	-	-	40,000
Capital Projects	-	-	100,000	10,000	180,000
Nonmajor Governmental	-	-	-	-	6,000
Business-type					
Water Utility	-	-	-	-	33,500
Sewer Utility	-	-	-	-	3,500
Refuse Utility	-	-	-	-	1,000
Electric Utility	-	-	-	-	18,000
Storm Water Utility	-	-	-	-	2,500
Total	<u>\$ 2,500</u>	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 10,000</u>	<u>\$ 461,791</u>

CITY OF HARMONY, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2015

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

During the year, transfers are used to 1) move revenues from the fund with collection authorization to the Debt Service fund as debt service principal and interest payments become due, 2) move General fund resources to provide an annual savings for future capital spending to the capital projects fund, 3) move special revenue resources in the ambulance fund to provide an annual savings for future capital spending to the fire fund and 4) move resources from the electric fund to the Economic Development Authority to cover operating expenditures. Further, during the year ended December 31, 2015, the government made the following one-time transfers:

- An operating transfer from the General fund to the 1st Ave SW Streets Project fund of \$21,291 to cover the cash deficit and close the fund.
- An operating transfer from the Capital Projects fund to the General fund of \$10,000 to fund the siren replacement.
- An operating transfer from the Capital Projects fund to the Refuse and Recycling fund of \$10,000 to pay for leaf cleanup.
- A transfer from the General fund to the 2013A G.O. Tax Abatement Bonds fund of \$2,500 to cover the shortfall in debt obligation
- An operating transfer from the Capital Projects fund to the General fund of \$60,000 to purchase a pickup.
- A transfer from the Economic Development authority to the General fund of \$40,000 for the loss on the sale of Heritage Grove.

E. Leases

Operating leases

The City entered into an operating lease to lease a portion of the City's facilities to Independent School District No. 2198. The lease commenced July 1, 2013 and terminates on June 30, 2016. The annual rent is \$19,750 per year payable in 12 equal installments due monthly. The future minimum rental receipts are as follows:

Year Ending December 31	Amount
2016	\$ 9,875

The City entered into an operating lease to lease the use of a copy machine for the public library. The lease commenced on December 1, 2014 and terminates on November 30, 2019. The annual rent is \$1,082 per year payable in 12 equal installments due monthly. The future minimum rental payments are as follows:

Year Ending December 31	Amount
2016	\$ 1,082
2017	1,082
2018	1,082
2019	992
Total	\$ 4,238

CITY OF HARMONY, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2015

Note 3: DETAILED NOTES ON ALL FUNDS – CONTINUED

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	\$ 78,000
G.O. Improvement Bonds of 2014	370,000	2.25	08/01/14	02/01/22	<u>370,000</u>
Total General Obligation Improvement Bonds					<u>\$ 448,000</u>

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

Year Ending December 31,	G.O. Improvement Bonds Governmental Activities		
	Principal	Interest	Total
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	54,000	3,150	57,150
2021 - 2022	<u>113,000</u>	<u>2,553</u>	<u>115,553</u>
Total	<u>\$ 448,000</u>	<u>\$ 34,001</u>	<u>\$ 482,001</u>

CITY OF HARMONY, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2015

Note 3: DETAILED NOTES ON ALL FUNDS – CONTINUED

G.O. tax abatement bonds

The following bonds were issued to refund the USDA promissory note for community center improvements and to finance the sale of the Assisted Living Facility. 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	\$ 217,000
G.O. Tax Abatement Bonds, 2013B	250,000	4.50	08/29/13	02/01/24	<u>230,000</u>
Total General Obligation Tax Abatement Bonds					<u><u>\$ 447,000</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
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	41,000	7,453	48,453
2021 - 2024	<u>178,000</u>	<u>14,004</u>	<u>192,004</u>
Total	<u><u>\$ 447,000</u></u>	<u><u>\$ 69,635</u></u>	<u><u>\$ 516,635</u></u>

CITY OF HARMONY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

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	\$ 280,000
2015 Public Facilities Authority Bonds	857,100 *	1.00	11/10/15	08/20/35	<u>210,760</u>
Total G.O. Revenue Bonds					<u>\$ 490,760</u>

* Includes undrawn proceeds of \$646,340

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>Water Utility</u>	<u>Sewer Utility</u>
Revenues	\$ 195,971	\$ 293,909
Principal and interest	-	36,130
Percentage of revenues	0.0%	12.3%

Payments on the bonds in the Water Utility fund will begin in 2016.

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>
2016	\$ 45,100	\$ 4,653	\$ 49,753
2017	75,000	10,920	85,920
2018	75,000	10,170	85,170
2019	76,000	9,420	85,420
2020	77,000	8,660	85,660
2021 - 2023	<u>142,660</u>	<u>8,970</u>	<u>151,630</u>
Total	<u>\$ 490,760</u>	<u>\$ 52,793</u>	<u>\$ 543,553</u>

CITY OF HARMONY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 3: DETAILED NOTES ON ALL FUNDS – CONTINUED

Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2015, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Bonds payable					
G.O. Improvement bonds	\$ 478,000	\$ -	\$ (30,000)	\$ 448,000	\$ 76,000
G.O. Tax Abatement bonds	<u>500,000</u>	<u>-</u>	<u>(53,000)</u>	<u>447,000</u>	<u>54,000</u>
Total bonds payable	978,000	-	(83,000)	895,000	130,000
Compensated absences payable	<u>56,900</u>	<u>21,442</u>	<u>(20,398)</u>	<u>57,944</u>	<u>23,883</u>
Governmental activities long-term liabilities	<u>\$ 1,034,900</u>	<u>\$ 21,442</u>	<u>\$ (103,398)</u>	<u>\$ 952,944</u>	<u>\$ 153,883</u>
Business-type activities					
Bonds payable					
G.O. revenue bonds	\$ 313,000	\$ 210,760	\$ (33,000)	\$ 490,760	\$ 45,100
Compensated absences payable	<u>32,790</u>	<u>14,659</u>	<u>(14,528)</u>	<u>32,921</u>	<u>14,277</u>
Business-type activities long-term liabilities	<u>\$ 345,790</u>	<u>\$ 225,419</u>	<u>\$ (47,528)</u>	<u>\$ 523,681</u>	<u>\$ 59,377</u>

Note 4: DEFINED BENEFIT PENSION PLAN - STATEWIDE

A. Plan description

The City participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota statutes, chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the City, are covered by the General Employees Retirement Fund (GERF). 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

B. Benefits provided

PERA provides retirement, disability and death benefits. Benefit provisions are established by Minnesota statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1 percent increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

CITY OF HARMONY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 4: DEFINED BENEFIT PENSION PLAN - STATEWIDE - CONTINUED

GERF benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten 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 ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

C. Contributions

Minnesota statutes, chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

GERF contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2015. The City was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2015. The City's contributions to the GERF for the years ending December 31, 2015, 2014 and 2013 were \$23,192, \$28,727, and \$31,696, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

Note 5: DEFINED CONTRIBUTION PLAN

There are 16 ambulance service personnel of the City covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by PERA. The PEDCP is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota statutes, chapter 353d.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. The City contributes \$60 per month for each employee who is on call during the month. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2 percent of employer contributions and twenty-five hundredths of 1 percent (.0025) of the assets in each member's account annually.

The City's contributions to the PEDCP for the years ended December 31, 2015, 2014 and 2013 were \$9,660, \$9,780 and \$9,840, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

CITY OF HARMONY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 6: 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.

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, 10-20 years of service, and 10-20 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	\$	25,903
Contributions made		
City (voluntary)		8,500
State aid		17,403
Actuarial valuation date		12/31/15
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
12/31/15	\$ 25,903	100.0 %	\$ -
12/31/14	23,233	100.0 %	-
12/31/13	22,593	100.0	-

CITY OF HARMONY, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 6: DEFINED BENEFIT PENSION PLAN - FIRE RELIEF ASSOCIATION - CONTINUED

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
12/31/15	*	*	*	*	\$ 775
12/31/14	\$ 334,962	\$ 282,383	\$ 52,579	118.62 %	775
12/31/13	316,721	285,453	31,268	110.95	750

* Information not available at time of audit

Note 7: 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. Related party transactions

The City uses services from a company owned by a relative of a City Council member. Total payments made to the business during 2015 were \$50,553.

C. 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 \$45,367,722 at December 31, 2015 for a limit of \$1,361,032. 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.

D. 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 2015 was \$341,552 for LGA. This accounted for 49.4 percent of General fund revenues.

E. 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.

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

CITY OF HARMONY
HARMONY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2015

CITY OF HARMONY, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2015

	Special Revenue			
	251	211	202	261
	Park Fund	Library Fund	Small Cities Grant	Arts Fund
ASSETS				
Cash and temporary investments	\$ 52,454	\$ 80	\$ 4,548	\$ 3,817
Receivables				
Delinquent taxes	-	-	-	-
Loans	-	-	24,219	-
Prepaid items	2,394	270	-	-
TOTAL ASSETS	<u>\$ 54,848</u>	<u>\$ 350</u>	<u>\$ 28,767</u>	<u>\$ 3,817</u>
LIABILITIES				
Accounts payable	\$ 189	\$ 2,776	\$ 64	\$ 100
Due to other governments	1	9	-	-
Accrued salaries payable	7	1,043	-	-
Advances from other funds	-	-	-	-
Due to other funds	-	1,009	-	-
TOTAL LIABILITIES	<u>197</u>	<u>4,837</u>	<u>64</u>	<u>100</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	-	-	-	-
FUND BALANCES				
Nonspendable				
Prepaid items	2,394	270	-	-
Restricted				
Economic development	-	-	24,219	-
Assigned				
Economic development	-	-	4,484	-
Culture and recreation	52,257	-	-	3,717
Unassigned	-	(4,757)	-	-
TOTAL FUND BALANCES	<u>54,651</u>	<u>(4,487)</u>	<u>28,703</u>	<u>3,717</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 54,848</u>	<u>\$ 350</u>	<u>\$ 28,767</u>	<u>\$ 3,817</u>

Capital Project

<u>418</u> TIF District #5	<u>420</u> TIF District #6	Total Nonmajor Funds
\$ 115	\$ 175	\$ 61,189
-	3	3
-	-	24,219
-	-	2,664
<u>\$ 115</u>	<u>\$ 178</u>	<u>\$ 88,075</u>
\$ -	\$ -	\$ 3,129
-	-	10
-	-	1,050
27,691	71,500	99,191
-	-	1,009
<u>27,691</u>	<u>71,500</u>	<u>104,389</u>
<u>-</u>	<u>3</u>	<u>3</u>
-	-	2,664
-	-	24,219
-	-	4,484
-	-	55,974
<u>(27,576)</u>	<u>(71,325)</u>	<u>(103,658)</u>
<u>(27,576)</u>	<u>(71,325)</u>	<u>(16,317)</u>
<u>\$ 115</u>	<u>\$ 178</u>	<u>\$ 88,075</u>

CITY OF HARMONY, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2015

	Special Revenue			
	251	211	202	261
	Park Fund	Library Fund	Small Cities Grant	Arts Fund
REVENUES				
Property taxes	\$ 46,000	\$ 77,000	\$ -	\$ -
Tax increments	-	-	-	-
Intergovernmental	-	28,597	2,644	-
Charges for services	1,321	1,107	-	-
Fines and forfeits	-	370	-	-
Investment earnings	95	(62)	9	16
Miscellaneous	10,807	23,325	-	-
TOTAL REVENUES	58,223	130,337	2,653	16
EXPENDITURES				
Current				
Culture and recreation	34,714	130,601	-	4,385
Economic development	-	-	24,256	-
Debt service				
Interest and other	-	-	-	-
TOTAL EXPENDITURES	34,714	130,601	24,256	4,385
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	23,509	(264)	(21,603)	(4,369)
OTHER FINANCING SOURCES (USES)				
Transfers out	(6,000)	-	-	-
NET CHANGE IN FUND BALANCES	17,509	(264)	(21,603)	(4,369)
FUND BALANCES, JANUARY 1	37,142	(4,223)	50,306	8,086
FUND BALANCES, DECEMBER 31	<u>\$ 54,651</u>	<u>\$ (4,487)</u>	<u>\$ 28,703</u>	<u>\$ 3,717</u>

Capital Project

<u>418</u> TIF District #5	<u>420</u> TIF District #6	Total Nonmajor Funds
\$ -	\$ -	\$ 123,000
11,716	169	11,885
-	-	31,241
-	-	2,428
-	-	370
8	1	67
-	-	34,132
<u>11,724</u>	<u>170</u>	<u>203,123</u>
-	-	169,700
351	351	24,958
<u>1,378</u>	<u>-</u>	<u>1,378</u>
<u>1,729</u>	<u>351</u>	<u>196,036</u>
9,995	(181)	7,087
<u>-</u>	<u>-</u>	<u>(6,000)</u>
9,995	(181)	1,087
<u>(37,571)</u>	<u>(71,144)</u>	<u>(17,404)</u>
<u>\$ (27,576)</u>	<u>\$ (71,325)</u>	<u>\$ (16,317)</u>

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CITY OF HARMONY, MINNESOTA
GENERAL FUND
COMPARATIVE BALANCE SHEETS
DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
Cash and temporary investments	\$ 783,064	\$ 658,263
Receivables		
Interest	1,262	1,192
Special assessments	3,087	4,488
Delinquent taxes	36,710	45,195
Accounts	194	244
Intergovernmental	3,768	10,399
Advance to other funds	27,691	37,678
Due from other funds	2,021	2,021
Prepaid items	16,892	17,094
	<u>\$ 874,689</u>	<u>\$ 776,574</u>
LIABILITIES		
Accounts payable	\$ 60,189	\$ 42,256
Accrued salaries payable	3,092	9,766
Due to other governments	11	25
	<u>63,292</u>	<u>52,047</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue - property taxes	36,710	45,195
Unavailable revenue - special assessment	3,087	4,488
	<u>39,797</u>	<u>49,683</u>
FUND BALANCES		
Nonspendable		
Prepaid items	16,892	17,094
Advance to other funds	27,691	37,678
Restricted		
Streets	4,125	-
Assigned	259,935	254,676
Unassigned	462,957	365,396
	<u>771,600</u>	<u>674,844</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 874,689</u>	<u>\$ 776,574</u>

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, 2015
(With Comparative Actual Amounts for Year Ended December 31, 2014)

	2015				2014
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Taxes					
Property taxes	\$ 167,799	\$ 167,799	\$ 176,774	\$ 8,975	\$ 198,521
Tax increment	3,500	3,500	4,282	782	4,265
Franchise taxes	-	-	2,719	2,719	-
Lodging	5,000	5,000	5,305	305	5,872
Total taxes	176,299	176,299	189,080	12,781	208,658
Special Assessments	1,500	1,500	2,982	1,482	7,583
Licenses and permits					
Business	3,625	3,625	4,425	800	3,875
Nonbusiness	2,750	2,750	3,327	577	3,492
Total licenses and permits	6,375	6,375	7,752	1,377	7,367
Intergovernmental					
Federal					
USDA grant	-	-	35,000	35,000	-
State					
Local government aid	341,552	341,552	341,552	-	339,819
Property tax credits and aids	-	-	123	123	-
Fire aid	10,000	10,000	18,403	8,403	15,733
Other State aids	864	864	20,796	19,932	864
Total State	352,416	352,416	380,874	28,458	356,416
Total intergovernmental	352,416	352,416	415,874	63,458	356,416
Charges for services					
General government	100	100	13	(87)	78
Public safety	-	-	75	75	150
Streets and highways	500	500	795	295	2,800
Total charges for services	600	600	883	283	3,028
Fines and forfeits	750	750	1,432	682	2,046
Investment earnings	1,500	1,500	1,580	80	1,094
Miscellaneous					
Rents	22,500	22,500	21,324	(1,176)	22,413
Contributions and donations	4,000	4,000	7,700	3,700	5,670
Refunds and reimbursements	5,000	5,000	18,580	13,580	9,937
Other	1,800	1,800	23,964	22,164	17,554
Total miscellaneous	33,300	33,300	71,568	38,268	55,574
TOTAL REVENUES	572,740	572,740	691,151	118,411	641,766

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, 2015
(With Comparative Actual Amounts for Year Ended December 31, 2014)

	2015				2014
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Budget			
EXPENDITURES					
Current					
General government					
Mayor and Council					
Personal services	\$ 7,600	\$ 7,600	\$ 7,321	\$ 279	\$ 7,421
Materials and supplies	350	350	5	345	166
Other services and charges	2,025	2,025	30	1,995	1,543
Total Mayor and Council	9,975	9,975	7,356	2,619	9,130
Finance and administration					
Personal services	67,667	67,667	59,047	8,620	55,834
Materials and supplies	4,150	4,150	5,489	(1,339)	5,160
Printing and publication	2,719	2,719	2,491	228	1,260
Training	750	750	350	400	423
Repairs and maintenance	1,000	1,000	1,338	(338)	1,247
Professional fees	6,500	6,500	9,059	(2,559)	6,400
Miscellaneous	2,063	2,063	1,037	1,026	471
Total finance and administration	84,849	84,849	78,811	6,038	70,795
Elections	-	-	-	-	934
Professional services					
Legal	7,500	7,500	4,638	2,862	7,448
Total general government	102,324	102,324	90,805	11,519	88,307
Government buildings					
Visitor center					
Personal services	10,017	10,017	8,640	1,377	9,183
Materials and supplies	3,000	3,000	1,989	1,011	2,357
Insurance	1,364	1,364	1,340	24	1,298
Repairs and maintenance	3,750	3,750	3,532	218	1,365
Utilities	7,450	7,450	6,045	1,405	7,382
Total visitor center	25,581	25,581	21,546	4,035	21,585
Community center					
Personal services	42,470	42,470	30,989	11,481	32,690
Materials and supplies	6,750	6,750	6,231	519	6,187
Insurance	15,619	15,619	14,151	1,468	14,119
Repairs and maintenance	8,750	8,750	12,572	(3,822)	6,703
Utilities	33,250	33,250	30,242	3,008	35,615
Miscellaneous	100	100	-	100	18
Total community center	106,939	106,939	94,185	12,754	95,332
Total government buildings	132,520	132,520	115,731	16,789	116,917

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, 2015
(With Comparative Actual Amounts for Year Ended December 31, 2014)

	2015				2014
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - continued					
Public safety					
Police					
Contracted services	\$ 83,500	\$ 83,500	\$ 83,779	\$ (279)	\$ 80,327
Vehicle expense	3,500	3,500	3,102	398	3,409
Materials and supplies	600	600	37	563	954
Insurance	582	582	475	107	511
Repairs and maintenance	1,050	1,050	11,905	(10,855)	228
Miscellaneous	775	775	656	119	718
Total police	90,007	90,007	99,954	(9,947)	86,147
Fire					
Firemen's relief	17,500	17,500	25,903	(8,403)	23,233
Civil defense					
Personal services	660	660	646	14	646
Supplies	-	-	315	(315)	-
Repairs and maintenance	500	500	120	380	-
Other charges	1,428	1,428	1,550	(122)	1,566
Civil defense	2,588	2,588	2,631	(43)	2,212
Animal control					
Personal services	4,388	4,388	2,806	1,582	3,119
Materials and supplies	350	350	271	79	406
Other services	200	200	1,060	(860)	93
Animal and pest control	4,938	4,938	4,137	801	3,618
Total public safety	115,033	115,033	132,625	(17,592)	115,210
Streets and highways					
Personal services	18,921	18,921	16,993	1,928	17,954
Vehicle expenses	3,000	3,000	1,769	1,231	3,454
Materials and supplies	11,250	11,250	8,420	2,830	13,337
Insurance	1,210	1,210	1,524	(314)	1,530
Repairs and maintenance	65,750	65,750	15,375	50,375	77,102
Snow and ice	34,063	34,063	31,742	2,321	31,928
Building maintenance	24,887	24,887	22,772	2,115	30,829
Total streets and highways	159,081	159,081	98,595	60,486	176,134
Culture and recreation					
Community events	6,575	6,575	10,252	(3,677)	9,580
Economic development					
Lodging tax	5,000	5,000	6,420	(1,420)	4,417
Community development	3,000	3,000	450	2,550	912
Total economic development	8,000	8,000	6,870	1,130	5,329
Unallocated					
Miscellaneous	5,000	5,000	5,000	-	-
Insurance	2,599	2,599	3,186	(587)	2,603
Total current	531,132	531,132	463,064	68,068	514,080

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, 2015
(With Comparative Actual Amounts for Year Ended December 31, 2014)

	2015				2014
	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	\$ -
Government buildings	-	-	10,127	(10,127)	10,637
Public safety	22,500	22,500	56,608	(34,108)	-
Streets and highways	-	-	64,805	(64,805)	62,671
Total capital outlay	23,500	23,500	131,540	(108,040)	73,308
TOTAL EXPENDITURES	554,632	554,632	594,604	(39,972)	587,388
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	18,108	18,108	96,547	78,439	54,378
OTHER FINANCING SOURCES (USES)					
Transfers in	73,500	73,500	115,000	41,500	155,000
Transfers out	(91,000)	(91,000)	(114,791)	(23,791)	(93,729)
TOTAL OTHER FINANCING SOURCES (USES)	(17,500)	(17,500)	209	17,709	61,271
NET CHANGE IN FUND BALANCES	608	608	96,756	96,148	115,649
FUND BALANCES, JANUARY 1	674,844	674,844	674,844	-	559,195
FUND BALANCES, DECEMBER 31	\$ 675,452	\$ 675,452	\$ 771,600	\$ 96,148	\$ 674,844

CITY OF HARMONY, MINNESOTA
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2015

	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	\$ 44,170	\$ 2,377	\$ 19,112
Receivables			
Delinquent taxes	1,994	2,193	1,785
Special assessments	27,195	-	-
Intergovernmental	237	280	227
	<u>73,596</u>	<u>4,850</u>	<u>21,124</u>
TOTAL ASSETS	<u><u>\$ 73,596</u></u>	<u><u>\$ 4,850</u></u>	<u><u>\$ 21,124</u></u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	1,994	2,193	1,785
Unavailable revenue - special assessments	27,195	-	-
	<u>29,189</u>	<u>2,193</u>	<u>1,785</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>29,189</u>	<u>2,193</u>	<u>1,785</u>
FUND BALANCES			
Restricted for debt service	<u>44,407</u>	<u>2,657</u>	<u>19,339</u>
TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u><u>\$ 73,596</u></u>	<u><u>\$ 4,850</u></u>	<u><u>\$ 21,124</u></u>

317
 2014A G.O.
 Improvement
 Bonds

Totals

\$ 146,921	\$ 212,580
1,281	7,253
160,257	187,452
583	1,327
<u>\$ 309,042</u>	<u>\$ 408,612</u>
1,281	7,253
<u>160,257</u>	<u>187,452</u>
161,538	194,705
<u>147,504</u>	<u>213,907</u>
<u>\$ 309,042</u>	<u>\$ 408,612</u>

CITY OF HARMONY, MINNESOTA
DEBT SERVICE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2015

	314 2010 G.O. Improvement Bonds	315 2013A G.O. Tax Abatement Bonds	316 2013B G.O. Tax Abatement
REVENUES			
Property taxes	\$ 28,041	\$ 38,155	\$ 30,979
Special assessments	6,776	-	-
Investment earnings	83	9	11
	<u>34,900</u>	<u>38,164</u>	<u>30,990</u>
TOTAL REVENUES			
EXPENDITURES			
Debt service			
Principal	30,000	33,000	20,000
Interest and other	3,266	5,500	10,800
	<u>33,266</u>	<u>38,500</u>	<u>30,800</u>
TOTAL EXPENDITURES			
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,634	(336)	190
OTHER FINANCING SOURCES (USES)			
Transfers in	-	2,500	-
NET CHANGE IN FUND BALANCES	1,634	2,164	190
FUND BALANCES, JANUARY 1	<u>42,773</u>	<u>493</u>	<u>19,149</u>
FUND BALANCES, DECEMBER 31	<u>\$ 44,407</u>	<u>\$ 2,657</u>	<u>\$ 19,339</u>

317
 2014A G.O.
 Improvement
 Bonds

<u>Bonds</u>		<u>Totals</u>	
\$	33,143	\$	130,318
	52,024		58,800
	299		402
	<u>85,466</u>		<u>189,520</u>
	-		83,000
	<u>8,325</u>		<u>27,891</u>
	<u>8,325</u>		<u>110,891</u>
	77,141		78,629
	<u>-</u>		<u>2,500</u>
	77,141		81,129
	<u>70,363</u>		<u>132,778</u>
<u>\$</u>	<u>147,504</u>	<u>\$</u>	<u>213,907</u>

CITY OF HARMONY, MINNESOTA
SUMMARY FINANCIAL REPORT
REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS -
GOVERNMENTAL FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	Total 2015	Total 2014	Percent Increase (Decrease)
REVENUES			
Taxes	\$ 581,333	\$ 561,073	3.61 %
Special assessments	74,913	89,115	(15.94)
Licenses and permits	7,752	7,367	5.23
Intergovernmental	534,143	448,136	19.19
Charges for services	183,266	186,324	(1.64)
Fines and forfeits	1,802	2,463	(26.84)
Investment earnings	4,262	3,225	32.16
Miscellaneous	173,893	161,999	7.34
TOTAL REVENUES	\$ 1,561,364	\$ 1,459,702	6.96 %
Per Capita	\$ 1,532	\$ 1,430	7.17 %
EXPENDITURES			
Current			
General government	\$ 206,536	\$ 205,224	0.64 %
Public safety	380,576	352,012	8.11
Streets and highways	98,595	176,134	(44.02)
Culture and recreation	179,952	150,205	19.80
Economic development	143,272	249,802	(42.65)
Miscellaneous	8,186	2,603	214.48
Capital outlay			
General government	10,127	10,637	(4.79)
Public safety	59,033	49,447	19.39
Streets and highways	65,651	462,460	(85.80)
Culture and recreation	-	6,205	(100.00)
Debt service			
Principal	83,000	62,000	33.87
Interest and other charges	29,319	33,136	(11.52)
TOTAL EXPENDITURES	\$ 1,264,247	\$ 1,759,865	(28.16) %
Per Capita	\$ 1,241	\$ 1,724	(28.02) %
Total Long-term Indebtedness	\$ 448,000	\$ 478,000	(6.28) %
Per Capita	440	468	(6.09)
General Fund Balance - December 31	\$ 771,600	\$ 674,844	14.34 %
Per Capita	757	661	14.56

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, 2015

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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, 2015, and the notes to the financial statements, and have issued our report thereon dated April 1, 2016.

The *Minnesota Legal Compliance Audit Guide for Cities*, 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 Cities*. 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 1, 2016



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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report there on dated April 1, 2016

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2015-001 that we consider to be a significant deficiency.

Compliance and Other Matters

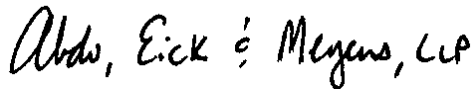
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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* or Minnesota standards.

The City's Responses to Findings

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

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
Mankato, Minnesota
April 1, 2016

CITY OF HARMONY, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2015

Finding

Description

2015-001

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.

Updated progress from prior year:

No progress has been made in addressing this finding in the current year.

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, 2015

Finding

Description

2015-001

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.

Updated progress from prior year:

No progress has been made in addressing this finding in the current year.

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.

Updated progress from prior year:

No progress has been made in addressing this finding in the current year.

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 2016.

Updated progress from prior year:

No progress has been made in addressing this finding in the current year.