

# Annual Financial Report

## City of Harmony

Harmony, Minnesota

For the Year Ended

December 31, 2016

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 ANNUAL FINANCIAL REPORT  
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**INTRODUCTORY SECTION**

CITY OF HARMONY  
HARMONY, MINNESOTA

FOR THE YEAR ENDED  
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CITY OF HARMONY, MINNESOTA  
ELECTED AND APPOINTED OFFICIALS  
FOR THE YEAR ENDED DECEMBER 31, 2016

**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, 2016**

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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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

## 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 <sup>st</sup> 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, 2016, 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, 2016, 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

#### *Report on Summarized Comparative Information*

We have previously audited the City's 2015 financial statements, and we expressed unmodified opinions on the respective financial statements of each major governmental fund and the aggregate remaining fund information and qualified opinions on the respective financial statements of the governmental activities, the business-type activities and each major enterprise fund in our report dated April 1, 2016. In our opinion, the summarized comparative information presented herein for the respective proprietary fund financial statements and the Fire, Ambulance, Revolving Loan and Economic Development Fund statements as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### ***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***

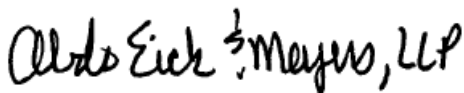
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules and the Schedule of Expenditures of Federal Awards 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 and schedules and the Schedule of Expenditures of Federal Awards 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 March 17, 2017, 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  
March 17, 2017

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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, 2016.

### **Financial Highlights**

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$9,852,669 (net position). Of this amount \$2,930,558 (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 \$2,402,638, an increase of \$362,899 in comparison with the prior year. Approximately 17.8 percent of the total amount, \$427,207, 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 (\$43,214) 2) restricted \$384,850), 3) committed (\$892,662), or 4) assigned (\$654,705).
- At the end of the current fiscal year, unassigned fund balance for the General fund was \$588,538, or 107.3 percent of total General fund expenditures.
- The City's total debt increased by \$447,496, or 32.3 percent during the current fiscal year. This was attributable to a second and final draw on the 2015 Public Facilities Authority bonds for \$622,596. Debt retirements during the year totaled \$175,100.

### **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**

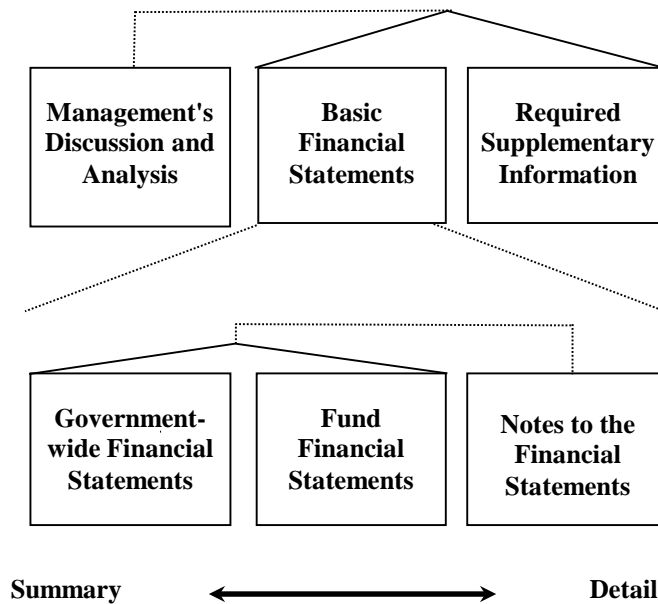


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the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

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

	<b>Fund Financial Statements</b>		
	<b>Government-wide Statements</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>
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"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures, and Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Revenues, Expenses and Changes in Fund Net Position</li> <li>• Statement of Cash Flows</li> </ul>
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 water.

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 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 financial 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 \$9,852,669 at the close of the most recent fiscal year.

A large portion of the City's net position (68.8 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		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Current and other assets	\$ 2,872,335	\$ 2,514,149	\$ 358,186	\$ 1,018,317	\$ 1,363,719	\$ (345,402)
Capital assets	3,189,922	3,143,980	45,942	5,023,964	4,242,349	781,615
Total assets	6,062,257	5,658,129	404,128	6,042,281	5,606,068	436,213
Long-term liabilities outstanding	822,883	952,944	(130,061)	1,101,009	523,681	577,328
Other liabilities	204,476	141,215	63,261	123,501	301,706	(178,205)
Total liabilities	1,027,359	1,094,159	(66,800)	1,224,510	825,387	399,123
Net investment in capital assets	2,817,922	2,695,980	121,942	3,955,708	3,751,589	204,119
Restricted	148,481	333,830	(185,349)	-	-	-
Unrestricted	2,068,495	1,534,160	534,335	862,063	1,029,092	(167,029)
Total net position	\$ 5,034,898	\$ 4,563,970	\$ 470,928	\$ 4,817,771	\$ 4,780,681	\$ 37,090

An additional portion of the City's net assets (1.5 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (29.7 percent) may be used to meet the City's ongoing obligations to citizens and creditors.

The City's net position increased by \$508,018 during the current fiscal year. The majority of this increase is attributable to capital grants and contributions for the governmental activities related to various grant revenues including, but not limited to, Small Cities Development Program, USDA and FEMA grants.

**Governmental activities.** Governmental activities increased the City's net position by \$470,928. Key elements of this increase are as follows:

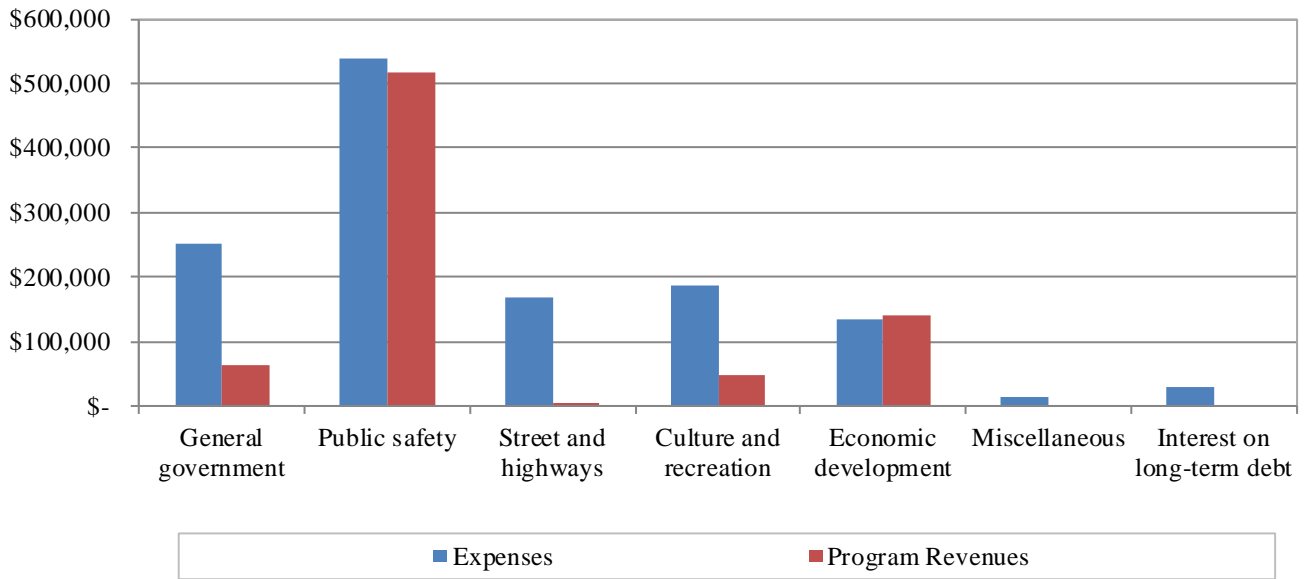
### City of Harmony's Changes in Net Position

	Governmental Activities			Business-type Activities		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Revenues						
Program revenues						
Charges for services	\$ 383,886	\$ 346,523	\$ 37,363	\$ 1,579,910	\$ 1,558,087	\$ 21,823
Operating grants and contributions	205,871	109,644	96,227	11,839	-	11,839
Capital grants and contributions	180,815	95,758	85,057	30,529	219,618	(189,089)
General revenues						
Property taxes/tax increments	575,652	561,943	13,709	-	-	-
Other taxes	4,410	4,282	128	-	-	-
Grants and contributions not restricted to specific programs	343,045	342,539	506	-	-	-
Unrestricted investment earnings	6,136	4,262	1,874	1,480	2,370	(890)
Gain on sale of fixed assets	10,800	7,730	3,070	-	-	-
Other	-	25,118	(25,118)	-	6,352	(6,352)
Total revenues	<u>1,710,615</u>	<u>1,497,799</u>	<u>212,816</u>	<u>1,623,758</u>	<u>1,786,427</u>	<u>(162,669)</u>
Expenses						
General government	250,803	241,968	8,835	-	-	-
Public safety	539,079	481,036	58,043	-	-	-
Streets and highways	168,511	194,636	(26,125)	-	-	-
Culture and recreation	186,825	201,994	(15,169)	-	-	-
Economic development	134,195	143,549	(9,354)	-	-	-
Miscellaneous	13,403	8,186	5,217	-	-	-
Interest on long-term debt	29,121	28,438	683	-	-	-
Water utility	-	-	-	169,083	132,019	37,064
Sewer utility	-	-	-	282,712	269,975	12,737
Electric utility	-	-	-	957,303	954,515	2,788
Refuse and recycling	-	-	-	68,773	63,851	4,922
Storm water	-	-	-	26,547	28,956	(2,409)
Total expenses	<u>1,321,937</u>	<u>1,299,807</u>	<u>22,130</u>	<u>1,504,418</u>	<u>1,449,316</u>	<u>55,102</u>
Increase (decrease) in net assets before transfers	388,678	197,992	190,686	119,340	337,111	(217,771)
Transfers	82,250	(51,500)	133,750	(82,250)	51,500	(133,750)
Change in net position	470,928	146,492	324,436	37,090	388,611	(351,521)
Net position - January 1	4,563,970	4,417,478	146,492	4,780,681	4,392,070	388,611
Net position - December 31	<u>\$ 5,034,898</u>	<u>\$ 4,563,970</u>	<u>\$ 470,928</u>	<u>\$ 4,817,771</u>	<u>\$ 4,780,681</u>	<u>\$ 37,090</u>

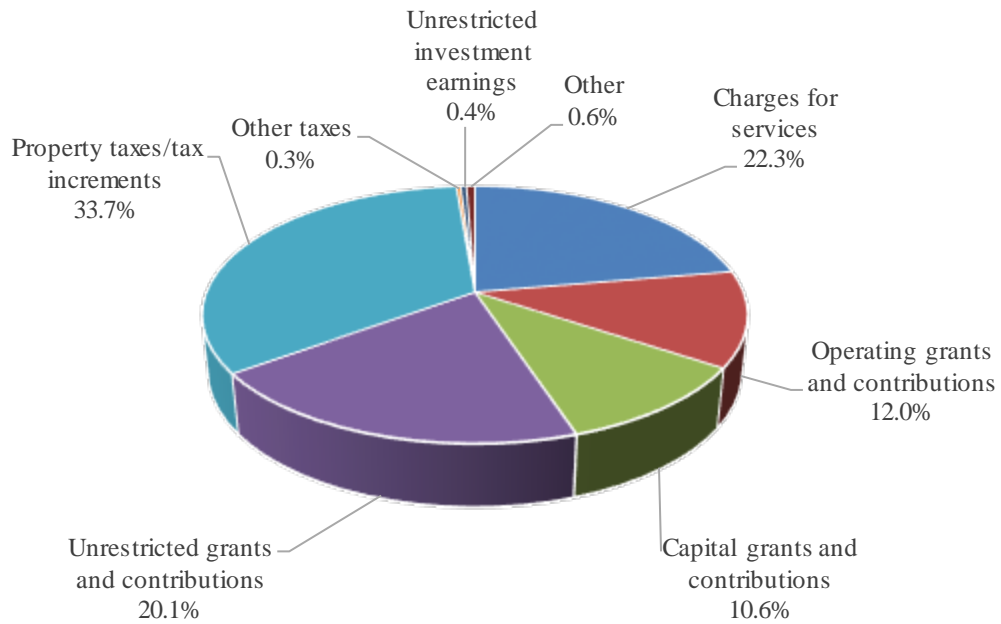
Property tax levies increased 3.2 percent during the year.

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

### Expenses and Program Revenues - Governmental Activities

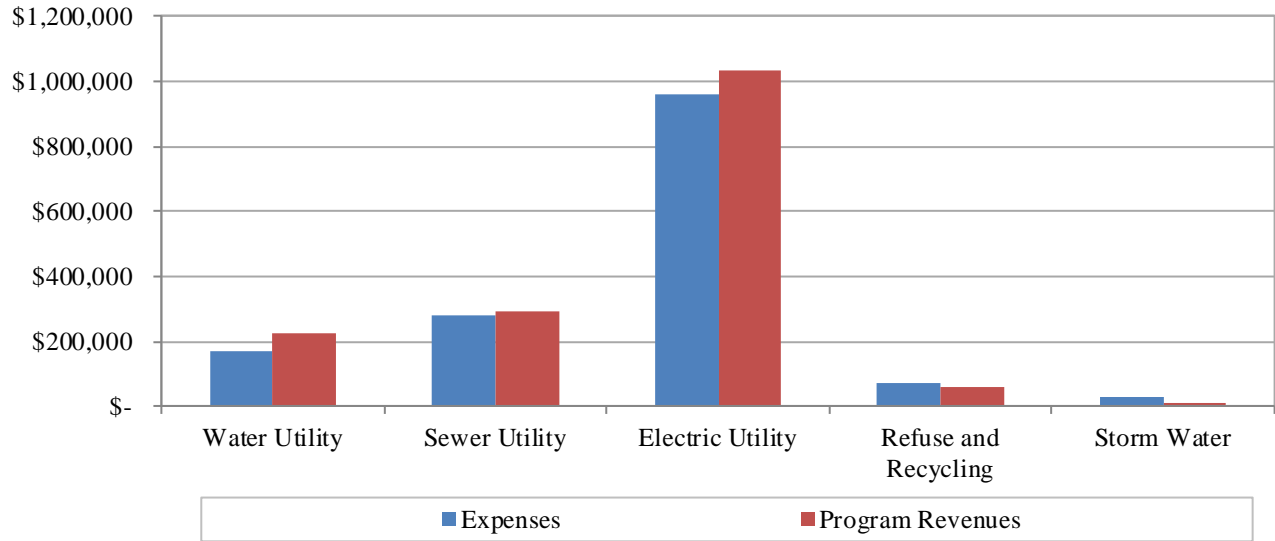


### Revenues by Source - Governmental Activities

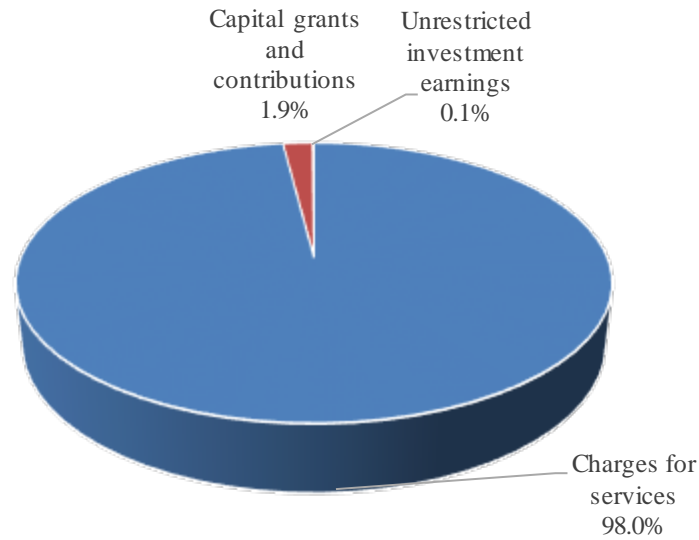


**Business-type activities.** Business-type activities increased the City's net position by \$37,090.

### 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 \$2,402,638, an increase of \$362,899 in comparison with the prior year. Approximately 17.8 percent of the total amount, \$427,207, 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 (\$43,214) 2) restricted \$384,850, 3) committed (\$892,662), or 4) assigned (\$654,705).

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 \$885,454, \$588,538 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 161.4 percent of fund expenditures.

The fund balance of the City's General fund increased by \$113,854 during the current fiscal year. The key factors in this increase were:

- Total tax revenue by \$23,384 mainly attributable to an increase in delinquent collections.
- Intergovernmental by \$52,327 of which \$50,000 was unbudgeted USDA grant dollars.
- Miscellaneous revenues by \$35,462 of which \$22,702 is due to higher than anticipated League of Minnesota insurance dividend received during the year.
- Capital outlay for public safety by \$68,860 due to the purchase of emergency generators which were funded by USDA grant dollars.
- Repairs and maintenance in the community center and police departments exceeded budget by \$5,266 and \$8,284 due to unanticipated window replacement and squad car damage, respectively.

*The Fire fund* has a total deficit fund balance of \$55,399, of which \$4,860 is nonspendable and the remainder unassigned. The net increase in fund balance during the current year in this fund was \$28,060. This was mainly attributable to \$35,839 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. Capital purchases during the year totaled \$177,945 which were funded by FEMA revenue and transfers from other funds.

*The Ambulance fund* has a total fund balance of \$173,748 of which \$2,570 is nonspendable and the remainder assigned for ambulance services. The net decrease in fund balance during the current year in this fund was \$15,130. 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 \$314,487 of which \$230,279 is committed for loans and the remainder assigned for economic development. The net increase in fund balance during the current year in this fund was \$9,004 due to loan interest revenue exceeding expenses during the year. Additional loans made during the year totaled \$129,310.

*The Economic Development Authority fund* has a total fund balance of \$99,048 of which \$23 is nonspendable, \$15,830 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 \$22,881 due to unbudgeted capital outlay costs related to land purchase rights for a potential future trail project.

*The Capital Projects fund* has a total fund balance of \$646,553, all of which is committed for future capital outlay. The net increase in fund balance during the current year in this fund was \$108,835 due to transfers in from various other governmental funds for future capital outlay.

*The Debt Service fund* has a total fund balance of \$236,369. The net increase in fund balance during the current year was \$22,462, which includes principal payments of \$130,000.

**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 \$862,063. The total growth in net position for the funds was \$37,090. 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 \$113,557 while expenditures were over budget by \$18,998 in 2016. The General fund budgeted for an increase in reserves by \$30,049.

## 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, 2016, amounts to \$8,213,886 (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 11.2 percent (a 1.5 percent increase for governmental activities and a 18.4 percent increase for business-type activities).

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

- The purchase of a tractor with loader totaled \$45,179.
- The purchase of a 2016 GMC Sierra grass rig totaled \$65,194.
- The purchase of emergency generators at the lift station amounted to \$60,225.
- The purchase of fire protection equipment at a total of \$98,942.
- Replacement pumps at the lift station costed \$48,367.
- Construction was completed on the Well No. 3 project at a total of \$1,197,007.
- Construction was completed on the WWTP project at a total of \$425,838.

Additional information on the City's capital assets can be found in Note 3C starting on pages 66 of this report.

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

	Governmental Activities			Business-type Activities		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Land	\$ 331,567	\$ 312,031	\$ 19,536	\$ 36,415	\$ 36,415	\$ -
Construction in progress	11,069	-	11,069	-	747,650	(747,650)
Buildings and improvements	597,490	629,324	(31,834)	1,319,376	971,052	348,324
Systems and infrastructure	1,281,683	1,365,778	(84,095)	2,364,680	2,355,217	9,463
Equipment and machinery	397,941	250,715	147,226	1,303,493	132,015	1,171,478
Vehicles	570,172	586,132	(15,960)	-	-	-
<b>Total</b>	<b>\$ 3,189,922</b>	<b>\$ 3,143,980</b>	<b>\$ 45,942</b>	<b>\$ 5,023,964</b>	<b>\$ 4,242,349</b>	<b>\$ 781,615</b>

**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$1,833,256, 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		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
G.O. improvement bonds	\$ 372,000	\$ 448,000	\$ (76,000)	\$ -	\$ -	\$ -
G.O. tax abatement bonds	393,000	447,000	(54,000)	-	-	-
G.O. revenue bonds	-	-	-	1,068,256	490,760	577,496
<b>Total</b>	<b>\$ 765,000</b>	<b>\$ 895,000</b>	<b>\$ (130,000)</b>	<b>\$ 1,068,256</b>	<b>\$ 490,760</b>	<b>\$ 577,496</b>

The City's total debt increased by \$447,496, or 32.3 percent during the current fiscal year. This was attributable to a second and final draw on the 2015 Public Facilities Authority bonds for \$622,596. Debt retirements during the year totaled \$175,100.

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 \$1,460,908. The City currently has no general obligation debt subject to this limit.

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

**Economic Factors and Next Year's Budgets and Rates**

- The unemployment rate for Fillmore County is currently 4.4 percent, which is an increase from a rate of 3.9 percent a year ago. This compares unfavorably to the State's average unemployment rate of 4.0 percent but favorable to the national average rate of 4.5 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 2017 fiscal year.

Property taxes will increase in 2017 by approximately 6.2 percent which will be offset by an increase in taxable property valuations.

In 2016, the City levied the final amount to replenish the General fund for losses associated with the sale of Heritage Grove Senior Living Facility.

In 2016, the City completed the new well project. They received a DEED grant of \$250,000 to assist with these costs. The new well positions the City very well into the future for water distribution.

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

A developer has approached the City to do a residential development in 2017 for 10 residential lots with homes of constructing a home each year.

**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, 2016

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CITY OF HARMONY, MINNESOTA  
STATEMENT OF NET POSITION  
DECEMBER 31, 2016

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and temporary investments	\$ 2,053,321	\$ 735,517	\$ 2,788,838
Receivables			
Interest	3,263	-	3,263
Delinquent taxes	11,909	-	11,909
Accounts	64,104	144,432	208,536
Loans	390,465	-	390,465
Special assessments	261,800	2,209	264,009
Intergovernmental	142,187	-	142,187
Internal balances	(81,035)	81,035	-
Inventories	-	40,450	40,450
Prepaid items	26,321	14,674	40,995
Capital assets			
Nondepreciable land and construction in progress	342,636	36,415	379,051
Depreciable assets (net of accumulated depreciation)	2,847,286	4,987,549	7,834,835
<b>TOTAL ASSETS</b>	<b>6,062,257</b>	<b>6,042,281</b>	<b>12,104,538</b>
<b>LIABILITIES AND NET POSITION</b>			
<b>LIABILITIES</b>			
Accounts payable	131,209	101,155	232,364
Deposits payable	-	12,115	12,115
Due to other governments	56,380	5,344	61,724
Accrued interest payable	8,488	2,270	10,758
Accrued salaries payable	8,399	2,617	11,016
Noncurrent liabilities			
Due within one year	164,087	89,649	253,736
Due in more than one year	658,796	1,011,360	1,670,156
<b>TOTAL LIABILITIES</b>	<b>1,027,359</b>	<b>1,224,510</b>	<b>2,251,869</b>
<b>NET POSITION</b>			
Net investment in capital assets	2,817,922	3,955,708	6,773,630
Restricted			
Economic development	144,356	-	144,356
Streets	4,125	-	4,125
Unrestricted	2,068,495	862,063	2,930,558
<b>TOTAL NET POSITION</b>	<b>\$ 5,034,898</b>	<b>\$ 4,817,771</b>	<b>\$ 9,852,669</b>

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, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental activities</b>				
General government	\$ 250,803	\$ 62,334	\$ -	\$ 2,345
Public safety	539,079	293,210	46,902	175,663
Streets and highways	168,511	995	-	2,689
Culture and recreation	186,825	10,015	37,183	-
Economic development	134,195	17,332	121,786	118
Miscellaneous	13,403	-	-	-
Interest and other costs	29,121	-	-	-
<b>Total governmental activities</b>	<b>1,321,937</b>	<b>383,886</b>	<b>205,871</b>	<b>180,815</b>
<b>Business-type activities</b>				
Water utility	169,083	194,343	-	30,382
Sewer utility	282,712	293,272	-	147
Electric utility	957,303	1,022,498	11,839	-
Refuse and recycling	68,773	58,165	-	-
Storm water	26,547	11,632	-	-
<b>Total business-type activities</b>	<b>1,504,418</b>	<b>1,579,910</b>	<b>11,839</b>	<b>30,529</b>
<b>Total</b>	<b>\$ 2,826,355</b>	<b>\$ 1,963,796</b>	<b>\$ 217,710</b>	<b>\$ 211,344</b>

General revenues

- Property taxes, levied for general purposes
- Property taxes, levied for specific purposes
- Property taxes, levied for debt service
- Tax increments
- Franchise taxes
- Grants and contributions not restricted to specific programs
- Unrestricted investment earnings
- 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
\$ (186,124)		\$ (186,124)
(23,304)		(23,304)
(164,827)		(164,827)
(139,627)		(139,627)
5,041		5,041
(13,403)		(13,403)
(29,121)		(29,121)
<u>(551,365)</u>		<u>(551,365)</u>
	\$ 55,642	55,642
	10,707	10,707
	77,034	77,034
	(10,608)	(10,608)
	<u>(14,915)</u>	<u>(14,915)</u>
	117,860	117,860
<u>(551,365)</u>	<u>117,860</u>	<u>(433,505)</u>
165,182	-	165,182
256,400	-	256,400
136,706	-	136,706
17,364	-	17,364
4,410	-	4,410
343,045	-	343,045
6,136	1,480	7,616
10,800	-	10,800
82,250	(82,250)	-
<u>1,022,293</u>	<u>(80,770)</u>	<u>941,523</u>
470,928	37,090	508,018
<u>4,563,970</u>	<u>4,780,681</u>	<u>9,344,651</u>
<u>\$ 5,034,898</u>	<u>\$ 4,817,771</u>	<u>\$ 9,852,669</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, 2016

CITY OF HARMONY, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2016

	<b>101</b>	<b>222</b>	<b>223</b>
	<u>General</u>	<u>Fire</u>	<u>Ambulance</u>
<b>ASSETS</b>			
Cash and temporary investments	\$ 868,229	\$ 26,951	\$ 120,014
Receivables			
Interest	3,263	-	-
Delinquent taxes	9,114	-	-
Accounts	4,410	5,915	53,779
Loans	-	-	-
Special assessments	1,248	-	-
Intergovernmental	51,787	89,824	-
Advances to other funds	16,893	-	-
Prepaid items	15,973	4,860	2,570
	<u>970,917</u>	<u>127,550</u>	<u>176,363</u>
<b>TOTAL ASSETS</b>	<u>\$ 970,917</u>	<u>\$ 127,550</u>	<u>\$ 176,363</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 12,948	\$ 101,914	\$ 1,458
Advances from other funds	-	81,035	-
Accrued salaries payable	5,781	-	1,157
Due to other governments	56,372	-	-
	<u>75,101</u>	<u>182,949</u>	<u>2,615</u>
<b>TOTAL LIABILITIES</b>	<u>75,101</u>	<u>182,949</u>	<u>2,615</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - property taxes	9,114	-	-
Unavailable revenue - special assessments	1,248	-	-
	<u>10,362</u>	<u>-</u>	<u>-</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>10,362</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>			
Nonspendable			
Prepaid items	15,973	4,860	2,570
Advances to other funds	16,893	-	-
Restricted			
Economic development	-	-	-
Streets	4,125	-	-
Debt service	-	-	-
Committed			
Capital outlay	-	-	-
Loans	-	-	-
Assigned			
Working capital	259,925	-	-
Economic development	-	-	-
Park and recreation	-	-	-
Public safety	-	-	171,178
Unassigned	588,538	(60,259)	-
	<u>885,454</u>	<u>(55,399)</u>	<u>173,748</u>
<b>TOTAL FUND BALANCES</b>	<u>885,454</u>	<u>(55,399)</u>	<u>173,748</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 970,917</u>	<u>\$ 127,550</u>	<u>\$ 176,363</u>

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

<b>201</b> Revolving Loan	<b>620</b> EDA	<b>300's</b> Debt Service	<b>401</b> Capital Projects	Other Governmental Funds	Totals
\$ 18,147	\$ 83,958	\$ 235,793	\$ 646,553	\$ 53,676	\$ 2,053,321
-	-	-	-	-	3,263
-	-	2,795	-	-	11,909
-	-	-	-	-	64,104
230,279	15,830	-	-	144,356	390,465
-	108,510	152,042	-	-	261,800
-	-	576	-	-	142,187
71,345	-	-	-	-	88,238
-	23	-	-	2,895	26,321
<u>\$ 319,771</u>	<u>\$ 208,321</u>	<u>\$ 391,206</u>	<u>\$ 646,553</u>	<u>\$ 200,927</u>	<u>\$ 3,041,608</u>
\$ 5,284	\$ 523	\$ -	\$ -	\$ 9,082	\$ 131,209
-	-	-	-	88,238	169,273
-	240	-	-	1,221	8,399
-	-	-	-	8	56,380
<u>5,284</u>	<u>763</u>	<u>-</u>	<u>-</u>	<u>98,549</u>	<u>365,261</u>
-	-	2,795	-	-	11,909
-	108,510	152,042	-	-	261,800
-	108,510	154,837	-	-	273,709
-	23	-	-	2,895	26,321
-	-	-	-	-	16,893
-	-	-	-	144,356	144,356
-	-	-	-	-	4,125
-	-	236,369	-	-	236,369
-	-	-	646,553	-	646,553
230,279	15,830	-	-	-	246,109
-	-	-	-	-	259,925
84,208	83,195	-	-	4,461	171,864
-	-	-	-	51,738	51,738
-	-	-	-	-	171,178
-	-	-	-	(101,072)	427,207
<u>314,487</u>	<u>99,048</u>	<u>236,369</u>	<u>646,553</u>	<u>102,378</u>	<u>2,402,638</u>
<u>\$ 319,771</u>	<u>\$ 208,321</u>	<u>\$ 391,206</u>	<u>\$ 646,553</u>	<u>\$ 200,927</u>	<u>\$ 3,041,608</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, 2016

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

Total fund balances - governmental funds	\$ 2,402,638
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds.	3,189,922
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	(57,883)
Bonds payable	(765,000)
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	11,909
Special assessments receivable	261,800
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(8,488)</u>
Total net position - governmental activities	<u><u>\$ 5,034,898</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, 2016

	<b>101</b>	<b>222</b>	<b>223</b>
	<u>General</u>	<u>Fire</u>	<u>Ambulance</u>
<b>REVENUES</b>			
Taxes	\$ 209,571	\$ 29,550	\$ -
Special assessments	1,560	-	-
Licenses and permits	7,546	-	-
Intergovernmental	410,372	100,824	28,071
Charges for services	1,060	52,424	215,134
Fines and forfeits	1,227	-	-
Investment earnings	2,516	107	506
Miscellaneous	67,962	40,539	2,719
<b>TOTAL REVENUES</b>	<u>701,814</u>	<u>223,444</u>	<u>246,430</u>
<b>EXPENDITURES</b>			
Current			
General government	100,364	-	-
Government buildings	117,959	-	-
Public safety	136,010	71,940	222,660
Streets and highways	86,193	-	-
Culture and recreation	9,968	-	-
Economic development	6,203	-	-
Miscellaneous	13,403	-	-
Capital outlay			
Public safety	68,860	177,945	1,400
Streets and highways	9,500	-	-
Culture and recreation	-	-	-
Economic development	-	-	-
Debt service			
Principal	-	-	-
Interest and other costs	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>548,460</u>	<u>249,885</u>	<u>224,060</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>153,354</u>	<u>(26,441)</u>	<u>22,370</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Sale of capital assets	14,500	7,501	-
Transfers in	47,000	87,000	-
Transfers out	(101,000)	(40,000)	(37,500)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(39,500)</u>	<u>54,501</u>	<u>(37,500)</u>
<b>NET CHANGE IN FUND BALANCES</b>	113,854	28,060	(15,130)
<b>FUND BALANCES, JANUARY 1</b>	<u>771,600</u>	<u>(83,459)</u>	<u>188,878</u>
<b>FUND BALANCES, DECEMBER 31</b>	<u>\$ 885,454</u>	<u>\$ (55,399)</u>	<u>\$ 173,748</u>

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



<b>201</b> Revolving Loan	<b>620</b> EDA	<b>300's</b> Debt Service	<b>401</b> Capital Projects	Other Governmental Funds	Totals
\$ -	\$ 97,500	\$ 136,706	\$ -	\$ 146,714	\$ 620,041
-	118	39,938	-	-	41,616
-	-	-	-	-	7,546
-	-	-	-	150,383	689,650
-	-	-	-	2,717	271,335
-	-	-	-	294	1,521
266	201	569	1,835	136	6,136
10,866	1,500	-	-	7,690	131,276
<u>11,132</u>	<u>99,319</u>	<u>177,213</u>	<u>1,835</u>	<u>307,934</u>	<u>1,769,121</u>
-	-	-	-	-	100,364
-	-	-	-	-	117,959
-	-	-	-	-	430,610
-	-	-	-	-	86,193
-	-	-	-	155,662	165,630
2,128	104,676	-	-	21,148	134,155
-	-	-	-	-	13,403
-	-	-	-	-	248,205
-	-	-	-	11,069	20,569
-	-	-	-	15,408	15,408
-	23,524	-	-	-	23,524
-	-	130,000	-	-	130,000
-	-	24,751	-	5,702	30,453
<u>2,128</u>	<u>128,200</u>	<u>154,751</u>	<u>-</u>	<u>208,989</u>	<u>1,516,473</u>
<u>9,004</u>	<u>(28,881)</u>	<u>22,462</u>	<u>1,835</u>	<u>98,945</u>	<u>252,648</u>
-	6,000	-	-	-	28,001
-	25,000	-	205,500	25,750	390,250
-	(25,000)	-	(98,500)	(6,000)	(308,000)
<u>-</u>	<u>6,000</u>	<u>-</u>	<u>107,000</u>	<u>19,750</u>	<u>110,251</u>
9,004	(22,881)	22,462	108,835	118,695	362,899
305,483	121,929	213,907	537,718	(16,317)	2,039,739
<u>\$ 314,487</u>	<u>\$ 99,048</u>	<u>\$ 236,369</u>	<u>\$ 646,553</u>	<u>\$ 102,378</u>	<u>\$ 2,402,638</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, 2016

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

Net change in fund balances - governmental funds	\$ 362,899
<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	343,946
Depreciation expense	(244,563)
<p>The net effect of various miscellaneous transactions involving capital assets.</p>	
Book value of capital assets sold	(17,201)
Book value of trade-in of capital assets	(36,240)
<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	130,000
<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>	
	1,332
<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>	
	(32,057)
<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	(37,249)
<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	61
	61
Change in net position - governmental activities	\$ 470,928

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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 186,187	\$ 186,187	\$ 209,571	\$ 23,384
Special assessments	1,500	1,500	1,560	60
Licenses and permits	7,175	7,175	7,546	371
Intergovernmental	358,045	358,045	410,372	52,327
Charges for services	600	600	1,060	460
Fines and forfeits	750	750	1,227	477
Investment earnings	1,500	1,500	2,516	1,016
Miscellaneous	32,500	32,500	67,962	35,462
<b>TOTAL REVENUES</b>	<b>588,257</b>	<b>588,257</b>	<b>701,814</b>	<b>113,557</b>
EXPENDITURES				
Current				
General government	244,192	244,192	218,323	25,869
Public safety	120,589	120,589	136,010	(15,421)
Streets and highways	116,171	116,171	86,193	29,978
Culture and recreation	6,575	6,575	9,968	(3,393)
Economic development	8,000	8,000	6,203	1,797
Miscellaneous	8,431	8,431	13,403	(4,972)
Capital outlay				
General government	1,000	1,000	-	1,000
Public safety	2,500	2,500	68,860	(66,360)
Streets and highways	60,000	60,000	9,500	50,500
<b>TOTAL EXPENDITURES</b>	<b>567,458</b>	<b>567,458</b>	<b>548,460</b>	<b>18,998</b>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	20,799	20,799	153,354	132,555
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	-	14,500	14,500
Transfers in	100,250	100,250	47,000	(53,250)
Transfers out	(91,000)	(91,000)	(101,000)	(10,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>9,250</b>	<b>9,250</b>	<b>(39,500)</b>	<b>(48,750)</b>
NET CHANGE IN FUND BALANCES	30,049	30,049	113,854	83,805
FUND BALANCES, JANUARY 1	771,600	771,600	771,600	-
FUND BALANCES, DECEMBER 31	<u>\$ 801,649</u>	<u>\$ 801,649</u>	<u>\$ 885,454</u>	<u>\$ 83,805</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, 2016  
(With Comparative Actual Amounts for Year Ended December 31, 2015)

	2016				2015
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Property taxes	\$ 29,550	\$ 29,550	\$ 29,550	\$ -	\$ 29,550
Intergovernmental	-	-	100,824	100,824	12,400
Charges for services	47,500	47,500	52,424	4,924	48,547
Investment earnings	-	-	107	107	84
Miscellaneous					
Contributions and donations	-	-	35,839	35,839	29,497
Other	14,500	14,500	4,700	(9,800)	4,275
<b>TOTAL REVENUES</b>	<b>91,550</b>	<b>91,550</b>	<b>223,444</b>	<b>131,894</b>	<b>124,353</b>
EXPENDITURES					
Current					
Public safety					
Personal services	26,225	26,225	34,204	(7,979)	24,310
Supplies	10,900	10,900	7,517	3,383	6,742
Other services	21,849	21,849	23,811	(1,962)	18,940
Other charges	9,550	9,550	6,408	3,142	9,579
Capital outlay					
Public safety					
Fire	-	-	177,945	(177,945)	2,425
<b>TOTAL EXPENDITURES</b>	<b>68,524</b>	<b>68,524</b>	<b>249,885</b>	<b>(181,361)</b>	<b>61,996</b>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	23,026	23,026	(26,441)	(49,467)	62,357
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	-	-	7,501	7,501	-
Transfers in	12,500	12,500	87,000	74,500	12,500
Transfers out	(35,000)	(35,000)	(40,000)	(5,000)	(25,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(22,500)</b>	<b>(22,500)</b>	<b>54,501</b>	<b>77,001</b>	<b>(12,500)</b>
NET CHANGE IN FUND BALANCES	526	526	28,060	27,534	49,857
FUND BALANCES, JANUARY 1	(83,459)	(83,459)	(83,459)	-	(133,316)
FUND BALANCES, DECEMBER 31	<u>\$ (82,933)</u>	<u>\$ (82,933)</u>	<u>\$ (55,399)</u>	<u>\$ 27,534</u>	<u>\$ (83,459)</u>

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

CITY OF HARMONY, MINNESOTA  
 AMBULANCE FUND  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL  
 FOR THE YEAR ENDED DECEMBER 31, 2016  
 (With Comparative Actual Amounts for Year Ended December 31, 2015)

	2016				2015
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Intergovernmental	\$ 20,071	\$ 20,071	\$ 28,071	\$ 8,000	\$ 29,871
Charges for services	182,000	182,000	215,134	33,134	176,165
Investment earnings	500	500	506	6	439
Miscellaneous					
Contributions and donations	-	-	-	-	527
Other	2,000	2,000	2,719	719	5,408
<b>TOTAL REVENUES</b>	<b>204,571</b>	<b>204,571</b>	<b>246,430</b>	<b>41,859</b>	<b>212,410</b>
EXPENDITURES					
Current					
Public safety					
Personal services	103,214	103,214	128,489	(25,275)	123,128
Supplies	15,200	15,200	9,644	5,556	9,177
Other services	18,927	18,927	21,090	(2,163)	17,602
Other charges	39,765	39,765	63,437	(23,672)	38,473
Capital outlay					
Public safety	5,000	5,000	1,400	3,600	-
<b>TOTAL EXPENDITURES</b>	<b>182,106</b>	<b>182,106</b>	<b>224,060</b>	<b>(41,954)</b>	<b>188,380</b>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	22,465	22,465	22,370	(95)	24,030
OTHER FINANCING SOURCES (USES)					
Transfers out	(37,500)	(37,500)	(37,500)	-	(37,500)
NET CHANGE IN FUND BALANCES	(15,035)	(15,035)	(15,130)	(95)	(13,470)
FUND BALANCES, JANUARY 1	188,878	188,878	188,878	-	202,348
FUND BALANCES, DECEMBER 31	<u>\$ 173,843</u>	<u>\$ 173,843</u>	<u>\$ 173,748</u>	<u>\$ (95)</u>	<u>\$ 188,878</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, 2016  
 (With Comparative Actual Amounts for Year Ended December 31, 2015)

	2016				2015
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Investment earnings	\$ 500	\$ 500	\$ 266	\$ (234)	\$ 206
Miscellaneous					
Loan interest	35,000	35,000	10,115	(24,885)	6,811
Other	250	250	751	501	750
	<u>35,750</u>	<u>35,750</u>	<u>11,132</u>	<u>(24,618)</u>	<u>7,767</u>
TOTAL REVENUES					
EXPENDITURES					
Current					
Economic development					
Other services	1,500	1,500	2,103	(603)	1,380
Other charges	-	-	25	(25)	985
Loans made	25,000	25,000	-	25,000	-
	<u>26,500</u>	<u>26,500</u>	<u>2,128</u>	<u>24,372</u>	<u>2,365</u>
TOTAL EXPENDITURES					
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	9,250	9,250	9,004	(246)	5,402
OTHER FINANCING SOURCES (USES)					
Transfers in	5,100	5,100	-	(5,100)	-
NET CHANGE IN FUND BALANCES	14,350	14,350	9,004	(5,346)	5,402
FUND BALANCES, JANUARY 1	<u>305,483</u>	<u>305,483</u>	<u>305,483</u>	<u>-</u>	<u>300,081</u>
FUND BALANCES, DECEMBER 31	<u>\$ 319,833</u>	<u>\$ 319,833</u>	<u>\$ 314,487</u>	<u>\$ (5,346)</u>	<u>\$ 305,483</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, 2016  
(With Comparative Actual Amounts for Year Ended December 31, 2015)

	2016				2015
	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	118	(2,582)	13,131
Investment earnings	-	-	201	201	129
Miscellaneous					
Contributions and donations	-	-	-	-	500
Rents	6,000	6,000	500	(5,500)	3,000
Other	-	-	1,000	1,000	3,327
<b>TOTAL REVENUES</b>	<b>106,200</b>	<b>106,200</b>	<b>99,319</b>	<b>(6,881)</b>	<b>117,587</b>
EXPENDITURES					
Current					
Economic development					
Personal services	16,282	16,282	16,749	(467)	16,707
Supplies	-	-	2	(2)	-
Other services	39,357	39,357	30,248	9,109	32,072
Other charges	42,960	42,960	57,677	(14,717)	60,300
Capital outlay					
Economic development	-	-	23,524	(23,524)	-
<b>TOTAL EXPENDITURES</b>	<b>98,599</b>	<b>98,599</b>	<b>128,200</b>	<b>(29,601)</b>	<b>109,079</b>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	7,601	7,601	(28,881)	(36,482)	8,508
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	-	-	6,000	6,000	10,017
Transfers in	15,000	15,000	25,000	10,000	15,000
Transfers out	(25,000)	(25,000)	(25,000)	-	(40,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(10,000)</b>	<b>(10,000)</b>	<b>6,000</b>	<b>16,000</b>	<b>(14,983)</b>
NET CHANGE IN FUND BALANCES	(2,399)	(2,399)	(22,881)	(20,482)	(6,475)
FUND BALANCES, JANUARY 1	121,929	121,929	121,929	-	128,404
FUND BALANCES, DECEMBER 31	<u>\$ 119,530</u>	<u>\$ 119,530</u>	<u>\$ 99,048</u>	<u>\$ (20,482)</u>	<u>\$ 121,929</u>

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, 2016 AND 2015

	Business-type Activities - Enterprise Funds			
	601		602	
	Water Utility		Sewer Utility	
	2016	2015	2016	2015
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and temporary investments	\$ 194,849	\$ 181,873	\$ (2,285)	\$ 182,525
Receivables				
Accounts	25,788	25,845	28,010	28,625
Special assessments	-	-	2,209	2,945
Intergovernmental	-	8,858	-	-
Advance to other funds - current	-	-	-	-
Inventories	14,955	16,058	-	-
Prepaid items	3,533	3,620	4,191	4,669
<b>TOTAL CURRENT ASSETS</b>	<b>239,125</b>	<b>236,254</b>	<b>32,125</b>	<b>218,764</b>
<b>NONCURRENT ASSETS</b>				
Advance to other funds - noncurrent	-	-	-	-
Capital assets, at cost				
Land	17,015	17,015	14,400	14,400
Construction in progress	-	553,071	-	194,579
Buildings and improvements	-	-	2,351,348	1,925,510
Systems and infrastructure	926,984	926,984	707,139	658,772
Equipment and machinery	1,335,627	138,621	90,666	84,924
Vehicles	-	-	-	-
Less accumulated depreciation	(332,478)	(295,264)	(1,314,784)	(1,216,322)
Total capital assets (net of accumulated depreciation)	1,947,148	1,340,427	1,848,769	1,661,863
<b>TOTAL NONCURRENT ASSETS</b>	<b>1,947,148</b>	<b>1,340,427</b>	<b>1,848,769</b>	<b>1,661,863</b>
<b>TOTAL ASSETS</b>	<b>2,186,273</b>	<b>1,576,681</b>	<b>1,880,894</b>	<b>1,880,627</b>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	1,540	29,413	10,631	141,053
Deposits payable	-	-	-	-
Due to other governments	160	169	-	-
Advances from other funds - current	-	-	55,000	-
Accrued salaries payable	862	644	1,193	879
Accrued interest payable	1,450	137	820	933
Bonds payable - current	39,256	11,100	34,000	34,000
Compensated absences payable - current	4,613	3,985	7,107	5,726
<b>TOTAL CURRENT LIABILITIES</b>	<b>47,881</b>	<b>45,448</b>	<b>108,751</b>	<b>182,591</b>
<b>NONCURRENT LIABILITIES</b>				
Compensated absences payable, noncurrent	5,387	5,679	6,138	7,604
Advances from other funds - noncurrent	-	-	100,000	-
Bonds payable, noncurrent	783,000	199,660	212,000	246,000
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>788,387</b>	<b>205,339</b>	<b>318,138</b>	<b>253,604</b>
<b>TOTAL LIABILITIES</b>	<b>836,268</b>	<b>250,787</b>	<b>426,889</b>	<b>436,195</b>
<b>NET POSITION</b>				
Net investment in capital assets	1,124,892	1,129,667	1,602,769	1,381,863
Unrestricted	225,113	196,227	(148,764)	62,569
<b>TOTAL NET POSITION</b>	<b>\$ 1,350,005</b>	<b>\$ 1,325,894</b>	<b>\$ 1,454,005</b>	<b>\$ 1,444,432</b>

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			
2016	2015	2016	2015	2016	2015	2016	2015
\$ 29	\$ 561	\$ 539,499	\$ 675,242	\$ 3,425	\$ 368	\$ 735,517	\$ 1,040,569
6,204	4,657	83,188	78,965	1,242	866	144,432	138,958
-	-	-	6,192	-	-	2,209	9,137
-	-	-	-	-	-	-	8,858
-	-	65,193	12,173	-	-	65,193	12,173
-	-	25,495	25,957	-	-	40,450	42,015
118	42	5,941	6,765	891	890	14,674	15,986
6,351	5,260	719,316	805,294	5,558	2,124	1,002,475	1,267,696
-	-	183,592	97,035	-	-	183,592	97,035
-	-	5,000	5,000	-	-	36,415	36,415
-	-	-	-	-	-	-	747,650
-	-	187,008	187,008	-	-	2,538,356	2,112,518
-	-	1,632,754	1,575,265	764,100	764,100	4,030,977	3,925,121
-	-	33,825	33,825	40,971	40,971	1,501,089	298,341
-	-	28,700	28,700	-	-	28,700	28,700
-	-	(1,124,851)	(1,077,184)	(339,460)	(317,626)	(3,111,573)	(2,906,396)
-	-	762,436	752,614	465,611	487,445	5,023,964	4,242,349
-	-	946,028	849,649	465,611	487,445	5,207,556	4,339,384
6,351	5,260	1,665,344	1,654,943	471,169	489,569	6,210,031	5,607,080
-	250	88,984	110,155	-	-	101,155	280,871
-	-	12,115	12,770	-	-	12,115	12,770
272	213	4,912	4,684	-	-	5,344	5,066
4,250	-	-	-	-	-	59,250	-
242	145	306	257	14	4	2,617	1,929
-	-	-	-	-	-	2,270	1,070
-	-	-	-	-	-	73,256	45,100
1,589	1,517	2,773	2,744	311	305	16,393	14,277
6,353	2,125	109,090	130,610	325	309	272,400	361,083
1,594	1,605	2,895	3,415	346	341	16,360	18,644
8,500	-	-	-	-	1,012	108,500	1,012
-	-	-	-	-	-	995,000	445,660
10,094	1,605	2,895	3,415	346	1,353	1,119,860	465,316
16,447	3,730	111,985	134,025	671	1,662	1,392,260	826,399
-	-	762,436	752,614	465,611	487,445	3,955,708	3,751,589
(10,096)	1,530	790,923	768,304	4,887	462	862,063	1,029,092
\$ (10,096)	\$ 1,530	\$ 1,553,359	\$ 1,520,918	\$ 470,498	\$ 487,907	\$ 4,817,771	\$ 4,780,681

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, 2016 AND 2015

	Business-type Activities - Enterprise Funds			
	<b>601</b>		<b>602</b>	
	Water Utility		Sewer Utility	
	2016	2015	2016	2015
OPERATING REVENUES				
Charges for services	\$ 194,343	\$ 195,971	\$ 293,272	\$ 293,909
OPERATING EXPENSES				
Personal services	50,873	47,849	68,547	67,486
Supplies	6,406	3,762	24,005	18,261
Other services and charges	7,027	15,210	26,855	28,576
Insurance	4,698	4,780	5,923	6,368
Utilities	14,694	14,818	45,033	41,158
Purchased power	-	-	-	-
Repairs and maintenance	45,418	20,070	11,200	16,368
Depreciation	37,214	25,393	98,462	88,738
TOTAL OPERATING EXPENSES	166,330	131,882	280,025	266,955
OPERATING INCOME (LOSS)	28,013	64,089	13,247	26,954
NONOPERATING REVENUES (EXPENSES)				
Other income	-	-	-	200
Investment earnings (loss)	(531)	364	(134)	539
Interest and other expense	(2,753)	(137)	(2,687)	(3,020)
TOTAL NONOPERATING REVENUES (EXPENSES)	(3,284)	227	(2,821)	(2,281)
INCOME (LOSS) BEFORE CONTRIBUTIONS	24,729	64,316	10,426	24,673
CAPITAL CONTRIBUTIONS	30,382	219,618	147	184
TRANSFERS IN	-	100,000	-	-
TRANSFERS OUT	(31,000)	(33,500)	(1,000)	(3,500)
CHANGE IN NET POSITION	24,111	350,434	9,573	21,357
NET POSITION, JANUARY 1	1,325,894	975,460	1,444,432	1,423,075
NET POSITION, DECEMBER 31	\$ 1,350,005	\$ 1,325,894	\$ 1,454,005	\$ 1,444,432

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			
2016	2015	2016	2015	2016	2015	2016	2015
\$ 58,165	\$ 52,655	\$ 1,022,498	\$ 1,001,667	\$ 11,632	\$ 9,628	\$ 1,579,910	\$ 1,553,830
15,390	14,557	26,753	25,792	1,903	3,089	163,466	158,773
469	778	2,229	4,592	124	518	33,233	27,911
44,693	44,516	13,005	11,414	-	-	91,580	99,716
-	-	9,259	9,712	1,253	1,296	21,133	22,156
-	-	17,973	18,306	-	-	77,700	74,282
-	-	812,167	799,724	-	-	812,167	799,724
8,221	4,000	28,250	37,828	1,433	2,218	94,522	80,484
-	-	47,667	47,147	21,834	21,835	205,177	183,113
68,773	63,851	957,303	954,515	26,547	28,956	1,498,978	1,446,159
(10,608)	(11,196)	65,195	47,152	(14,915)	(19,328)	80,932	107,671
-	-	11,839	9,851	-	374	11,839	10,425
(18)	(8)	2,157	1,473	6	2	1,480	2,370
-	-	-	-	-	-	(5,440)	(3,157)
(18)	(8)	13,996	11,324	6	376	7,879	9,638
(10,626)	(11,204)	79,191	58,476	(14,909)	(18,952)	88,811	117,309
-	-	-	-	-	-	30,529	219,802
-	10,000	-	-	-	-	-	110,000
(1,000)	(1,000)	(46,750)	(18,000)	(2,500)	(2,500)	(82,250)	(58,500)
(11,626)	(2,204)	32,441	40,476	(17,409)	(21,452)	37,090	388,611
1,530	3,734	1,520,918	1,480,442	487,907	509,359	4,780,681	4,392,070
\$ (10,096)	\$ 1,530	\$ 1,553,359	\$ 1,520,918	\$ 470,498	\$ 487,907	\$ 4,817,771	\$ 4,780,681

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, 2016 AND 2015

	Business-type Activities - Enterprise Funds			
	601		602	
	Water Utility		Sewer Utility	
	2016	2015	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 194,400	\$ 197,410	\$ 293,887	\$ 294,756
Payments to suppliers and vendors	(104,935)	(37,558)	(114,517)	(109,667)
Payments to and on behalf of employees	(50,319)	(47,544)	(68,318)	(67,359)
Other receipts	-	-	-	200
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>39,146</b>	<b>112,308</b>	<b>111,052</b>	<b>117,930</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Principal received (paid) on advances from (to) other funds	-	-	155,000	-
Transfers from other funds	-	100,000	-	-
Transfers to other funds	(31,000)	(33,500)	(1,000)	(3,500)
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>(31,000)</b>	<b>66,500</b>	<b>154,000</b>	<b>(3,500)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Special assessments received	-	-	883	920
Acquisition of capital assets	(643,935)	(545,225)	(413,811)	(77,219)
Principal paid on bonds payable	(11,100)	-	(34,000)	(33,000)
Interest and fees paid on bonds payable	(1,440)	-	(2,800)	(3,130)
Net proceeds on sale of capital assets	-	-	-	-
Intergovernmental contributions for capital assets	39,240	210,760	-	-
Proceeds from bonds issued	622,596	210,760	-	-
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>5,361</b>	<b>(123,705)</b>	<b>(449,728)</b>	<b>(112,429)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received (paid) on cash and temporary investments	(531)	364	(134)	539
<b>NET INCREASE (DECREASE) IN CASH AND TEMPORARY INVESTMENTS</b>	<b>12,976</b>	<b>55,467</b>	<b>(184,810)</b>	<b>2,540</b>
<b>CASH AND TEMPORARY INVESTMENTS, JANUARY 1</b>	<b>181,873</b>	<b>126,406</b>	<b>182,525</b>	<b>179,985</b>
<b>CASH AND TEMPORARY INVESTMENTS, DECEMBER 31</b>	<b>\$ 194,849</b>	<b>\$ 181,873</b>	<b>\$ (2,285)</b>	<b>\$ 182,525</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 28,013	\$ 64,089	\$ 13,247	\$ 26,954
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Other income related to operations	-	-	-	200
Depreciation	37,214	25,393	98,462	88,738
(Increase) decrease in assets				
Accounts receivable	57	1,439	615	847
Special assessments	-	-	-	-
Inventories	1,103	(3,663)	-	-
Prepaid items	87	(62)	478	159
Increase (decrease) in liabilities				
Accounts payable	(27,873)	24,795	(1,979)	905
Due to other governments	(9)	12	-	-
Deposits payable	-	-	-	-
Accrued salaries payable	218	81	314	64
Compensated absences payable	336	224	(85)	63
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 39,146</b>	<b>\$ 112,308</b>	<b>\$ 111,052</b>	<b>\$ 117,930</b>
<b>SCHEDULE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>				
Capital assets acquired on account	\$ -	\$ -	\$ -	\$ 128,443
Capital assets transferred between funds	\$ -	\$ -	\$ -	\$ 4,522

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

Business-type Activities - Enterprise Funds

<b>603</b>		<b>604</b>		<b>605</b>		Totals	
Refuse and Recycling		Electric Utility		Storm Water Utility		2016	2015
2016	2015	2016	2015	2016	2015	2016	2015
\$ 56,618	\$ 52,568	\$ 1,024,467	\$ 1,013,250	\$ 11,256	\$ 9,594	\$ 1,580,628	\$ 1,567,578
(53,650)	(51,435)	(911,895)	(853,969)	(2,811)	(4,007)	(1,187,808)	(1,056,636)
(15,232)	(14,705)	(27,195)	(26,007)	(1,882)	(3,095)	(162,946)	(158,710)
-	-	11,839	9,851	-	374	11,839	10,425
(12,264)	(13,572)	97,216	143,125	6,563	2,866	241,713	362,657
12,750	-	(139,577)	40,019	(1,012)	-	27,161	40,019
-	10,000	-	-	-	-	-	110,000
(1,000)	(1,000)	(46,750)	(18,000)	(2,500)	(2,500)	(82,250)	(58,500)
11,750	9,000	(186,327)	22,019	(3,512)	(2,500)	(55,089)	91,519
-	-	-	-	-	-	883	920
-	-	(48,789)	(22,452)	-	-	(1,106,535)	(644,896)
-	-	-	-	-	-	(45,100)	(33,000)
-	-	-	-	-	-	(4,240)	(3,130)
-	-	-	4,522	-	-	-	4,522
-	-	-	-	-	-	39,240	210,760
-	-	-	-	-	-	622,596	210,760
-	-	(48,789)	(17,930)	-	-	(493,156)	(254,064)
(18)	(8)	2,157	1,473	6	2	1,480	2,370
(532)	(4,580)	(135,743)	148,687	3,057	368	(305,052)	202,482
561	5,141	675,242	526,555	368	-	1,040,569	838,087
<u>\$ 29</u>	<u>\$ 561</u>	<u>\$ 539,499</u>	<u>\$ 675,242</u>	<u>\$ 3,425</u>	<u>\$ 368</u>	<u>\$ 735,517</u>	<u>\$ 1,040,569</u>
\$ (10,608)	\$ (11,196)	\$ 65,195	\$ 47,152	\$ (14,915)	\$ (19,328)	\$ 80,932	\$ 107,671
-	-	11,839	9,851	-	374	11,839	10,425
-	-	47,667	47,147	21,834	21,835	205,177	183,113
(1,547)	(87)	(4,223)	13,613	(376)	(34)	(5,474)	15,778
-	-	6,192	(2,030)	-	-	6,192	(2,030)
-	-	462	278	-	-	1,565	(3,385)
(76)	(2)	824	3	(1)	25	1,312	123
(250)	(2,139)	(29,871)	28,045	-	-	(59,973)	51,606
59	-	228	(844)	-	-	278	(832)
-	-	(655)	125	-	-	(655)	125
97	(50)	49	(163)	10	-	688	(68)
61	(98)	(491)	(52)	11	(6)	(168)	131
<u>\$ (12,264)</u>	<u>\$ (13,572)</u>	<u>\$ 97,216</u>	<u>\$ 143,125</u>	<u>\$ 6,563</u>	<u>\$ 2,866</u>	<u>\$ 241,713</u>	<u>\$ 362,657</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,700</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,700</u>	<u>\$ 128,443</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,522)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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, 2016

ASSETS

Cash and cash equivalents

\$ 10,315

NET POSITION

Unrestricted

\$ 10,315

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, 2016

ADDITIONS	
Investment income	\$        108
DEDUCTIONS	
Expenditures	<u>                  -</u>
CHANGE IN NET POSITION	108
NET POSITION, JANUARY 1	<u>10,207</u>
NET POSITION, DECEMBER 31	<u><u>\$      10,315</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, 2016

**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. *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, 2016

**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, 2016

**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 *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, 2016

**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, 2016

**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 2016. The City annually certifies delinquent utility accounts to the County for collection. All trade receivables are shown net of an allowance for uncollectible accounts. The allowance for uncollectible accounts at December 31, 2016 was \$3,500 in the Fire fund and \$400 for Ambulance receivables. All receivables aged greater than two years are deemed uncollectible.

***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, 2016

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial estimated useful life in excess of one year. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements.

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

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

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

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

*Compensated absences*

It is the government's policy to permit employees to accumulate a limited amount of earned but unused paid time off. Select employees also have earned but unused sick leave earned prior to the implementation of a paid time off policy. All personal time off up to a maximum limit is accrued when incurred in the government-wide and proprietary fund financial statements. Employees with 20 years or more of service with the City receive 10 percent of the accumulated sick leave upon termination. A liability for these amounts has been accrued in the government-wide and proprietary fund financial statements. The total amount of compensated absences accrued for 2016 was \$90,636. The General fund is typically used to liquidate governmental compensated absences payable.

CITY OF HARMONY, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**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 2016, the City estimated its OPEB liability using an estimator and determined that the calculated liability was \$0. 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, 2016

**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, 2016

**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
Special revenue			
Fire	\$ 68,524	\$ 249,885	\$ 181,361
Ambulance	182,106	224,060	41,954
Economic Development Authority	98,599	128,200	29,601

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

**C. Deficit fund equity**

The following funds had fund equity deficits at December 31, 2016:

Fund	Amount
Major	
Fire	\$ 55,399
Refuse and Recycling Enterprise	10,096
Special Revenue	
Library	1,795
Capital Projects	
TIF District #5	16,768
TIF District #6	71,166
2017 Street and Utility Project	11,069

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

CITY OF HARMONY, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**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 \$2,520,439 and the bank balance was \$2,542,709. Of the bank balance, \$500,000 was covered by federal depository insurance. The remaining balance of \$2,042,709 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, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

***Investments***

As of December 31, 2016, 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 at amortized costs			
Minnesota Municipal Money			
Market (4M) fund	N/A	less than 6 months	<u>\$ 278,549</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	\$ 2,520,439
Investments	278,549
Cash on hand	<u>165</u>
Total cash and temporary investments	<u>\$ 2,799,153</u>
Cash and temporary investments	\$ 2,788,838
Fiduciary fund cash	<u>10,315</u>
Total	<u>\$ 2,799,153</u>

CITY OF HARMONY, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**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 varying 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, 2016 is \$230,279.

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. Consequently, the loans are reduced annually and eventually forgiven if ownership is retained over the five year period per the loan agreements. The balance on the loans receivable at December 31, 2016 was \$15,830.

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. Consequently, the loans are reduced annually and eventually forgiven if ownership is retained over the ten year period per the loan program. The balance on all loans receivable at December 31, 2016 is \$144,356. A portion of the commercial notes are paid back to the City which totals \$1,456. These loans are secured by equipment and other assets.

**C. Capital assets**

Capital asset activity for the City for the year ended December 31, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 312,031	\$ 21,824	\$ (2,288)	\$ 331,567
Construction in progress	-	11,069	-	11,069
Total capital assets being depreciated	312,031	32,893	(2,288)	342,636
Capital assets being depreciated				
Buildings and improvements	1,183,625	-	-	1,183,625
Systems and infrastructure	3,364,442	6,143	(2,627)	3,367,958
Equipment and machinery	653,230	239,713	(131,048)	761,895
Vehicles	1,291,378	65,197	(57,946)	1,298,629
Total capital assets being depreciated	6,492,675	311,053	(191,621)	6,612,107
Less accumulated depreciation for				
Buildings and improvements	(554,301)	(31,834)	-	(586,135)
Systems and infrastructure	(1,998,664)	(89,625)	2,014	(2,086,275)
Equipment and machinery	(402,515)	(55,474)	94,035	(363,954)
Vehicles	(705,246)	(67,630)	44,419	(728,457)
Total accumulated depreciation	(3,660,726)	(244,563)	140,468	(3,764,821)
Total capital assets being depreciated, net	2,831,949	66,490	(51,153)	2,847,286
Governmental activities capital assets, net	<u>\$ 3,143,980</u>	<u>\$ 99,383</u>	<u>\$ (53,441)</u>	<u>\$ 3,189,922</u>

CITY OF HARMONY, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 36,415	\$ -	\$ -	\$ 36,415
Construction in progress	747,650	-	(747,650)	-
Total capital assets not being depreciated	<u>784,065</u>	<u>-</u>	<u>(747,650)</u>	<u>36,415</u>
Capital assets being depreciated				
Buildings and improvements	2,112,518	425,838	-	2,538,356
Systems and infrastructure	3,925,121	105,856	-	4,030,977
Equipment and machinery	298,341	1,202,748	-	1,501,089
Vehicles	28,700	-	-	28,700
Total capital assets being depreciated	<u>6,364,680</u>	<u>1,734,442</u>	<u>-</u>	<u>8,099,122</u>
Less accumulated depreciation for				
Buildings and improvements	(1,141,466)	(77,514)	-	(1,218,980)
Systems and infrastructure	(1,569,904)	(96,393)	-	(1,666,297)
Equipment and machinery	(166,326)	(31,270)	-	(197,596)
Vehicles	(28,700)	-	-	(28,700)
Total accumulated depreciation	<u>(2,906,396)</u>	<u>(205,177)</u>	<u>-</u>	<u>(3,111,573)</u>
Total capital assets being depreciated, net	<u>3,458,284</u>	<u>1,529,265</u>	<u>-</u>	<u>4,987,549</u>
Business-type activities capital assets, net	<u>\$ 4,242,349</u>	<u>\$ 1,529,265</u>	<u>\$ (747,650)</u>	<u>\$ 5,023,964</u>

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

<b>Governmental activities</b>		
General government		\$ 34,828
Public safety		107,417
Streets and highways		82,318
Culture and recreation		19,858
Economic development		142
Total depreciation expense - governmental activities		<u>\$ 244,563</u>
<b>Business-type activities</b>		
Water utility		\$ 37,214
Sewer utility		98,462
Electric utility		47,667
Storm water utility		21,834
Total depreciation expense - business-type activities		<u>\$ 205,177</u>

CITY OF HARMONY, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**D. Interfund receivables, payables and transfers**

The composition of interfund balances at December 31, 2016 is as follows:

*Advances to/from other funds*

Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental TIF District #5	\$ 16,893
Revolving Loan	Nonmajor governmental TIF District #6	71,345
Electric Utility	Fire	81,035
	Sewer Utility	155,000
	Refuse and Recycling	12,750
Totals		<u>\$ 337,023</u>

The General fund advanced \$16,893 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 \$71,345 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 advanced the Fire fund \$81,035 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.

The Electric Utility fund advanced the Sewer Utility and Refuse and Recycling funds \$155,000 and \$12,750, respectively, to assist with cash flows. These advances shall be paid back within five years as cash becomes available. There is no interest rate on either advance.

CITY OF HARMONY, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

*Interfund transfers*

In the year ended December 31, 2016, the City made the following transfers:

Fund	Transfers In					Total
	General	Fire Fund	EDA	Capital Projects	Nonmajor Governmental	
<b>Transfers out</b>						
<b>Governmental</b>						
General	\$ -	\$ -	\$ 10,000	\$ 91,000	\$ -	\$ 101,000
Fire	-	-	-	40,000	-	40,000
Ambulance	-	12,500	-	25,000	-	37,500
EDA	25,000	-	-	-	-	25,000
Capital Projects	17,000	74,500	-	-	7,000	98,500
Nonmajor Governmental	-	-	-	6,000	-	6,000
<b>Business-type</b>						
Water Utility	1,000	-	-	30,000	-	31,000
Sewer Utility	1,000	-	-	-	-	1,000
Refuse and Recycling	1,000	-	-	-	-	1,000
Electric Utility	2,000	-	15,000	11,000	18,750	46,750
Storm Water Utility	-	-	-	2,500	-	2,500
<b>Total</b>	<b>\$ 47,000</b>	<b>\$ 87,000</b>	<b>\$ 25,000</b>	<b>\$ 205,500</b>	<b>\$ 25,750</b>	<b>\$ 390,250</b>

During the year, transfers are used to 1) move General fund resources to provide an annual savings for future capital spending to the capital projects fund, 2) move special revenue resources in the ambulance fund to provide an annual savings for future capital spending to the fire fund, 3) move resources from the Electric Utility fund to the Economic Development Authority to cover operating expenditures, and 4) move funds from the various utility funds to the General fund related to PILOT. Further, during the year ended December 31, 2016, the government made the following one-time transfers:

- Operating transfers from the Capital Projects fund to the General fund of \$9,500 and \$7,500 to fund the purchase of a tractor and squad car equipment, respectively.
- An operating transfer from the Water Utility fund to the Capital Projects fund of \$30,000 for future water tower costs.
- An operating transfer from the Capital Projects fund to the Fire fund of \$74,500 to purchase various capital items including a grass rig, radios and gear.
- A transfer from the Economic Development authority to the General fund of \$25,000 for the loss on the sale of Heritage Grove.

CITY OF HARMONY, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**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, 2016 and terminates on June 30, 2017. The annual rent is \$20,000 per year payable in 12 equal installments due monthly. The future minimum rental receipts are as follows:

Year Ending December 31	Amount
2017	\$ 10,000

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
2017	\$ 1,082
2018	1,082
2019	992
Total	\$ 3,156



CITY OF HARMONY, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2016

**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	\$ 48,000
G.O. Improvement Bonds of 2014	370,000	2.25	08/01/14	02/01/22	<u>324,000</u>
Total General Obligation Improvement Bonds					<u><u>\$ 372,000</u></u>

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

Year Ending December 31,	<b>G.O. Improvement Bonds</b> Governmental Activities		
	Principal	Interest	Total
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	56,000	1,913	57,913
2022	<u>57,000</u>	<u>641</u>	<u>57,641</u>
Total	<u><u>\$ 372,000</u></u>	<u><u>\$ 23,903</u></u>	<u><u>\$ 395,903</u></u>

CITY OF HARMONY, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2016

**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	\$ 184,000
G.O. Tax Abatement Bonds, 2013B	250,000	4.50	08/29/13	02/01/24	<u>209,000</u>
Total General Obligation Tax Abatement Bonds					<u><u>\$ 393,000</u></u>

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

<u>Year Ending December 31,</u>	<b>G.O. Tax Abatement Bonds</b>		
	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	43,000	5,931	48,931
2022 - 2024	<u>135,000</u>	<u>8,074</u>	<u>143,074</u>
Total	<u><u>\$ 393,000</u></u>	<u><u>\$ 54,984</u></u>	<u><u>\$ 447,984</u></u>

CITY OF HARMONY, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**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	\$ 246,000
2015 Public Facilities Authority Bonds	857,100	1.00	11/10/15	08/20/35	<u>822,256</u>
Total G.O. Revenue Bonds					<u>\$ 1,068,256</u>

Annual revenues from 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	\$ 194,343	\$ 293,272
Principal and interest	12,540	36,800
Percentage of revenues	6.5%	12.5%

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

Year Ending December 31,	<b>G.O. Revenue Bonds</b> Business-type Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 73,256	\$ 8,746	\$ 82,002
2018	74,000	9,950	83,950
2019	76,000	9,210	85,210
2020	76,000	8,450	84,450
2021	77,000	7,690	84,690
2022 - 2026	283,000	27,910	310,910
2027 - 2031	222,000	16,040	238,040
2032 - 2035	187,000	4,710	191,710
Total	<u>\$ 1,068,256</u>	<u>\$ 92,706</u>	<u>\$ 1,160,962</u>

CITY OF HARMONY, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities</b>					
Bonds payable					
G.O. improvement bonds	\$ 448,000	\$ -	\$ (76,000)	\$ 372,000	\$ 83,000
G.O. tax abatement bonds	447,000	-	(54,000)	393,000	56,000
Total bonds payable	895,000	-	(130,000)	765,000	139,000
Compensated absences payable	57,944	25,018	(25,079)	57,883	25,087
Governmental activities long-term liabilities	<u>\$ 952,944</u>	<u>\$ 25,018</u>	<u>\$ (155,079)</u>	<u>\$ 822,883</u>	<u>\$ 164,087</u>
<b>Business-type activities</b>					
Bonds payable					
G.O. revenue bonds	\$ 490,760	\$ 622,596	\$ (45,100)	\$ 1,068,256	\$ 73,256
Compensated absences payable	32,921	16,206	(16,374)	32,753	16,393
Business-type activities long-term liabilities	<u>\$ 523,681</u>	<u>\$ 638,802</u>	<u>\$ (61,474)</u>	<u>\$ 1,101,009</u>	<u>\$ 89,649</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.

CITY OF HARMONY, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**Note 4: DEFINED BENEFIT PENSION PLAN - STATEWIDE - CONTINUED**

**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.

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 2016. 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 2016. The City's contributions to the GERF for the years ending December 31, 2016, 2015 and 2014 were \$23,670, \$23,192 and \$28,727, 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, 2016

**Note 5: DEFINED CONTRIBUTION PLAN**

There are 14 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, 2016, 2015 and 2014 were \$10,260, \$9,660 and \$9,780, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

**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.

CITY OF HARMONY, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

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

**B. Funding policy**

The financial requirements of the Special fund are determined in accordance with section 69.772 of the Minnesota statutes, which requires the payment of pension benefits in a lump sum or optionally in annual installments. The benefits are payable after age 50, 10-20 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	\$	24,827
Contributions made		
City (voluntary)		7,500
State aid		17,327
Actuarial valuation date		12/31/16
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
12/31/16	\$ 24,827	100.0 %	\$ -
12/31/15	25,903	100.0	-
12/31/14	23,233	100.0	-

CITY OF HARMONY, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**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
12/31/16	*	*	*	*	\$ 850
12/31/15	\$ 362,090	\$ 321,453	\$ 40,637	112.64 %	775
12/31/14	334,962	282,383	52,579	118.62	775

\* 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 an immediate relative of a City Council member. Total payments made to the business during 2016 were \$100,189.

**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 \$48,696,929 at December 31, 2016 for a limit of \$1,460,908. 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 2016 was \$342,069 for LGA. This accounted for 48.7 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.



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

CITY OF HARMONY  
HARMONY, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2016

CITY OF HARMONY, MINNESOTA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2016

	Special Revenue			
	251	211	202	261
	Park Fund	Library Fund	Small Cities Grant	Arts Fund
<b>ASSETS</b>				
Cash and temporary investments	\$ 50,470	\$ 1,759	\$ 5,477	\$ 1,490
Loans	-	-	144,356	-
Prepaid items	2,621	274	-	-
<b>TOTAL ASSETS</b>	<b>\$ 53,091</b>	<b>\$ 2,033</b>	<b>\$ 149,833</b>	<b>\$ 1,490</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 199	\$ 2,622	\$ 1,016	\$ -
Due to other governments	-	8	-	-
Accrued salaries payable	23	1,198	-	-
Advances from other funds	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>222</b>	<b>3,828</b>	<b>1,016</b>	<b>-</b>
<b>FUND BALANCES</b>				
Nonspendable				
Prepaid items	2,621	274	-	-
Restricted				
Economic development	-	-	144,356	-
Assigned				
Economic development	-	-	4,461	-
Culture and recreation	50,248	-	-	1,490
Unassigned	-	(2,069)	-	-
<b>TOTAL FUND BALANCES</b>	<b>52,869</b>	<b>(1,795)</b>	<b>148,817</b>	<b>1,490</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 53,091</b>	<b>\$ 2,033</b>	<b>\$ 149,833</b>	<b>\$ 1,490</b>

Capital Projects

<b>418</b> TIF District #5	<b>420</b> TIF District #6	<b>423</b> 2017 Street and Utility Project	Total Nonmajor Funds
\$ 125	\$ 179	\$ (5,824)	\$ 53,676
-	-	-	144,356
-	-	-	2,895
<u>\$ 125</u>	<u>\$ 179</u>	<u>\$ (5,824)</u>	<u>\$ 200,927</u>
\$ -	\$ -	\$ 5,245	\$ 9,082
-	-	-	8
-	-	-	1,221
<u>16,893</u>	<u>71,345</u>	<u>-</u>	<u>88,238</u>
<u>16,893</u>	<u>71,345</u>	<u>5,245</u>	<u>98,549</u>
-	-	-	2,895
-	-	-	144,356
-	-	-	4,461
-	-	-	51,738
<u>(16,768)</u>	<u>(71,166)</u>	<u>(11,069)</u>	<u>(101,072)</u>
<u>(16,768)</u>	<u>(71,166)</u>	<u>(11,069)</u>	<u>102,378</u>
<u>\$ 125</u>	<u>\$ 179</u>	<u>\$ (5,824)</u>	<u>\$ 200,927</u>

CITY OF HARMONY, MINNESOTA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2016

	Special Revenue			
	251	211	202	261
	Park Fund	Library Fund	Small Cities Grant	Arts Fund
<b>REVENUES</b>				
Taxes				
Property taxes	\$ 47,000	\$ 79,350	\$ -	\$ 3,000
Tax increments	-	-	-	-
Intergovernmental	-	28,597	121,786	-
Charges for services	1,114	1,603	-	-
Fines and forfeits	-	294	-	-
Investment earnings (loss)	158	(61)	16	8
Miscellaneous				
Contributions and donations	4,966	1,034	-	352
Other	192	1,146	-	-
<b>TOTAL REVENUES</b>	<b>53,430</b>	<b>111,963</b>	<b>121,802</b>	<b>3,360</b>
<b>EXPENDITURES</b>				
Current				
Culture and recreation	40,804	109,271	-	5,587
Economic development	-	-	20,438	-
Capital outlay				
Streets and highways	-	-	-	-
Culture and recreation	15,408	-	-	-
Debt service				
Interest and other costs	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>56,212</b>	<b>109,271</b>	<b>20,438</b>	<b>5,587</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(2,782)</b>	<b>2,692</b>	<b>101,364</b>	<b>(2,227)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	7,000	-	18,750	-
Transfers out	(6,000)	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>1,000</b>	<b>-</b>	<b>18,750</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(1,782)</b>	<b>2,692</b>	<b>120,114</b>	<b>(2,227)</b>
<b>FUND BALANCES, JANUARY 1</b>	<b>54,651</b>	<b>(4,487)</b>	<b>28,703</b>	<b>3,717</b>
<b>FUND BALANCES, DECEMBER 31</b>	<b>\$ 52,869</b>	<b>\$ (1,795)</b>	<b>\$ 148,817</b>	<b>\$ 1,490</b>

Capital Projects

<b>418</b> TIF District #5	<b>420</b> TIF District #6	<b>423</b> 2017 Street and Utility Project	Total Nonmajor Funds
\$ -	\$ -	\$ -	\$ 129,350
12,088	5,276	-	17,364
-	-	-	150,383
-	-	-	2,717
-	-	-	294
10	5	-	136
-	-	-	6,352
-	-	-	1,338
12,098	5,281	-	307,934
-	-	-	155,662
355	355	-	21,148
-	-	11,069	11,069
-	-	-	15,408
935	4,767	-	5,702
1,290	5,122	11,069	208,989
10,808	159	(11,069)	98,945
-	-	-	25,750
-	-	-	(6,000)
-	-	-	19,750
10,808	159	(11,069)	118,695
(27,576)	(71,325)	-	(16,317)
\$ (16,768)	\$ (71,166)	\$ (11,069)	\$ 102,378

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CITY OF HARMONY, MINNESOTA  
GENERAL FUND  
COMPARATIVE BALANCE SHEETS  
DECEMBER 31, 2016 AND 2015

	2016	2015
<b>ASSETS</b>		
Cash and temporary investments	\$ 868,229	\$ 783,064
Receivables		
Interest	3,263	1,262
Special assessments	1,248	3,087
Delinquent taxes	9,114	36,710
Accounts	4,410	194
Intergovernmental	51,787	3,768
Advance to other funds	16,893	27,691
Due from other funds	-	2,021
Prepaid items	15,973	16,892
	<u>\$ 970,917</u>	<u>\$ 874,689</u>
<b>TOTAL ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 12,948	\$ 60,189
Accrued salaries payable	5,781	3,092
Due to other governments	56,372	11
	<u>75,101</u>	<u>63,292</u>
<b>TOTAL LIABILITIES</b>		
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable revenue - property taxes	9,114	36,710
Unavailable revenue - special assessment	1,248	3,087
	<u>10,362</u>	<u>39,797</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>		
<b>FUND BALANCES</b>		
Nonspendable		
Prepaid items	15,973	16,892
Advance to other funds	16,893	27,691
Restricted		
Streets	4,125	4,125
Assigned	259,925	259,935
Unassigned	588,538	462,957
	<u>885,454</u>	<u>771,600</u>
<b>TOTAL FUND BALANCES</b>		
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>		
	<u>\$ 970,917</u>	<u>\$ 874,689</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, 2016  
(With Comparative Actual Amounts for Year Ended December 31, 2015)

	2016				2015
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
<b>REVENUES</b>					
Taxes					
Property taxes	\$ 177,687	\$ 177,687	\$ 200,195	\$ 22,508	\$ 176,774
Tax increment	-	-	-	-	2,719
Franchise taxes	3,500	3,500	4,410	910	4,282
Lodging	5,000	5,000	4,966	(34)	5,305
<b>Total taxes</b>	<b>186,187</b>	<b>186,187</b>	<b>209,571</b>	<b>23,384</b>	<b>189,080</b>
Special assessments	1,500	1,500	1,560	60	2,982
Licenses and permits					
Business	4,425	4,425	4,450	25	4,425
Nonbusiness	2,750	2,750	3,096	346	3,327
<b>Total licenses and permits</b>	<b>7,175</b>	<b>7,175</b>	<b>7,546</b>	<b>371</b>	<b>7,752</b>
Intergovernmental					
Federal					
USDA grant	-	-	50,000	50,000	35,000
State					
Local government aid	342,069	342,069	342,069	-	341,552
Property tax credits and aids	112	112	112	-	123
Fire aid	15,000	15,000	17,327	2,327	18,403
Other State aids	864	864	864	-	20,796
<b>Total State</b>	<b>358,045</b>	<b>358,045</b>	<b>360,372</b>	<b>2,327</b>	<b>380,874</b>
<b>Total intergovernmental</b>	<b>358,045</b>	<b>358,045</b>	<b>410,372</b>	<b>52,327</b>	<b>415,874</b>
Charges for services					
General government	100	100	40	(60)	13
Public safety	-	-	175	175	75
Streets and highways	500	500	845	345	795
<b>Total charges for services</b>	<b>600</b>	<b>600</b>	<b>1,060</b>	<b>460</b>	<b>883</b>
Fines and forfeits	750	750	1,227	477	1,432
Investment earnings (loss)	1,500	1,500	2,516	1,016	1,580
Miscellaneous					
Contributions and donations	4,000	4,000	7,200	3,200	7,700
Refunds and reimbursements	5,000	5,000	27,702	22,702	18,580
Rents	22,500	22,500	21,169	(1,331)	21,324
Other	1,000	1,000	11,891	10,891	23,964
<b>Total miscellaneous</b>	<b>32,500</b>	<b>32,500</b>	<b>67,962</b>	<b>35,462</b>	<b>71,568</b>
<b>TOTAL REVENUES</b>	<b>588,257</b>	<b>588,257</b>	<b>701,814</b>	<b>113,557</b>	<b>691,151</b>



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, 2016  
(With Comparative Actual Amounts for Year Ended December 31, 2015)

	2016			2015	
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Budget			
<b>EXPENDITURES</b>					
Current					
General government					
Mayor and Council					
Personal services	\$ 7,600	\$ 7,600	\$ 7,379	\$ 221	\$ 7,321
Materials and supplies	350	350	2,270	(1,920)	5
Other services and charges	2,075	2,075	77	1,998	30
Total Mayor and Council	<u>10,025</u>	<u>10,025</u>	<u>9,726</u>	<u>299</u>	<u>7,356</u>
Finance and administration					
Personal services	65,754	65,754	60,401	5,353	59,047
Materials and supplies	5,400	5,400	8,897	(3,497)	5,489
Printing and publication	2,489	2,489	2,815	(326)	2,491
Training	1,000	1,000	73	927	350
Repairs and maintenance	1,000	1,000	2,591	(1,591)	1,338
Professional fees	7,000	7,000	7,190	(190)	9,059
Miscellaneous	2,235	2,235	1,119	1,116	1,037
Total finance and administration	<u>84,878</u>	<u>84,878</u>	<u>83,086</u>	<u>1,792</u>	<u>78,811</u>
Elections	1,365	1,365	1,783	(418)	-
Professional services					
Legal	8,000	8,000	5,769	2,231	4,638
Total general government	<u>104,268</u>	<u>104,268</u>	<u>100,364</u>	<u>3,904</u>	<u>90,805</u>
Government buildings					
Visitor center					
Personal services	10,600	10,600	8,818	1,782	8,640
Materials and supplies	3,000	3,000	2,198	802	1,989
Insurance	1,510	1,510	1,268	242	1,340
Repairs and maintenance	3,750	3,750	3,173	577	3,532
Utilities	7,450	7,450	5,811	1,639	6,045
Total visitor center	<u>26,310</u>	<u>26,310</u>	<u>21,268</u>	<u>5,042</u>	<u>21,546</u>
Community center					
Personal services	45,258	45,258	33,161	12,097	30,989
Materials and supplies	6,250	6,250	5,058	1,192	6,231
Insurance	15,756	15,756	13,683	2,073	14,151
Repairs and maintenance	10,750	10,750	16,016	(5,266)	12,572
Utilities	35,500	35,500	28,765	6,735	30,242
Miscellaneous	100	100	8	92	-
Total community center	<u>113,614</u>	<u>113,614</u>	<u>96,691</u>	<u>16,923</u>	<u>94,185</u>
Total government buildings	<u>139,924</u>	<u>139,924</u>	<u>117,959</u>	<u>21,965</u>	<u>115,731</u>

CITY OF HARMONY, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(With Comparative Actual Amounts for Year Ended December 31, 2015)

	2016				2015
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
<b>EXPENDITURES - CONTINUED</b>					
Current - continued					
Public safety					
Police					
Contracted services	\$ 83,500	\$ 83,500	\$ 90,777	\$ (7,277)	\$ 83,779
Vehicle expense	3,500	3,500	3,874	(374)	3,102
Materials and supplies	600	600	-	600	37
Insurance	526	526	455	71	475
Repairs and maintenance	1,050	1,050	9,334	(8,284)	11,905
Miscellaneous	775	775	598	177	656
<b>Total police</b>	<b>89,951</b>	<b>89,951</b>	<b>105,038</b>	<b>(15,087)</b>	<b>99,954</b>
Fire					
Firemen's relief	22,500	22,500	24,827	(2,327)	25,903
Civil defense					
Personal services	660	660	646	14	646
Supplies	-	-	-	-	315
Repairs and maintenance	1,000	1,000	-	1,000	120
Other charges	1,540	1,540	1,943	(403)	1,550
<b>Civil defense</b>	<b>3,200</b>	<b>3,200</b>	<b>2,589</b>	<b>611</b>	<b>2,631</b>
Animal control					
Personal services	4,388	4,388	2,943	1,445	2,806
Materials and supplies	350	350	408	(58)	271
Other services	200	200	205	(5)	1,060
<b>Animal and pest control</b>	<b>4,938</b>	<b>4,938</b>	<b>3,556</b>	<b>1,382</b>	<b>4,137</b>
<b>Total public safety</b>	<b>120,589</b>	<b>120,589</b>	<b>136,010</b>	<b>(15,421)</b>	<b>132,625</b>
Streets and highways					
Personal services	18,890	18,890	16,243	2,647	16,993
Vehicle expenses	3,500	3,500	1,660	1,840	1,769
Materials and supplies	12,000	12,000	10,256	1,744	8,420
Insurance	1,199	1,199	1,485	(286)	1,524
Repairs and maintenance	21,650	21,650	7,465	14,185	15,375
Snow and ice	34,450	34,450	26,362	8,088	31,742
Building maintenance	24,482	24,482	22,722	1,760	22,772
<b>Total streets and highways</b>	<b>116,171</b>	<b>116,171</b>	<b>86,193</b>	<b>29,978</b>	<b>98,595</b>
Culture and recreation					
Community events	6,575	6,575	9,968	(3,393)	10,252
Economic development					
Lodging tax	5,000	5,000	4,488	512	6,420
Community development	3,000	3,000	1,715	1,285	450
<b>Total economic development</b>	<b>8,000</b>	<b>8,000</b>	<b>6,203</b>	<b>1,797</b>	<b>6,870</b>
Unallocated					
Miscellaneous	5,000	5,000	10,455	(5,455)	5,000
Insurance	3,431	3,431	2,948	483	3,186
<b>Total miscellaneous</b>	<b>8,431</b>	<b>8,431</b>	<b>13,403</b>	<b>(4,972)</b>	<b>8,186</b>
<b>Total current</b>	<b>503,958</b>	<b>503,958</b>	<b>470,100</b>	<b>33,858</b>	<b>463,064</b>

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, 2016  
(With Comparative Actual Amounts for Year Ended December 31, 2015)

	2016				2015
	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
Public safety	2,500	2,500	68,860	(66,360)	56,608
Streets and highways	60,000	60,000	9,500	50,500	64,805
Total capital outlay	<u>63,500</u>	<u>63,500</u>	<u>78,360</u>	<u>(14,860)</u>	<u>131,540</u>
TOTAL EXPENDITURES	<u>567,458</u>	<u>567,458</u>	<u>548,460</u>	<u>18,998</u>	<u>594,604</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>20,799</u>	<u>20,799</u>	<u>153,354</u>	<u>132,555</u>	<u>96,547</u>
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	-	-	14,500	14,500	-
Transfers in	100,250	100,250	47,000	(53,250)	115,000
Transfers out	(91,000)	(91,000)	(101,000)	(10,000)	(114,791)
TOTAL OTHER FINANCING SOURCES (USES)	<u>9,250</u>	<u>9,250</u>	<u>(39,500)</u>	<u>(48,750)</u>	<u>209</u>
NET CHANGE IN FUND BALANCES	30,049	30,049	113,854	83,805	96,756
FUND BALANCES, JANUARY 1	<u>771,600</u>	<u>771,600</u>	<u>771,600</u>	<u>-</u>	<u>674,844</u>
FUND BALANCES, DECEMBER 31	<u>\$ 801,649</u>	<u>\$ 801,649</u>	<u>\$ 885,454</u>	<u>\$ 83,805</u>	<u>\$ 771,600</u>

CITY OF HARMONY, MINNESOTA  
DEBT SERVICE FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2016

	<b>314</b> 2010 G.O. Improvement Bonds	<b>315</b> 2013A G.O. Tax Abatement Bonds	<b>316</b> 2013B G.O. Tax Abatement Bonds
	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>			
Cash and temporary investments	\$ 49,622	\$ 4,328	\$ 20,729
Receivables			
Delinquent taxes	587	807	660
Special assessments	18,174	-	-
Intergovernmental	<u>116</u>	<u>160</u>	<u>130</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 68,499</u></u>	<u><u>\$ 5,295</u></u>	<u><u>\$ 21,519</u></u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - property taxes	\$ 587	\$ 807	\$ 660
Unavailable revenue - special assessments	<u>18,174</u>	<u>-</u>	<u>-</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	18,761	807	660
<b>FUND BALANCES</b>			
Restricted for debt service	<u>49,738</u>	<u>4,488</u>	<u>20,859</u>
<b>TOTAL DEFERRED INFLOWS   OF RESOURCES AND FUND BALANCES</b>	<u><u>\$ 68,499</u></u>	<u><u>\$ 5,295</u></u>	<u><u>\$ 21,519</u></u>

**317**  
 2014A G.O.  
 Improvement

<u>Bonds</u>	<u>Totals</u>
\$ 161,114	\$ 235,793
741	2,795
133,868	152,042
170	576
\$ 295,893	\$ 391,206
\$ 741	\$ 2,795
133,868	152,042
134,609	154,837
161,284	236,369
\$ 295,893	\$ 391,206

CITY OF HARMONY, MINNESOTA  
DEBT SERVICE FUNDS  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2016

	<b>314</b> 2010 G.O. Improvement Bonds	<b>315</b> 2013A G.O. Tax Abatement Bonds	<b>316</b> 2013B G.O. Tax Abatement
<b>REVENUES</b>			
Property taxes	\$ 29,043	\$ 39,586	\$ 32,382
Special assessments	8,459	-	-
Investment earnings (loss)	120	19	16
<b>TOTAL REVENUES</b>	<u>37,622</u>	<u>39,605</u>	<u>32,398</u>
<b>EXPENDITURES</b>			
Debt service			
Principal	30,000	33,000	21,000
Interest and other costs	2,291	4,774	9,878
<b>TOTAL EXPENDITURES</b>	<u>32,291</u>	<u>37,774</u>	<u>30,878</u>
<b>NET CHANGE IN FUND BALANCES</b>	5,331	1,831	1,520
<b>FUND BALANCES, JANUARY 1</b>	<u>44,407</u>	<u>2,657</u>	<u>19,339</u>
<b>FUND BALANCES, DECEMBER 31</b>	<u><u>\$ 49,738</u></u>	<u><u>\$ 4,488</u></u>	<u><u>\$ 20,859</u></u>

**317**  
 2014A G.O.  
 Improvement

<u>Bonds</u>	<u>Totals</u>
\$ 35,695	\$ 136,706
31,479	39,938
414	569
67,588	177,213
46,000	130,000
7,808	24,751
53,808	154,751
13,780	22,462
147,504	213,907
\$ 161,284	\$ 236,369

CITY OF HARMONY, MINNESOTA  
SUMMARY FINANCIAL REPORT  
REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS -  
GOVERNMENTAL FUNDS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Total 2016	Total 2015	Percent Increase (Decrease)	
<b>REVENUES</b>				
Taxes	\$ 620,041	\$ 581,333	6.66	%
Special assessments	41,616	74,913	(44.45)	
Licenses and permits	7,546	7,752	(2.66)	
Intergovernmental	689,650	534,143	29.11	
Charges for services	271,335	183,266	48.06	
Fines and forfeits	1,521	1,802	(15.59)	
Investment earnings	6,136	4,262	43.97	
Miscellaneous	131,276	173,893	(24.51)	
<b>TOTAL REVENUES</b>	<b>\$ 1,769,121</b>	<b>\$ 1,561,364</b>	13.31	%
Per Capita	\$ 1,729	\$ 1,532	12.86	%
<b>EXPENDITURES</b>				
Current				
General government	\$ 218,323	\$ 206,536	5.71	%
Public safety	430,610	380,576	13.15	
Streets and highways	86,193	98,595	(12.58)	
Culture and recreation	165,630	179,952	(7.96)	
Economic development	134,155	143,272	(6.36)	
Miscellaneous	13,403	8,186	63.73	
Capital outlay				
General government	-	10,127	(100.00)	
Public safety	248,205	59,033	320.45	
Streets and highways	20,569	65,651	(68.67)	
Culture and recreation	15,408	-	100.00	
Economic development	23,524	-	100.00	
Debt service				
Principal	130,000	83,000	56.63	
Interest and other charges	30,453	29,319	3.87	
<b>TOTAL EXPENDITURES</b>	<b>\$ 1,516,473</b>	<b>\$ 1,264,247</b>	19.95	%
Per Capita	\$ 1,482	\$ 1,241	19.48	%
Total Long-term Indebtedness	\$ 372,000	\$ 448,000	(16.96)	%
Per Capita	364	440	(17.29)	
General Fund Balance - December 31	\$ 885,454	\$ 771,600	14.76	%
Per Capita	866	757	14.31	

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.



**SINGLE AUDIT AND OTHER REQUIRED REPORTS**

CITY OF HARMONY HARMONY, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2016

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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, 2016, and the noted to the financial statements, and have issued our report thereon dated March 17, 2017.

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  
March 17, 2017



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, 2016, 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 March 17, 2017.

**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, Responses and Questioned Costs as item 2016-001 that we consider to be a significant deficiency.

## Compliance and Other Matters

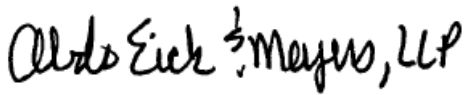
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, the Uniform Guidance or Minnesota statutes which is described in the accompanying Schedule of Findings, Responses and Questioned Costs as item 2016-002.

## The City's Responses to Findings

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

## Purpose of this Report

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



ABDO, EICK & MEYERS, LLP  
Mankato, Minnesota  
March 17, 2017



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY *THE UNIFORM GUIDANCE*

Honorable Mayor and City Council  
City of Harmony, Minnesota

**Report on Compliance for Each Major Federal Program**

We have audited City of Harmony's, Harmony, Minnesota (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2016. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings, Responses and Questioned Costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

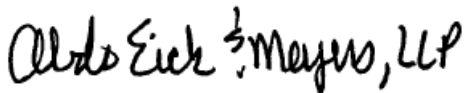
## Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



ABDO, EICK & MEYERS, LLP  
Mankato, Minnesota  
March 17, 2017

CITY OF HARMONY, MINNESOTA  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED DECEMBER 31, 2016

<u>Federal Funding Source</u>	<u>Administering Department</u>	<u>Program Name</u>	<u>Federal Domestic Assistance Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Federal Expenditures</u>
U.S. Environmental Protection Agency	Minnesota Public Facilities Authority	Capitalization Grants for Drinking Water State Revolving Funds	66.468	MPFA-16-002-R-FY16	\$ 622,596
U.S. Department of Housing and Urban Development	Minnesota Department of Trade and Economic Development	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	CDAP-14-003-O-FY15	121,786
U.S. Department of Homeland Security	Direct	Assistance to Firefighters Grant	97.044	N/A	89,824
U.S. Department of Agriculture	Direct	Community Facilities Loans and Grants	10.766	N/A	<u>50,000</u>
Total Federal Expenditures					<u>\$ 884,206</u>



CITY OF HARMONY, MINNESOTA  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016

**Note 1: Basis of presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of City of Harmony, Minnesota, (the City) for the year ended December 31, 2016. The City's reporting entity is defined in Note 1A to the City's financial statements. The information in this schedule is presented in accordance with the requirement of the Uniform Guidance, Audits of States, Local Governments, and Non-Profit Organizations. All Federal awards received directly from Federal agencies as well as Federal awards passed through other government agencies are included on the schedule.

**Note 2: Summary of significant accounting policies for expenditures**

Expenditures reported on this schedule are reported on the accrual and modified accrual basis of accounting.

**Note 3: Pass-through entity identifying numbers**

Pass-through entity identifying numbers, if any, are presented where available.

**Note 4: Subrecipients**

No federal expenditures presented in this schedule were provided to subrecipients.

**Note 5: Indirect cost rate**

During the year ended December 31, 2016, the City did not elect to use the 10 percent de minimis indirect cost rate.

CITY OF HARMONY, MINNESOTA  
 SCHEDULE OF FINDINGS, RESPONSES AND QUESTIONED COSTS  
 FOR THE YEAR ENDED DECEMBER 31, 2016

**Section I - Summary of Auditor's Results**

***Financial Statements***

Type of auditor's report issued	Unmodified
Internal control over financial reporting	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

***Federal Awards***

Internal control over major programs	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2CFR section 200.516(a) of the Uniform Guidance.	Yes

***Identification of Major Programs/Projects***

	<b>CFDA No.</b>
U.S. Environmental Protection Agency	
Capitalization Grants for Drinking Water State Revolving Funds	66.468
Dollar threshold used to distinguish between Type A and Type B Programs	\$ 750,000
Auditee qualified as low-risk auditee?	No

**Section II - Financial Statement Findings**

One significant deficiency (finding 2016-001) relating to the audit of the financial statements is reported in the Report on Internal Control and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.

**Section III - Major Federal Award Findings and Questioned Costs**

There are no significant deficiencies or material weaknesses that required to be reported in accordance with the Uniform Guidance. There are no instances of noncompliance including questioned costs that are required to be reported in accordance with the Uniform Guidance. Finding 2016-002 is reported but does not qualify as an instance of material noncompliance.

**Section IV - Corrective Action Plans**

Corrective Action Plans are attached as required to be reported under the Federal Single Audit Act.

**Section V - Schedule of Prior Year Audit Findings**

There were prior year audit findings that are attached.

CITY OF HARMONY, MINNESOTA  
SCHEDULE OF FINDINGS, RESPONSES AND QUESTIONED COSTS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding

Description

**2016-001**

**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, RESPONSES AND QUESTIONED COSTS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding

Description

**2016-001**

**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 2017.

*Updated progress from prior year:*

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

# ***CITY OF HARMONY***

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CITY OF HARMONY, MINNESOTA  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2016

**2016-001          Segregation of duties**

**CORRECTIVE ACTION PLAN (CAP)**

**1.          Explanation of Disagreements with Audit Finding:**

There is no disagreement with the audit finding.

**2.          Actions Planned in Response to Finding:**

The City Council is taking an active role in management of City functions.

**3.          Official Responsible for Ensuring CAP:**

Jerome Illg, Administrator, is the official responsible for ensuring corrective action of the deficiency.

**4.          Planned Completion Date for CAP:**

Continual.

**5.          Plan to Monitor Completion of CAP:**

The Council will be monitoring this corrective action plan.

Sincerely,



Jerome Illg,  
Administrator