

Annual Financial Report

City of Harmony
Harmony, Minnesota

For the Year Ended
December 31, 2017

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City of Harmony, Minnesota
Annual Financial Report
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For the Year Ended December 31, 2017

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INTRODUCTORY SECTION

CITY OF HARMONY
HARMONY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

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City of Harmony, Minnesota
Elected and Appointed Officials
For the Year Ended December 31, 2017

ELECTED

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steve Donney	Mayor	12/31/18
Lynn Mensink	Council	12/31/20
Steve Sagen	Council	12/31/18
Kyle Morem	Council	12/31/18
Debbie Swenson	Council	12/31/20

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, 2017

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Harmony, Minnesota, 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, Minnesota (the City), as of and for the year ended December 31, 2017, 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
Capital Projects Fund	Unmodified
2017 Street and Utility Project Fund	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, 2017, 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, 2017, 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 2016 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 March 17, 2017. 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, 2016, 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 17 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

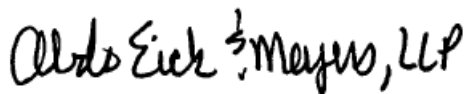
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are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

The combining and individual fund financial statements 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 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 19, 2018, 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 19, 2018

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Management's Discussion and Analysis

As management of the City of Harmony, Minnesota, 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, 2017.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$10,745,217 (net position). Of this amount \$3,101,453 (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 \$2,681,440, an increase of \$278,802 in comparison with the prior year. Approximately 16.7 percent of the total amount, \$448,165, 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 (\$33,544) 2) restricted \$579,871), 3) committed (\$889,627), or 4) assigned (\$730,233).
- At the end of the current fiscal year, unassigned fund balance for the General fund was \$561,733, or 88.3 percent of total General fund expenditures.
- The City's total debt increased by \$822,744, or 44.9 percent during the current fiscal year. This was attributable to the issuance of the 2017A General Obligation Improvement & Utility Revenue Note for \$1,035,000. Debt retirements during the year totaled \$212,256.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

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

Figure 1
Required Components of the
City's Annual Financial Report

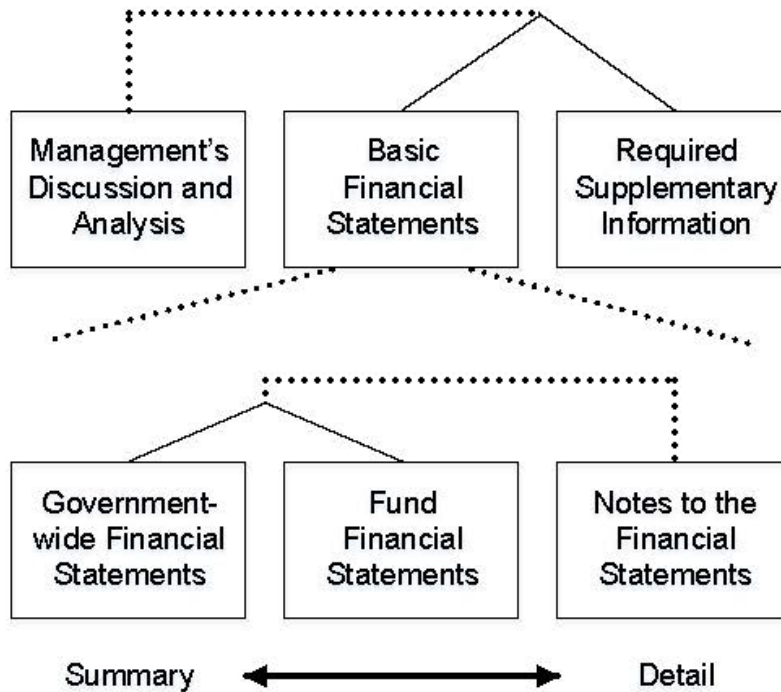


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the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

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

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

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

The *statement of net position* presents information on all of the City’s assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, streets and highway, culture and recreation, economic development and miscellaneous. The business-type activities of the City include water utility, sewer utility, refuse and recycling, electric and storm 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 31 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact by the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 18 individual governmental funds, five 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, the 2017 Street and Utility Project 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 36 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 48 of this report.

Fiduciary funds. The fiduciary fund financial statements can be found starting on page 54 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 57 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 82 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$10,745,217 at the close of the most recent fiscal year.

A large portion of the City's net position (66.5 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, Minnesota's Summary of Net Position

	Governmental Activities			Business-type Activities		
	2017	2016	Increase (Decrease)	2017	2016	Increase (Decrease)
Current and Other Assets	\$ 3,256,709	\$ 2,872,335	\$ 384,374	\$ 1,073,450	\$ 1,018,317	\$ 55,133
Capital Assets	3,909,970	3,189,922	720,048	5,492,533	5,023,964	468,569
Total Assets	<u>7,166,679</u>	<u>6,062,257</u>	<u>1,104,422</u>	<u>6,565,983</u>	<u>6,042,281</u>	<u>523,702</u>
Long-term Liabilities Outstanding	1,614,693	822,883	791,810	1,118,887	1,101,009	17,878
Other Liabilities	137,566	204,476	(66,910)	116,299	123,501	(7,202)
Total Liabilities	<u>1,752,259</u>	<u>1,027,359</u>	<u>724,900</u>	<u>1,235,186</u>	<u>1,224,510</u>	<u>10,676</u>
Net Investment in Capital Assets	2,747,200	2,817,922	(70,722)	4,397,533	3,955,708	441,825
Restricted	499,031	148,481	350,550	-	-	-
Unrestricted	<u>2,168,189</u>	<u>2,068,495</u>	<u>99,694</u>	<u>933,264</u>	<u>862,063</u>	<u>71,201</u>
Total Net Position	<u>\$ 5,414,420</u>	<u>\$ 5,034,898</u>	<u>\$ 379,522</u>	<u>\$ 5,330,797</u>	<u>\$ 4,817,771</u>	<u>\$ 513,026</u>

An additional portion of the City's net assets (4.6 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (28.9 percent) may be used to meet the City's ongoing obligations to citizens and creditors.

The City's net position increased by \$892,548 during the current fiscal year. The majority of this increase is attributable to capital grants and contributions for the governmental and business-type activities related to programs and activities including, but not limited to, the Small Cities Development Program, FEMA grants and developer contributed infrastructure.

Governmental activities. Governmental activities increased the City's net position by \$379,522. Key elements of this increase are as follows:

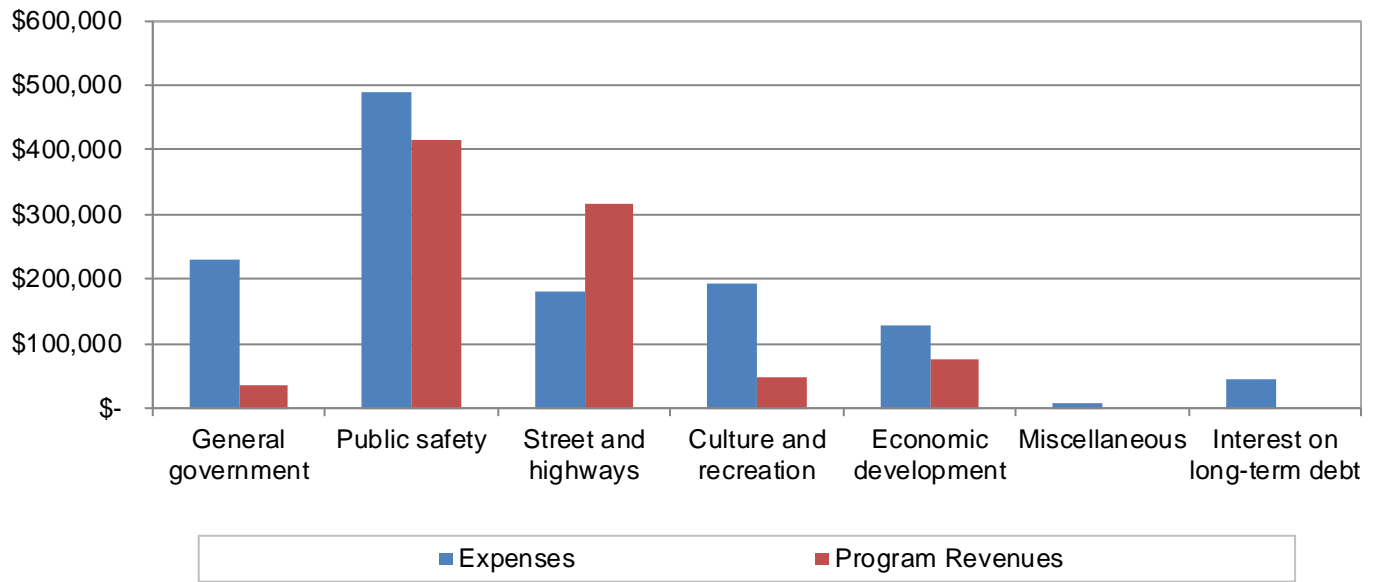
City of Harmony, Minnesota's Changes in Net Position

	Governmental Activities			Business-type Activities		
	2017	2016	Increase (Decrease)	2017	2016	Increase (Decrease)
Revenues						
Program Revenues						
Charges for services	\$ 316,736	\$ 383,886	\$ (67,150)	\$ 1,603,361	\$ 1,579,910	\$ 23,451
Operating grants and contributions	144,514	205,871	(61,357)	12,948	11,839	1,109
Capital grants and contributions	431,341	180,815	250,526	142,608	30,529	112,079
General revenues						
Property taxes/tax increments	619,586	575,652	43,934	-	-	-
Other taxes	4,419	4,410	9	-	-	-
Grants and contributions not restricted to specific programs	343,427	343,045	382	-	-	-
Unrestricted						
investment earnings	7,689	6,136	1,553	3,404	1,480	1,924
Gain on sale of fixed assets	86,858	10,800	76,058	-	-	-
Total Revenues	1,954,570	1,710,615	243,955	1,762,321	1,623,758	138,563
Expenses						
General government	230,809	250,803	(19,994)	-	-	-
Public safety	488,109	539,079	(50,970)	-	-	-
Streets and highways	180,337	168,511	11,826	-	-	-
Culture and recreation	192,654	186,825	5,829	-	-	-
Economic development	129,045	134,195	(5,150)	-	-	-
Miscellaneous	7,115	13,403	(6,288)	-	-	-
Interest on long-term debt	46,290	29,121	17,169	-	-	-
Water utility	-	-	-	199,261	169,083	30,178
Sewer utility	-	-	-	307,946	282,712	25,234
Electric utility	-	-	-	957,157	957,303	(146)
Refuse and recycling	-	-	-	57,220	68,773	(11,553)
Storm water	-	-	-	28,400	26,547	1,853
Total Expenses	1,274,359	1,321,937	(47,578)	1,549,984	1,504,418	45,566
Increase (Decrease) in Net						
Assets before Transfers	680,211	388,678	291,533	212,337	119,340	92,997
Transfers of Capital Assets	(370,439)	-	(370,439)	370,439	-	370,439
Transfers	69,750	82,250	(12,500)	(69,750)	(82,250)	12,500
Change in Net Position	379,522	470,928	(91,406)	513,026	37,090	475,936
Net Position - January 1	5,034,898	4,563,970	470,928	4,817,771	4,780,681	37,090
Net Position - December 31	\$ 5,414,420	\$ 5,034,898	\$ 379,522	\$ 5,330,797	\$ 4,817,771	\$ 513,026

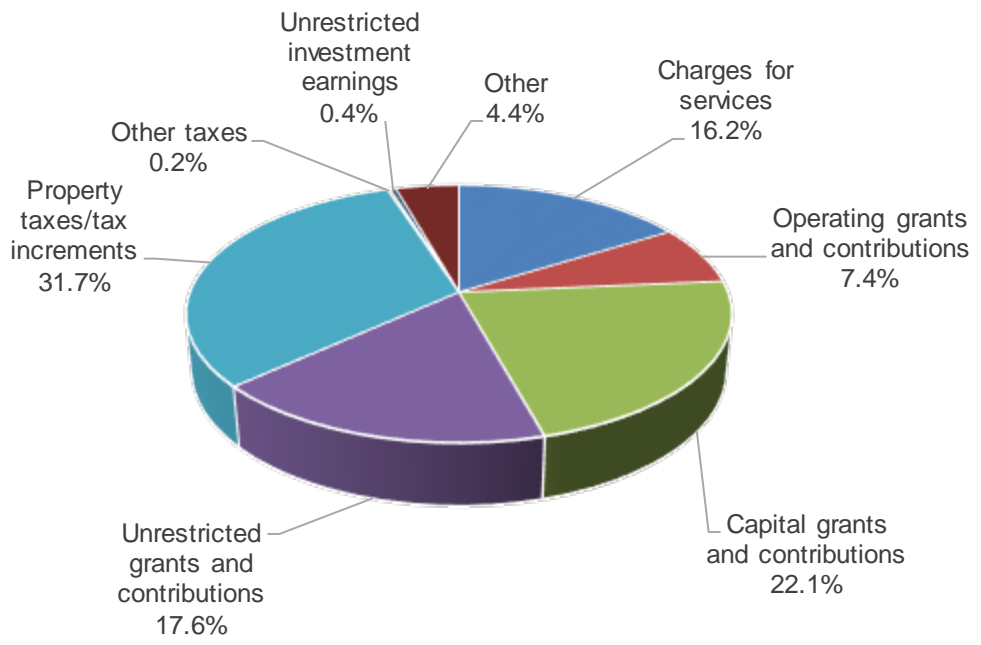
Property tax levies increased 4.0 percent during the year.

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

Expenses and Program Revenues - Governmental Activities

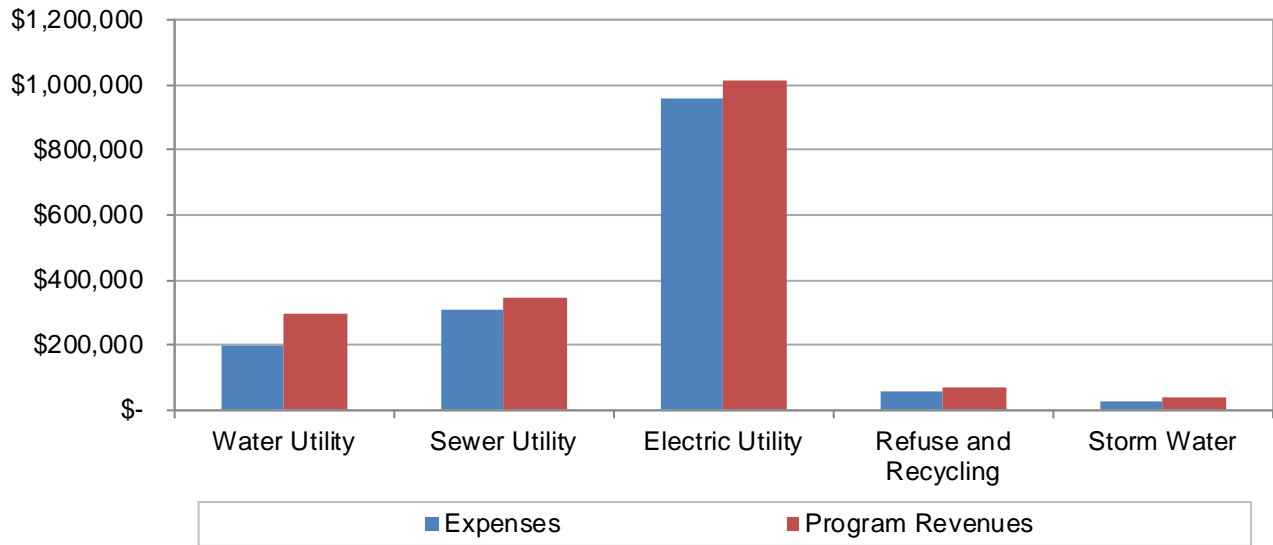


Revenues by Source - Governmental Activities

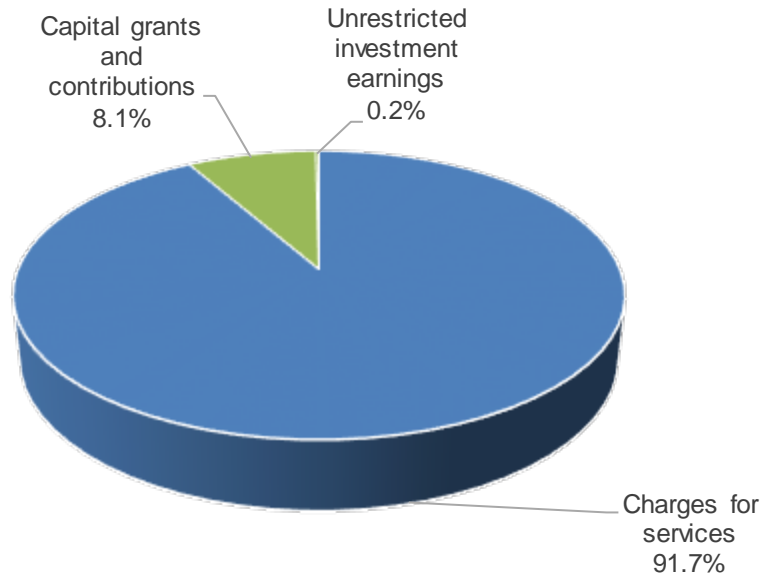


Business-type activities. Business-type activities increased the City's net position by \$513,026.

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 \$2,681,440, an increase of \$278,802 in comparison with the prior year. Approximately 16.7 percent of the total amount, \$448,165, 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 (\$33,544) 2) restricted (\$579,871), 3) committed (\$889,627), or 4) assigned (\$730,233).

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 \$846,090, \$561,733 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 133.0 percent of fund expenditures.

The fund balance of the City's General fund decreased by \$39,364 during the current fiscal year. The key factor in this decrease was mainly related to capital outlay for government buildings and streets and highways due to the purchase of various vehicles and equipment.

The Fire fund has a total deficit fund balance of \$41,096, of which \$4,807 is nonspendable and the remainder unassigned. The net increase in fund balance during the current year in this fund was \$14,303. This was mainly attributable to \$35,000 of contributions and donations as well as other revenues in excess of expenditures. These contributions will be used for future equipment needs. Capital purchases during the year totaled \$67,829 which were funded by FEMA revenue and transfers from other funds.

The Ambulance fund has a total fund balance of \$144,890 of which \$3,398 is nonspendable and the remainder assigned for ambulance services. The net decrease in fund balance during the current year in this fund was \$28,858. 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 \$323,753 of which \$198,304 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 \$9,266 due to loan repayments.

The Economic Development Authority fund has a total fund balance of \$125,177 of which \$27 is nonspendable and the remainder assigned for economic development. The net increase in fund balance during the current year in this fund was \$26,129 due to less than anticipated expenditures.

The Debt Service fund has a total fund balance of \$338,198. The net increase in fund balance during the current year was \$101,829 mainly due to prepaid special assessments related to the 2017 street and utility project.

The Capital Projects fund has a total fund balance of \$691,323, all of which is committed for future capital outlay. The net increase in fund balance during the current year in this fund was \$44,770 due to transfers in from various other governmental funds for future capital outlay.

The 2017 Street and Utility Project fund has a total fund balance of \$61,230, all of which is restricted. The net increase in fund balance during the current year in this fund was \$72,299 due to note proceeds exceeding project costs that will be used for future projects.

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 \$933,264. The total growth in net position for the funds was \$513,026. 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 \$26,004 while expenditures were over budget by \$93,156 in 2017. The General fund budgeted for an increase in reserves by \$5,083.

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, 2017, amounts to \$9,402,503 (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 14.5 percent (a 22.6 percent increase for governmental activities and a 9.3 percent increase for business-type activities).

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

- The purchase of an ambulance at a total of \$192,554.
- The purchase of street lights for Main Avenue amounted to \$35,749.
- The purchase of fire protection gear totaling \$47,784.
- Street, water and sewer improvements on the 2017 street and utility project amounted to \$474,782, \$256,084 and \$114,354, respectively.
- The purchase of a tractor with loader costing \$85,000.
- Water main looping project at the fire hall and wastewater treatment plant totaled \$77,832.

Additional information on the City's capital assets can be found in Note 3C starting on pages 68 of this report.

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

	Governmental Activities			Business-type Activities		
	2017	2016	Increase (Decrease)	2017	2016	Increase (Decrease)
Land	\$ 331,567	\$ 331,567	\$ -	\$ 36,415	\$ 36,415	\$ -
Construction in Progress	557,641	11,069	546,572	-	-	-
Buildings and Improvements	565,656	597,490	(31,834)	1,235,081	1,319,376	(84,295)
Systems and Infrastructure	1,238,068	1,281,683	(43,615)	2,945,745	2,364,680	581,065
Equipment and Machinery	503,828	397,941	105,887	1,275,292	1,303,493	(28,201)
Vehicles	713,210	570,172	143,038	-	-	-
Total	\$ 3,909,970	\$ 3,189,922	\$ 720,048	\$ 5,492,533	\$ 5,023,964	\$ 468,569

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$2,656,000, all of which consist of G.O. Improvement bonds, G.O. Tax Abatement bonds and G.O. Revenue bonds. While all of the City's bonds have revenue streams, they are all backed by the full faith and credit of the City.

City of Harmony, Minnesota's Outstanding Debt

	Governmental Activities			Business-type Activities		
	2017	2016	Increase (Decrease)	2017	2016	Increase (Decrease)
G.O. Improvement Bonds	\$ 1,224,000	\$ 372,000	\$ 852,000	\$ -	\$ -	\$ -
G.O. Tax Abatement Bonds	337,000	393,000	(56,000)	-	-	-
G.O. Revenue Bonds	-	-	-	1,095,000	1,068,256	26,744
Total	<u>\$ 1,561,000</u>	<u>\$ 765,000</u>	<u>\$ 796,000</u>	<u>\$ 1,095,000</u>	<u>\$ 1,068,256</u>	<u>\$ 26,744</u>

The City's total debt increased by \$822,744, or 44.9 percent during the current fiscal year. This was attributable to the issuance of the 2017A General Obligation Improvement & Utility Revenue Note for \$1,035,000. Debt retirements during the year totaled \$212,256.

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 \$1,579,153. 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 73 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Fillmore County is currently 3.5 percent, which is an decrease from a rate of 4.4 percent a year ago. This compares unfavorably to the State's average unemployment rate of 3.3 percent but favorable to the national average rate of 3.9 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 2018 fiscal year.

Property tax levies will increase by approximately 10.5 percent which will be offset by an increase in taxable property valuations. The increase is due to repayment of debt issued for the 2017 street and utility project.

The City of Harmony has a housing incentive program that pledges future taxes from newly build home(s) to the owner. Several homes have been constructed utilizing the program over the past few years.

The City of Harmony utilized the housing incentive program concept to fund a 10 residential lot development for the construction of homes over the next 10 years.

The City of Harmony modified utility rates in 2017 and will continue to review rates annually.

The City of Harmony will be updating its future capital improvement plan which will assist in planning for financing future street and utility projects and other needs.

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, Minnesota, 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, 2017

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City of Harmony, Minnesota
Statement of Net Position
December 31, 2017

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and temporary investments	\$ 2,389,917	\$ 798,943	\$ 3,188,860
Receivables			
Interest	3,935	-	3,935
Delinquent taxes	15,149	-	15,149
Accounts	65,799	148,357	214,156
Loans	378,747	-	378,747
Special assessments	439,124	1,472	440,596
Intergovernmental	8,668	-	8,668
Internal balances	(75,093)	75,093	-
Inventories	-	35,254	35,254
Prepaid items	30,463	14,331	44,794
Capital assets			
Nondepreciable land and construction in progress	889,208	36,415	925,623
Depreciable assets (net of accumulated depreciation)	3,020,762	5,456,118	8,476,880
Total Assets	<u>7,166,679</u>	<u>6,565,983</u>	<u>13,732,662</u>
Liabilities and Net Position			
Liabilities			
Accounts payable	56,973	89,405	146,378
Deposits payable	-	14,439	14,439
Due to other governments	56,399	5,628	62,027
Accrued interest payable	16,570	4,334	20,904
Accrued salaries payable	7,624	2,493	10,117
Noncurrent liabilities			
Due within one year	149,945	86,241	236,186
Due in more than one year	1,464,748	1,032,646	2,497,394
Total Liabilities	<u>1,752,259</u>	<u>1,235,186</u>	<u>2,987,445</u>
Net Position			
Net investment in capital assets	2,747,200	4,397,533	7,144,733
Restricted			
Economic development	180,443	-	180,443
Debt service	318,588	-	318,588
Unrestricted	<u>2,168,189</u>	<u>933,264</u>	<u>3,101,453</u>
Total Net Position	<u>\$ 5,414,420</u>	<u>\$ 5,330,797</u>	<u>\$ 10,745,217</u>

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, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General government	\$ 230,809	\$ 35,350	\$ -	\$ -
Public safety	488,109	253,550	43,853	117,273
Streets and highways	180,337	1,763	-	314,068
Culture and recreation	192,654	6,403	43,390	-
Economic development	129,045	19,670	57,271	-
Miscellaneous	7,115	-	-	-
Interest and other costs	46,290	-	-	-
Total Governmental Activities	1,274,359	316,736	144,514	431,341
Business-type Activities				
Water utility	199,261	211,242	-	84,541
Sewer utility	307,946	307,938	-	37,464
Electric utility	957,157	999,864	12,948	-
Refuse and recycling	57,220	67,996	-	-
Storm water	28,400	16,321	-	20,603
Total Business-type Activities	1,549,984	1,603,361	12,948	142,608
Total	\$ 2,824,343	\$ 1,920,097	\$ 157,462	\$ 573,949

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
- Transfer of capital assets
- Transfers
- Total General Revenues and Transfers

Change in Net Position

Net Position, January 1

Net Position, December 31

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

Net (Expense) Revenue and
Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (195,459)		\$ (195,459)
(73,433)		(73,433)
135,494		135,494
(142,861)		(142,861)
(52,104)		(52,104)
(7,115)		(7,115)
(46,290)		(46,290)
<u>(381,768)</u>		<u>(381,768)</u>
	\$ 96,522	96,522
	37,456	37,456
	55,655	55,655
	10,776	10,776
	8,524	8,524
	<u>208,933</u>	<u>208,933</u>
<u>(381,768)</u>	<u>208,933</u>	<u>(172,835)</u>
182,196	-	182,196
276,450	-	276,450
137,020	-	137,020
23,920	-	23,920
4,419	-	4,419
343,427	-	343,427
7,689	3,404	11,093
86,858	-	86,858
(370,439)	370,439	-
69,750	(69,750)	-
<u>761,290</u>	<u>304,093</u>	<u>1,065,383</u>
379,522	513,026	892,548
<u>5,034,898</u>	<u>4,817,771</u>	<u>9,852,669</u>
<u>\$ 5,414,420</u>	<u>\$ 5,330,797</u>	<u>\$ 10,745,217</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, 2017

City of Harmony, Minnesota
Balance Sheet
Governmental Funds
December 31, 2017

	101	222	223	201
	General	Fire	Ambulance	Revolving Loan
Assets				
Cash and temporary investments	\$ 902,341	\$ 25,407	\$ 88,904	\$ 68,093
Receivables				
Interest	3,935	-	-	-
Delinquent taxes	12,268	-	-	-
Accounts	5,689	4,545	55,565	-
Loans	-	-	-	198,304
Special assessments	284	-	-	-
Intergovernmental	5,422	1,150	-	-
Advances to other funds	3,081	-	-	57,356
Prepaid items	19,459	4,807	3,398	-
	<u>\$ 952,479</u>	<u>\$ 35,909</u>	<u>\$ 147,867</u>	<u>\$ 323,753</u>
Liabilities				
Accounts payable	\$ 32,594	\$ 1,910	\$ 1,434	\$ -
Advances from other funds	-	75,093	-	-
Accrued salaries payable	4,844	2	1,543	-
Due to other governments	56,399	-	-	-
Total Liabilities	<u>93,837</u>	<u>77,005</u>	<u>2,977</u>	<u>-</u>
Deferred Inflows of Resources				
Unavailable revenue - property taxes	12,268	-	-	-
Unavailable revenue - special assessments	284	-	-	-
Total Deferred Inflows of Resources	<u>12,552</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Nonspendable				
Prepaid items	19,459	4,807	3,398	-
Advances to other funds	3,081	-	-	-
Restricted				
Economic development	-	-	-	-
Capital projects	-	-	-	-
Debt service	-	-	-	-
Committed				
Capital outlay	-	-	-	-
Loans	-	-	-	198,304
Assigned				
Working capital	261,817	-	-	-
Economic development	-	-	-	125,449
Park and recreation	-	-	-	-
Public safety	-	-	141,492	-
Unassigned	561,733	(45,903)	-	-
Total Fund Balances	<u>846,090</u>	<u>(41,096)</u>	<u>144,890</u>	<u>323,753</u>
	<u>\$ 952,479</u>	<u>\$ 35,909</u>	<u>\$ 147,867</u>	<u>\$ 323,753</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances				
	<u>\$ 952,479</u>	<u>\$ 35,909</u>	<u>\$ 147,867</u>	<u>\$ 323,753</u>

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

620	300's	401	423	Other	
EDA	Debt Service	Capital Projects	2017 Street and Utility Project	Governmental Funds	Totals
\$ 119,704	\$ 336,102	\$ 691,323	\$ 76,684	\$ 81,359	\$ 2,389,917
-	-	-	-	-	3,935
-	2,881	-	-	-	15,149
-	-	-	-	-	65,799
-	-	-	-	180,443	378,747
107,761	331,079	-	-	-	439,124
-	2,096	-	-	-	8,668
6,204	-	-	-	-	66,641
27	-	-	-	2,772	30,463
<u>\$ 233,696</u>	<u>\$ 672,158</u>	<u>\$ 691,323</u>	<u>\$ 76,684</u>	<u>\$ 264,574</u>	<u>\$ 3,398,443</u>
\$ 562	\$ -	\$ -	\$ 15,454	\$ 5,019	\$ 56,973
-	-	-	-	66,641	141,734
196	-	-	-	1,039	7,624
-	-	-	-	-	56,399
<u>758</u>	<u>-</u>	<u>-</u>	<u>15,454</u>	<u>72,699</u>	<u>262,730</u>
-	2,881	-	-	-	15,149
107,761	331,079	-	-	-	439,124
<u>107,761</u>	<u>333,960</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>454,273</u>
27	-	-	-	2,772	30,463
-	-	-	-	-	3,081
-	-	-	-	180,443	180,443
-	-	-	61,230	-	61,230
-	338,198	-	-	-	338,198
-	-	691,323	-	-	691,323
-	-	-	-	-	198,304
-	-	-	-	-	261,817
125,150	-	-	-	10,722	261,321
-	-	-	-	65,603	65,603
-	-	-	-	-	141,492
-	-	-	-	(67,665)	448,165
<u>125,177</u>	<u>338,198</u>	<u>691,323</u>	<u>61,230</u>	<u>191,875</u>	<u>2,681,440</u>
<u>\$ 233,696</u>	<u>\$ 672,158</u>	<u>\$ 691,323</u>	<u>\$ 76,684</u>	<u>\$ 264,574</u>	<u>\$ 3,398,443</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, 2017

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

Total Fund Balances - Governmental Funds	\$ 2,681,440
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds.	3,909,970
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	(53,693)
Bonds and notes payable	(1,561,000)
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	15,149
Special assessments receivable	439,124
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(16,570)</u>
Total Net Position - Governmental Activities	<u><u>\$ 5,414,420</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, 2017

	101	222	223	201
	General	Fire	Ambulance	Revolving Loan
Revenues				
Taxes	\$ 188,367	\$ 29,550	\$ -	\$ -
Special assessments	1,390	-	-	-
Licenses and permits	7,341	-	-	-
Intergovernmental	372,389	69,859	29,171	-
Charges for services	1,718	53,363	179,278	-
Fines and forfeits	960	-	-	-
Investment earnings	3,223	201	86	132
Miscellaneous	41,380	37,432	28,189	9,264
Total Revenues	<u>616,768</u>	<u>190,405</u>	<u>236,724</u>	<u>9,396</u>
Expenditures				
Current				
General government	95,022	-	-	-
Government buildings	102,649	-	-	-
Public safety	112,882	61,313	201,987	-
Streets and highways	90,202	-	-	-
Culture and recreation	14,299	-	-	-
Economic development	4,356	-	-	130
Miscellaneous	7,115	-	-	-
Capital outlay				
General government	73,306	-	-	-
Public safety	32,211	67,289	143,595	-
Streets and highways	104,295	-	-	-
Culture and recreation	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other costs	-	-	-	-
Total Expenditures	<u>636,337</u>	<u>128,602</u>	<u>345,582</u>	<u>130</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(19,569)</u>	<u>61,803</u>	<u>(108,858)</u>	<u>9,266</u>
Other Financing Sources (Uses)				
Note proceeds	-	-	-	-
Sale of capital assets	15,205	-	-	-
Transfers in	66,000	12,500	117,500	-
Transfers out	(101,000)	(60,000)	(37,500)	-
Total Other Financing Sources (Uses)	<u>(19,795)</u>	<u>(47,500)</u>	<u>80,000</u>	<u>-</u>
Net Change in Fund Balances	(39,364)	14,303	(28,858)	9,266
Fund Balances, January 1	<u>885,454</u>	<u>(55,399)</u>	<u>173,748</u>	<u>314,487</u>
Fund Balances, December 31	<u>\$ 846,090</u>	<u>\$ (41,096)</u>	<u>\$ 144,890</u>	<u>\$ 323,753</u>

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

620	300's	401	423	Other	
EDA	Debt	Capital	2017 Street and	Governmental	Totals
	Service	Projects	Utility Project	Funds	
\$ 97,500	\$ 137,020	\$ -	\$ -	\$ 173,320	\$ 625,757
2,125	123,985	-	-	-	127,500
-	-	-	-	-	7,341
-	-	-	-	86,271	557,690
-	-	-	-	2,852	237,211
-	-	-	-	293	1,253
283	798	2,770	-	196	7,689
4,000	-	-	-	2,467	122,732
<u>103,908</u>	<u>261,803</u>	<u>2,770</u>	<u>-</u>	<u>265,399</u>	<u>1,687,173</u>
-	-	-	-	-	95,022
-	-	-	-	-	102,649
-	-	-	-	-	376,182
-	-	-	-	-	90,202
-	-	-	-	157,378	171,677
102,779	-	-	-	21,528	128,793
-	-	-	-	-	7,115
-	-	-	-	-	73,306
-	-	-	-	-	243,095
-	-	-	847,361	-	951,656
-	-	-	-	11,420	11,420
-	139,000	-	-	-	139,000
-	20,974	-	15,340	1,895	38,209
<u>102,779</u>	<u>159,974</u>	<u>-</u>	<u>862,701</u>	<u>192,221</u>	<u>2,428,326</u>
<u>1,129</u>	<u>101,829</u>	<u>2,770</u>	<u>(862,701)</u>	<u>73,178</u>	<u>(741,153)</u>
-	-	-	935,000	-	935,000
-	-	-	-	-	15,205
25,000	-	225,500	-	11,250	457,750
-	-	(183,500)	-	(6,000)	(388,000)
<u>25,000</u>	<u>-</u>	<u>42,000</u>	<u>935,000</u>	<u>5,250</u>	<u>1,019,955</u>
26,129	101,829	44,770	72,299	78,428	278,802
99,048	236,369	646,553	(11,069)	113,447	2,402,638
<u>\$ 125,177</u>	<u>\$ 338,198</u>	<u>\$ 691,323</u>	<u>\$ 61,230</u>	<u>\$ 191,875</u>	<u>\$ 2,681,440</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, 2017

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

Net Change in Fund Balances - Governmental Funds	\$ 278,802
<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	1,363,833
Depreciation expense	(260,643)
Contribution of capital assets to enterprise funds	(370,439)
<p>The net effect of various miscellaneous transactions involving capital assets.</p>	
Gain on disposal of capital assets	71,653
Book value of trade-in of capital assets	(84,356)
<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>	
Notes issued	(935,000)
Principal repayments	139,000
<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>	
	(8,081)
<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>	
	3,240
<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	177,324
<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	4,189
Change in Net Position - Governmental Activities	\$ 379,522

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, 2017

	General			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 185,787	\$ 185,787	\$ 188,367	\$ 2,580
Special assessments	-	-	1,390	1,390
Licenses and permits	7,200	7,200	7,341	141
Intergovernmental	358,427	358,427	372,389	13,962
Charges for services	600	600	1,718	1,118
Fines and forfeits	750	750	960	210
Investment earnings	1,500	1,500	3,223	1,723
Miscellaneous	36,500	36,500	41,380	4,880
Total Revenues	<u>590,764</u>	<u>590,764</u>	<u>616,768</u>	<u>26,004</u>
Expenditures				
Current				
General government	239,797	239,797	197,671	42,126
Public safety	120,794	120,794	112,882	7,912
Streets and highways	123,786	123,786	90,202	33,584
Culture and recreation	6,305	6,305	14,299	(7,994)
Economic development	8,000	8,000	4,356	3,644
Miscellaneous	8,499	8,499	7,115	1,384
Capital outlay				
General government	1,000	1,000	73,306	(72,306)
Public safety	27,500	27,500	32,211	(4,711)
Streets and highways	7,500	7,500	104,295	(96,795)
Total Expenditures	<u>543,181</u>	<u>543,181</u>	<u>636,337</u>	<u>(93,156)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>47,583</u>	<u>47,583</u>	<u>(19,569)</u>	<u>(67,152)</u>
Other Financing Sources (Uses)				
Sale of capital assets	5,000	5,000	15,205	10,205
Transfers in	43,500	43,500	66,000	22,500
Transfers out	(91,000)	(91,000)	(101,000)	(10,000)
Total Other Financing Sources (Uses)	<u>(42,500)</u>	<u>(42,500)</u>	<u>(19,795)</u>	<u>22,705</u>
Net Change in Fund Balances	5,083	5,083	(39,364)	(44,447)
Fund Balances, January 1	<u>885,454</u>	<u>885,454</u>	<u>885,454</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 890,537</u>	<u>\$ 890,537</u>	<u>\$ 846,090</u>	<u>\$ (44,447)</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, 2017
 (With Comparative Actual Amounts for Year Ended December 31, 2016)

	2017				2016
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Property taxes	\$ 29,550	\$ 29,550	\$ 29,550	\$ -	\$ 29,550
Intergovernmental	-	-	69,859	69,859	100,824
Charges for services	47,500	47,500	53,363	5,863	52,424
Investment earnings	-	-	201	201	107
Miscellaneous					
Contributions and donations	-	-	35,000	35,000	35,839
Other	17,300	17,300	2,432	(14,868)	4,700
Total Revenues	<u>94,350</u>	<u>94,350</u>	<u>190,405</u>	<u>96,055</u>	<u>223,444</u>
Expenditures					
Current					
Public safety					
Personal services	26,611	26,611	27,824	(1,213)	34,204
Supplies	10,800	10,800	4,285	6,515	7,517
Other services	21,254	21,254	17,184	4,070	23,811
Other charges	9,550	9,550	12,020	(2,470)	6,408
Capital outlay					
Public safety					
Fire	-	-	67,289	(67,289)	177,945
Total Expenditures	<u>68,215</u>	<u>68,215</u>	<u>128,602</u>	<u>(60,387)</u>	<u>249,885</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>26,135</u>	<u>26,135</u>	<u>61,803</u>	<u>35,668</u>	<u>(26,441)</u>
Other Financing Sources (Uses)					
Sale of capital assets	-	-	-	-	7,501
Transfers in	12,500	12,500	12,500	-	87,000
Transfers out	(35,000)	(35,000)	(60,000)	(25,000)	(40,000)
Total Other Financing Sources (Uses)	<u>(22,500)</u>	<u>(22,500)</u>	<u>(47,500)</u>	<u>(25,000)</u>	<u>54,501</u>
Net Change in Fund Balances	3,635	3,635	14,303	10,668	28,060
Fund Balances, January 1	<u>(55,399)</u>	<u>(55,399)</u>	<u>(55,399)</u>	<u>-</u>	<u>(83,459)</u>
Fund Balances, December 31	<u>\$ (51,764)</u>	<u>\$ (51,764)</u>	<u>\$ (41,096)</u>	<u>\$ 10,668</u>	<u>\$ (55,399)</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, 2017
(With Comparative Actual Amounts for Year Ended December 31, 2016)

	2017				2016
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Intergovernmental	\$ 20,071	\$ 20,071	\$ 29,171	\$ 9,100	\$ 28,071
Charges for services	182,500	182,500	179,278	(3,222)	215,134
Investment earnings	500	500	86	(414)	506
Miscellaneous					
Contributions and donations	-	-	25,887	25,887	-
Other	10,000	10,000	2,302	(7,698)	2,719
Total Revenues	<u>213,071</u>	<u>213,071</u>	<u>236,724</u>	<u>23,653</u>	<u>246,430</u>
Expenditures					
Current					
Public safety					
Personal services	115,575	115,575	118,660	(3,085)	128,489
Supplies	13,950	13,950	7,679	6,271	9,644
Other services	21,019	21,019	16,708	4,311	21,090
Other charges	39,740	39,740	58,940	(19,200)	63,437
Capital outlay					
Public safety	100,000	100,000	143,595	(43,595)	1,400
Total Expenditures	<u>290,284</u>	<u>290,284</u>	<u>345,582</u>	<u>(55,298)</u>	<u>224,060</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(77,213)</u>	<u>(77,213)</u>	<u>(108,858)</u>	<u>(31,645)</u>	<u>22,370</u>
Other Financing Sources (Uses)					
Transfers in	100,000	100,000	117,500	17,500	-
Transfers out	(37,500)	(37,500)	(37,500)	-	(37,500)
Total Financing Sources (Uses)	<u>62,500</u>	<u>62,500</u>	<u>80,000</u>	<u>17,500</u>	<u>(37,500)</u>
Net Change in Fund Balances	(14,713)	(14,713)	(28,858)	(14,145)	(15,130)
Fund Balances, January 1	<u>173,748</u>	<u>173,748</u>	<u>173,748</u>	<u>-</u>	<u>188,878</u>
Fund Balances, December 31	<u>\$ 159,035</u>	<u>\$ 159,035</u>	<u>\$ 144,890</u>	<u>\$ (14,145)</u>	<u>\$ 173,748</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, 2017
 (With Comparative Actual Amounts for Year Ended December 31, 2016)

	2017				2016
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Investment earnings	\$ -	\$ -	\$ 132	\$ 132	\$ 266
Miscellaneous					
Loan interest	35,000	35,000	8,964	(26,036)	10,115
Other	250	250	300	50	751
Total Revenues	<u>35,250</u>	<u>35,250</u>	<u>9,396</u>	<u>(25,854)</u>	<u>11,132</u>
Expenditures					
Current					
Economic development					
Other services	1,500	1,500	120	1,380	2,103
Other charges	-	-	10	(10)	25
Loans made	25,000	25,000	-	25,000	-
Total Expenditures	<u>26,500</u>	<u>26,500</u>	<u>130</u>	<u>26,370</u>	<u>2,128</u>
Net Change in Fund Balances	8,750	8,750	9,266	516	9,004
Fund Balances, January 1	<u>314,487</u>	<u>314,487</u>	<u>314,487</u>	-	<u>305,483</u>
Fund Balances, December 31	<u>\$ 323,237</u>	<u>\$ 323,237</u>	<u>\$ 323,753</u>	<u>\$ 516</u>	<u>\$ 314,487</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, 2017
(With Comparative Actual Amounts for Year Ended December 31, 2016)

	2017				2016
	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	1,000	1,000	2,125	1,125	118
Investment earnings	-	-	283	283	201
Miscellaneous					
Rents	-	-	-	-	500
Other	-	-	4,000	4,000	1,000
Total Revenues	<u>98,500</u>	<u>98,500</u>	<u>103,908</u>	<u>5,408</u>	<u>99,319</u>
Expenditures					
Current					
Economic development					
Personal services	16,658	16,658	16,923	(265)	16,749
Supplies	-	-	776	(776)	2
Other services	37,900	37,900	31,630	6,270	30,248
Other charges	64,560	64,560	53,450	11,110	57,677
Capital outlay					
Economic development	-	-	-	-	23,524
Total Expenditures	<u>119,118</u>	<u>119,118</u>	<u>102,779</u>	<u>16,339</u>	<u>128,200</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(20,618)</u>	<u>(20,618)</u>	<u>1,129</u>	<u>21,747</u>	<u>(28,881)</u>
Other Financing Sources (Uses)					
Sale of capital assets	-	-	-	-	6,000
Transfers in	15,000	15,000	25,000	10,000	25,000
Transfers out	-	-	-	-	(25,000)
Total Other Financing Sources (Uses)	<u>15,000</u>	<u>15,000</u>	<u>25,000</u>	<u>10,000</u>	<u>6,000</u>
Net Change in Fund Balances	(5,618)	(5,618)	26,129	31,747	(22,881)
Fund Balances, January 1	<u>99,048</u>	<u>99,048</u>	<u>99,048</u>	<u>-</u>	<u>121,929</u>
Fund Balances, December 31	<u>\$ 93,430</u>	<u>\$ 93,430</u>	<u>\$ 125,177</u>	<u>\$ 31,747</u>	<u>\$ 99,048</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, 2017 and 2016

	Business-type Activities - Business-type Activities - Enterprise Funds			
	601		602	
	Water Utility		Sewer Utility	
	2017	2016	2017	2016
Assets				
Current Assets				
Cash and temporary investments	\$ 169,776	\$ 194,849	\$ 6,061	\$ (2,285)
Receivables				
Accounts	27,144	25,788	29,129	28,010
Special assessments	-	-	1,472	2,209
Advance to other funds - current	-	-	-	-
Inventories	17,791	14,955	-	-
Prepaid items	3,482	3,533	4,595	4,191
Total Current Assets	218,193	239,125	41,257	32,125
Noncurrent Assets				
Advance to other funds - noncurrent	-	-	-	-
Capital assets, at cost				
Land	17,015	17,015	14,400	14,400
Buildings and improvements	-	-	2,351,348	2,351,348
Systems and infrastructure	1,376,627	926,984	870,413	707,139
Equipment and machinery	1,340,439	1,335,627	90,666	90,666
Vehicles	-	-	-	-
Less accumulated depreciation	(386,190)	(332,478)	(1,424,274)	(1,314,784)
Total Capital Assets (Net of Accumulated Depreciation)	2,347,891	1,947,148	1,902,553	1,848,769
Total Noncurrent Assets	2,347,891	1,947,148	1,902,553	1,848,769
Total Assets	2,566,084	2,186,273	1,943,810	1,880,894
Liabilities				
Current Liabilities				
Accounts payable	1,673	1,540	7,556	10,631
Deposits payable	-	-	-	-
Due to other governments	180	160	-	-
Advances from other funds - current	-	-	52,500	55,000
Accrued salaries payable	684	862	1,288	1,193
Accrued interest payable	3,627	1,450	707	820
Bonds payable - current	40,000	39,256	34,000	34,000
Compensated absences payable - current	2,226	4,613	6,451	7,107
Total Current Liabilities	48,390	47,881	102,502	108,751
Noncurrent Liabilities				
Compensated absences payable - noncurrent	2,211	5,387	5,892	6,138
Advances from other funds - noncurrent	-	-	52,500	100,000
Bonds payable - noncurrent	843,000	783,000	178,000	212,000
Total Noncurrent Liabilities	845,211	788,387	236,392	318,138
Total Liabilities	893,601	836,268	338,894	426,889
Net Position				
Net investment in capital assets	1,464,891	1,124,892	1,690,553	1,602,769
Unrestricted	207,592	225,113	(85,637)	(148,764)
Total Net Position	\$ 1,672,483	\$ 1,350,005	\$ 1,604,916	\$ 1,454,005

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

Business-type Activities -
Business-type Activities - Enterprise Funds

603		604		605		Totals	
Refuse and Recycling		Electric Utility		Storm Water Utility			
2017	2016	2017	2016	2017	2016	2017	2016
\$ 348	\$ 29	\$ 617,041	\$ 539,499	\$ 5,717	\$ 3,425	\$ 798,943	\$ 735,517
6,739	6,204	83,396	83,188	1,949	1,242	148,357	144,432
-	-	-	-	-	-	1,472	2,209
-	-	62,693	65,193	-	-	62,693	65,193
-	-	17,463	25,495	-	-	35,254	40,450
64	118	5,705	5,941	485	891	14,331	14,674
<u>7,151</u>	<u>6,351</u>	<u>786,298</u>	<u>719,316</u>	<u>8,151</u>	<u>5,558</u>	<u>1,061,050</u>	<u>1,002,475</u>
-	-	125,900	183,592	-	-	125,900	183,592
-	-	5,000	5,000	-	-	36,415	36,415
-	-	187,008	187,008	-	-	2,538,356	2,538,356
-	-	1,685,349	1,632,754	784,703	764,100	4,717,092	4,030,977
4,952	-	35,209	33,825	45,922	40,971	1,517,188	1,501,089
-	-	28,700	28,700	-	-	28,700	28,700
(495)	-	(1,172,264)	(1,124,851)	(361,995)	(339,460)	(3,345,218)	(3,111,573)
<u>4,457</u>	<u>-</u>	<u>769,002</u>	<u>762,436</u>	<u>468,630</u>	<u>465,611</u>	<u>5,492,533</u>	<u>5,023,964</u>
<u>4,457</u>	<u>-</u>	<u>894,902</u>	<u>946,028</u>	<u>468,630</u>	<u>465,611</u>	<u>5,618,433</u>	<u>5,207,556</u>
<u>11,608</u>	<u>6,351</u>	<u>1,681,200</u>	<u>1,665,344</u>	<u>476,781</u>	<u>471,169</u>	<u>6,679,483</u>	<u>6,210,031</u>
413	-	79,763	88,984	-	-	89,405	101,155
-	-	14,439	12,115	-	-	14,439	12,115
293	272	5,155	4,912	-	-	5,628	5,344
4,250	4,250	-	-	-	-	56,750	59,250
217	242	300	306	4	14	2,493	2,617
-	-	-	-	-	-	4,334	2,270
-	-	-	-	-	-	74,000	73,256
<u>1,299</u>	<u>1,589</u>	<u>2,118</u>	<u>2,773</u>	<u>147</u>	<u>311</u>	<u>12,241</u>	<u>16,393</u>
<u>6,472</u>	<u>6,353</u>	<u>101,775</u>	<u>109,090</u>	<u>151</u>	<u>325</u>	<u>259,290</u>	<u>272,400</u>
1,195	1,594	2,272	2,895	76	346	11,646	16,360
4,250	8,500	-	-	-	-	56,750	108,500
-	-	-	-	-	-	1,021,000	995,000
<u>5,445</u>	<u>10,094</u>	<u>2,272</u>	<u>2,895</u>	<u>76</u>	<u>346</u>	<u>1,089,396</u>	<u>1,119,860</u>
<u>11,917</u>	<u>16,447</u>	<u>104,047</u>	<u>111,985</u>	<u>227</u>	<u>671</u>	<u>1,348,686</u>	<u>1,392,260</u>
4,457	-	769,002	762,436	468,630	465,611	4,397,533	3,955,708
(4,766)	(10,096)	808,151	790,923	7,924	4,887	933,264	862,063
<u>\$ (309)</u>	<u>\$ (10,096)</u>	<u>\$ 1,577,153</u>	<u>\$ 1,553,359</u>	<u>\$ 476,554</u>	<u>\$ 470,498</u>	<u>\$ 5,330,797</u>	<u>\$ 4,817,771</u>

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, 2017 and 2016

	Business-type Activities - Business-type Activities - Enterprise Funds			
	601		602	
	Water Utility		Sewer Utility	
	2017	2016	2017	2016
Operating Revenues				
Charges for services	\$ 209,692	\$ 194,343	\$ 307,938	\$ 293,272
Operating Expenses				
Personal services	49,722	50,873	75,572	68,547
Supplies	7,626	6,406	18,672	24,005
Other services and charges	11,468	7,027	25,350	26,855
Insurance	4,398	4,698	5,279	5,923
Utilities	15,755	14,694	53,522	45,033
Purchased power	-	-	-	-
Repairs and maintenance	48,117	45,418	17,714	11,200
Depreciation	53,712	37,214	109,490	98,462
Total Operating Expenses	<u>190,798</u>	<u>166,330</u>	<u>305,599</u>	<u>280,025</u>
Operating Income (Loss)	<u>18,894</u>	<u>28,013</u>	<u>2,339</u>	<u>13,247</u>
Nonoperating Revenues (Expenses)				
Special assessments	-	-	-	-
Other income	1,550	-	-	-
Investment earnings (loss)	871	(531)	101	(134)
Interest and other expense	(8,463)	(2,753)	(2,347)	(2,687)
Total Nonoperating Revenues (Expenses)	<u>(6,042)</u>	<u>(3,284)</u>	<u>(2,246)</u>	<u>(2,821)</u>
Income (Loss) Before Contributions	12,852	24,729	93	10,426
Capital Contributions	84,541	30,382	37,464	147
Capital Contributions From Governmental Funds	256,085	-	114,354	-
Transfers Out	(31,000)	(31,000)	(1,000)	(1,000)
Change in Net Position	322,478	24,111	150,911	9,573
Net Position, January 1	<u>1,350,005</u>	<u>1,325,894</u>	<u>1,454,005</u>	<u>1,444,432</u>
Net Position, December 31	<u>\$ 1,672,483</u>	<u>\$ 1,350,005</u>	<u>\$ 1,604,916</u>	<u>\$ 1,454,005</u>

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

Business-type Activities -
Business-type Activities - Enterprise Funds

603		604		605		Totals	
Refuse and Recycling		Electric Utility		Storm Water Utility			
2017	2016	2017	2016	2017	2016	2017	2016
\$ 67,996	\$ 58,165	\$ 999,807	\$ 1,022,498	\$ 16,321	\$ 11,632	\$ 1,601,754	\$ 1,579,910
13,009	15,390	26,811	26,753	4,575	1,903	169,689	163,466
734	469	9,722	2,229	124	124	36,878	33,233
42,789	44,693	14,644	13,005	-	-	94,251	91,580
-	-	8,248	9,259	1,046	1,253	18,971	21,133
-	-	18,016	17,973	-	-	87,293	77,700
-	-	796,930	812,167	-	-	796,930	812,167
193	8,221	35,373	28,250	120	1,433	101,517	94,522
495	-	47,413	47,667	22,535	21,834	233,645	205,177
<u>57,220</u>	<u>68,773</u>	<u>957,157</u>	<u>957,303</u>	<u>28,400</u>	<u>26,547</u>	<u>1,539,174</u>	<u>1,498,978</u>
<u>10,776</u>	<u>(10,608)</u>	<u>42,650</u>	<u>65,195</u>	<u>(12,079)</u>	<u>(14,915)</u>	<u>62,580</u>	<u>80,932</u>
-	-	57	-	-	-	57	-
-	-	12,948	11,839	-	-	14,498	11,839
11	(18)	2,389	2,157	32	6	3,404	1,480
-	-	-	-	-	-	(10,810)	(5,440)
<u>11</u>	<u>(18)</u>	<u>15,394</u>	<u>13,996</u>	<u>32</u>	<u>6</u>	<u>7,149</u>	<u>7,879</u>
10,787	(10,626)	58,044	79,191	(12,047)	(14,909)	69,729	88,811
-	-	-	-	20,603	-	142,608	30,529
-	-	-	-	-	-	370,439	-
<u>(1,000)</u>	<u>(1,000)</u>	<u>(34,250)</u>	<u>(46,750)</u>	<u>(2,500)</u>	<u>(2,500)</u>	<u>(69,750)</u>	<u>(82,250)</u>
9,787	(11,626)	23,794	32,441	6,056	(17,409)	513,026	37,090
<u>(10,096)</u>	<u>1,530</u>	<u>1,553,359</u>	<u>1,520,918</u>	<u>470,498</u>	<u>487,907</u>	<u>4,817,771</u>	<u>4,780,681</u>
<u>\$ (309)</u>	<u>\$ (10,096)</u>	<u>\$ 1,577,153</u>	<u>\$ 1,553,359</u>	<u>\$ 476,554</u>	<u>\$ 470,498</u>	<u>\$ 5,330,797</u>	<u>\$ 4,817,771</u>

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, 2017 and 2016

	Business-type Activities - Business-type Activities - Enterprise Funds			
	601		602	
	Water Utility		Sewer Utility	
	2017	2016	2017	2016
Cash Flows From Operating Activities				
Receipts from customers	\$ 208,336	\$ 194,400	\$ 306,819	\$ 293,887
Payments to suppliers and vendors	(89,996)	(104,935)	(124,016)	(114,517)
Payments to and on behalf of employees	(55,463)	(50,319)	(76,379)	(68,318)
Other receipts	1,550	-	-	-
Net Cash Provided (Used) by Operating Activities	<u>64,427</u>	<u>39,146</u>	<u>106,424</u>	<u>111,052</u>
Cash Flows From Noncapital Financing Activities				
Principal received (paid) on advances from (to) other funds	-	-	(50,000)	155,000
Transfers to other funds	(31,000)	(31,000)	(1,000)	(1,000)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(31,000)</u>	<u>(31,000)</u>	<u>(51,000)</u>	<u>154,000</u>
Cash Flows From Capital and Related Financing Activities				
Special assessments received	-	-	737	883
Acquisition of capital assets	(113,829)	(643,935)	(11,456)	(413,811)
Principal paid on bonds and notes payable	(39,256)	(11,100)	(34,000)	(34,000)
Interest and fees paid on bonds and notes payable	(6,286)	(1,440)	(2,460)	(2,800)
Intergovernmental contributions for capital assets	-	39,240	-	-
Proceeds from bonds and notes issued	100,000	622,596	-	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(59,371)</u>	<u>5,361</u>	<u>(47,179)</u>	<u>(449,728)</u>
Cash Flows From Investing Activities				
Interest received (paid) on cash and temporary investments	871	(531)	101	(134)
Net Increase (Decrease) in Cash and Temporary Investments	(25,073)	12,976	8,346	(184,810)
Cash and Temporary Investments, January 1	194,849	181,873	(2,285)	182,525
Cash and Temporary Investments, December 31	<u>\$ 169,776</u>	<u>\$ 194,849</u>	<u>\$ 6,061</u>	<u>\$ (2,285)</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating income (loss)	\$ 18,894	\$ 28,013	\$ 2,339	\$ 13,247
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Other income related to operations	1,550	-	-	-
Depreciation	53,712	37,214	109,490	98,462
(Increase) decrease in assets				
Accounts receivable	(1,356)	57	(1,119)	615
Special assessments	-	-	-	-
Inventories	(2,836)	1,103	-	-
Prepaid items	51	87	(404)	478
Increase (decrease) in liabilities				
Accounts payable	133	(27,873)	(3,075)	(1,979)
Due to other governments	20	(9)	-	-
Deposits payable	-	-	-	-
Accrued salaries payable	(178)	218	95	314
Accrued interest payable	-	-	-	-
Compensated absences payable	(5,563)	336	(902)	(85)
Net Cash Provided (Used) by Operating Activities	<u>\$ 64,427</u>	<u>\$ 39,146</u>	<u>\$ 106,424</u>	<u>\$ 111,052</u>
Schedule of Noncash Investing, Capital and Financing Activities				
Capital contributions				
Infrastructure contributed from governmental funds	\$ 256,085	\$ -	\$ 114,354	\$ -
Capital assets acquired on account	\$ -	\$ -	\$ -	\$ -
Capital assets contributed by developers	<u>\$ 84,541</u>	<u>\$ -</u>	<u>\$ 37,464</u>	<u>\$ -</u>

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

Business-type Activities -
Business-type Activities - Enterprise Funds

603		604		605		Totals	
Refuse and Recycling		Electric Utility		Storm Water Utility			
2017	2016	2017	2016	2017	2016	2017	2016
\$ 67,461	\$ 56,618	\$ 999,599	\$ 1,024,467	\$ 15,614	\$ 11,256	\$ 1,597,829	\$ 1,580,628
(43,228)	(53,650)	(872,619)	(911,895)	(884)	(2,811)	(1,130,743)	(1,187,808)
(13,723)	(15,232)	(28,095)	(27,195)	(5,019)	(1,882)	(178,679)	(162,946)
-	-	12,948	11,839	-	-	14,498	11,839
10,510	(12,264)	111,833	97,216	9,711	6,563	302,905	241,713
(4,250)	12,750	60,192	(139,577)	-	(1,012)	5,942	27,161
(1,000)	(1,000)	(34,250)	(46,750)	(2,500)	(2,500)	(69,750)	(82,250)
(5,250)	11,750	25,942	(186,327)	(2,500)	(3,512)	(63,808)	(55,089)
-	-	57	-	-	-	794	883
(4,952)	-	(62,679)	(48,789)	(4,951)	-	(197,867)	(1,106,535)
-	-	-	-	-	-	(73,256)	(45,100)
-	-	-	-	-	-	(8,746)	(4,240)
-	-	-	-	-	-	-	39,240
-	-	-	-	-	-	100,000	622,596
(4,952)	-	(62,622)	(48,789)	(4,951)	-	(179,075)	(493,156)
11	(18)	2,389	2,157	32	6	3,404	1,480
319	(532)	77,542	(135,743)	2,292	3,057	63,426	(305,052)
29	561	539,499	675,242	3,425	368	735,517	1,040,569
\$ 348	\$ 29	\$ 617,041	\$ 539,499	\$ 5,717	\$ 3,425	\$ 798,943	\$ 735,517
\$ 10,776	\$ (10,608)	\$ 42,650	\$ 65,195	\$ (12,079)	\$ (14,915)	\$ 62,580	\$ 80,932
-	-	12,948	11,839	-	-	14,498	11,839
495	-	47,413	47,667	22,535	21,834	233,645	205,177
(535)	(1,547)	(208)	(4,223)	(707)	(376)	(3,925)	(5,474)
-	-	-	6,192	-	-	-	6,192
-	-	8,032	462	-	-	5,196	1,565
54	(76)	236	824	406	(1)	343	1,312
413	(250)	(521)	(29,871)	-	-	(3,050)	(59,973)
21	59	243	228	-	-	284	278
-	-	2,324	(655)	-	-	2,324	(655)
(25)	97	(6)	49	(10)	10	(124)	688
(689)	61	(1,278)	(491)	(434)	11	(8,866)	(168)
\$ 10,510	\$ (12,264)	\$ 111,833	\$ 97,216	\$ 9,711	\$ 6,563	\$ 302,905	\$ 241,713
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 370,439	\$ -
\$ -	\$ -	\$ -	\$ 8,700	\$ -	\$ -	\$ -	\$ 8,700
\$ -	\$ -	\$ -	\$ -	\$ 20,603	\$ -	\$ 142,608	\$ -

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, 2017

Assets	
Cash and cash equivalents	<u>\$ 10,439</u>
Net Position	
Unrestricted	<u>\$ 10,439</u>

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

City of Harmony, Minnesota
Statement of Changes in Fiduciary Net Position
Trust Fund
For the Year Ended December 31, 2017

Additions	
Investment income	\$ 124
Net Position, January 1	<u>10,315</u>
Net Position, December 31	<u><u>\$ 10,439</u></u>

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

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Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The City of Harmony, Minnesota (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.

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.

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 *2017 Street and Utility Project fund* accounts for the costs related to the various street projects (2nd Street NE, Center Street W, 2nd Avenue SW, 4th Street SW, 5th Street SW) within 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.

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.

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 registered with the Securities Exchange Commission (SEC) that follows the regulatory rules of the SEC. In accordance with GASB Statement No. 79, the City's investment in this pool is valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the 4M Liquid Asset Fund. Investments in the 4M Plus must be deposited for a minimum of 14 calendar days. Withdrawals prior to the 14-day restriction period will be subject to a penalty equal to seven days interest on the amount withdrawn. Seven days' notice of redemption is required for withdrawals of investments in the 4M Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption. Financial statements of the 4M Fund can be obtained by contracting RBC Global Management at 100 South Fifth Street, Suite 2300, Minneapolis, MN 55402-1240.

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 2017. 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, 2017 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.

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 acquisition 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:

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 2017 was \$77,580. The General fund is typically used to liquidate governmental compensated absences payable.

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 2017 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 net 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.

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, 2017

Note 2: Stewardship, Compliance and Accountability

A. Budgetary Information

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

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

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

B. Excess Expenditures Over Appropriations

Fund	Budget	Actual	Excess of Expenditures Over Appropriations
General	\$ 543,181	\$ 636,337	\$ 93,156
Special Revenue			
Fire	68,215	128,602	60,387
Ambulance	290,284	345,582	55,298

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, 2017:

Fund	Amount
Major	
Fire	\$ 41,096
Refuse and Recycling Enterprise	309
Special Revenue	
Library	1,136
Capital Projects	
TIF District #5	2,676
TIF District #6	63,546

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

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 \$2,918,801 and the bank balance was \$2,922,746. Of the bank balance, \$500,000 was covered by federal depository insurance. The remaining balance of \$2,422,746 was collateralized with securities held by the pledging financial institution's trust department in the City's name and a letter of credit.

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

Investments

As of December 31, 2017, 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>\$ 280,333</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	\$ 2,918,801
Investments	280,333
Cash on hand	<u>165</u>
Total cash and temporary investments	<u>\$ 3,199,299</u>
Cash and temporary investments	\$ 3,188,860
Fiduciary fund cash	<u>10,439</u>
Total	<u>\$ 3,199,299</u>

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2017

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, 2017 is \$198,304.

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. There were no receivable balances in this fund at December 31, 2017.

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, 2017 is \$180,443. A portion of the commercial notes are paid back to the City which totals \$486. These loans are secured by equipment and other assets.

C. Capital Assets

Capital asset activity for the City for the year ended December 31, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets not being Depreciated				
Land	\$ 331,567	\$ -	\$ -	\$ 331,567
Construction in progress	11,069	917,010	(370,438)	557,641
Total Capital Assets being Depreciated	<u>342,636</u>	<u>917,010</u>	<u>(370,438)</u>	<u>889,208</u>
Capital Assets being Depreciated				
Buildings and improvements	1,183,625	-	-	1,183,625
Systems and infrastructure	3,367,958	47,643	-	3,415,601
Equipment and machinery	761,895	222,455	(55,825)	928,525
Vehicles	1,298,629	248,366	(221,193)	1,325,802
Total Capital Assets being Depreciated	<u>6,612,107</u>	<u>518,464</u>	<u>(277,018)</u>	<u>6,853,553</u>
Less Accumulated Depreciation for				
Buildings and improvements	(586,135)	(31,834)	-	(617,969)
Systems and infrastructure	(2,086,275)	(91,258)	-	(2,177,533)
Equipment and machinery	(363,954)	(73,647)	12,904	(424,697)
Vehicles	(728,457)	(63,904)	179,769	(612,592)
Total Accumulated Depreciation	<u>(3,764,821)</u>	<u>(260,643)</u>	<u>192,673</u>	<u>(3,832,791)</u>
Total Capital Assets being Depreciated, Net	<u>2,847,286</u>	<u>257,821</u>	<u>(84,345)</u>	<u>3,020,762</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,189,922</u>	<u>\$ 1,174,831</u>	<u>\$ (454,783)</u>	<u>\$ 3,909,970</u>

The decrease in construction in progress is greater than the increase in capital assets due to assets contributed to proprietary funds.

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities				
Capital Assets not being Depreciated				
Land	\$ 36,415	\$ -	\$ -	\$ 36,415
Capital Assets being Depreciated				
Buildings and improvements	2,538,356	-	-	2,538,356
Systems and infrastructure	4,030,977	686,115	-	4,717,092
Equipment and machinery	1,501,089	16,099	-	1,517,188
Vehicles	28,700	-	-	28,700
Total Capital Assets being Depreciated	<u>8,099,122</u>	<u>702,214</u>	<u>-</u>	<u>8,801,336</u>
Less Accumulated Depreciation For				
Buildings and improvements	(1,218,980)	(84,295)	-	(1,303,275)
Systems and infrastructure	(1,666,297)	(105,050)	-	(1,771,347)
Equipment and machinery	(197,596)	(44,300)	-	(241,896)
Vehicles	(28,700)	-	-	(28,700)
Total Accumulated Depreciation	<u>(3,111,573)</u>	<u>(233,645)</u>	<u>-</u>	<u>(3,345,218)</u>
Total Capital Assets being Depreciated, Net	<u>4,987,549</u>	<u>468,569</u>	<u>-</u>	<u>5,456,118</u>
Business-type Activities Capital Assets, Net	<u>\$ 5,023,964</u>	<u>\$ 468,569</u>	<u>\$ -</u>	<u>\$ 5,492,533</u>

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

Governmental Activities		
General government		\$ 36,634
Public safety		112,119
Streets and highways		90,135
Culture and recreation		21,556
Economic development		199
Total Depreciation Expense - Governmental Activities		<u>\$ 260,643</u>

Business-type Activities		
Water utility		\$ 53,712
Sewer utility		109,490
Refuse and recycling		495
Electric utility		47,413
Storm water utility		22,535
Total Depreciation Expense - Business-type Activities		<u>\$ 233,645</u>

Construction Commitment

The City has an active construction project as of December 31, 2017. At year end the City's commitments are as follows:

Project	Spent-to-Date	Remaining Commitment
2017 Street and Utility Project	<u>\$ 729,324</u>	<u>\$ 14,884</u>

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

D. Interfund Receivables, Payables and Transfers

The composition of interfund balances at December 31, 2017 is as follows:

Advances to/from Other Funds

Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental TIF District #5	\$ 3,081
Revolving Loan	Nonmajor governmental TIF District #6	57,356
Electric Utility	Fire	75,093
	Sewer Utility	105,000
	Refuse and Recycling	8,500
EDA	Nonmajor governmental TIF District #6	6,204
		<u>255,234</u>
Totals		<u>\$ 255,234</u>

The General fund advanced \$3,081 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 and EDA fund advanced \$57,356 and \$6,204 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 \$75,093 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 \$105,000 and \$8,500, 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, 2017

Note 3: Detailed Notes on All Funds (Continued)

Interfund Transfers

In the year ended December 31, 2017, the City made the following transfers:

Fund	Transfers In						Total
	General	Fire	Ambulance	EDA	Capital Projects	Nonmajor Governmental	
Transfers Out							
Governmental							
General	\$ -	\$ -	\$ -	\$ 10,000	\$ 91,000	\$ -	\$ 101,000
Fire	-	-	-	-	60,000	-	60,000
Ambulance	-	12,500	-	-	25,000	-	37,500
Capital Projects	61,000	-	117,500	-	-	5,000	183,500
Nonmajor Governmental	-	-	-	-	6,000	-	6,000
Business-type							
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	6,250	34,250
Storm Water Utility	-	-	-	-	2,500	-	2,500
Total	\$ 66,000	\$ 12,500	\$ 117,500	\$ 25,000	\$ 225,500	\$ 11,250	\$ 457,750

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, 2017, the government made the following one-time transfers:

- Operating transfers from the Capital Projects fund to the General fund of \$61,000 to fund the purchase of a squad car, pick up, transfer and utility vehicle.
- 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 Ambulance fund of \$117,500 to cash flow the purchase of an ambulance.

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2017

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 terminated on June 30, 2017. The lease was not renewed.

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:

<u>Year Ending December 31</u>	<u>Amount</u>
2018	\$ 1,082
2019	992
Total	<u>\$ 2,074</u>

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2017

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	\$ 16,000
G.O. Improvement Bonds of 2014	370,000	2.25	08/01/14	02/01/22	273,000
G.O. Improvement Notes of 2017	935,000	3.05	09/01/17	02/01/28	<u>935,000</u>
Total General Obligation Improvement Bonds					<u><u>\$ 1,224,000</u></u>

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

Year Ending December 31,	G.O. Improvement Bonds Governmental Activities		
	Principal	Interest	Total
2018	\$ 68,000	\$ 31,959	\$ 99,959
2019	125,000	31,800	156,800
2020	139,000	28,206	167,206
2021	144,000	24,331	168,331
2022	147,000	20,344	167,344
2023 - 2027	494,000	54,869	548,869
2028	<u>107,000</u>	<u>1,631</u>	<u>108,631</u>
Total	<u><u>\$ 1,224,000</u></u>	<u><u>\$ 193,139</u></u>	<u><u>\$ 1,417,139</u></u>

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2017

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	\$ 150,000
G.O. Tax Abatement Bonds, 2013B	250,000	4.50	08/29/13	02/01/24	<u>187,000</u>
Total General Obligation Tax Abatement Bonds					<u><u>\$ 337,000</u></u>

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

Year Ending December 31,	G.O. Tax Abatement Bonds Governmental Activities		
	Principal	Interest	Total
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	44,000	4,341	48,341
2022 - 2024	<u>91,000</u>	<u>3,734</u>	<u>94,734</u>
Total	<u><u>\$ 337,000</u></u>	<u><u>\$ 42,026</u></u>	<u><u>\$ 379,026</u></u>

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2017

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	\$ 212,000
2015 Public Facilities Authority Bonds	857,100	1.00	11/10/15	08/20/35	783,000
G.O. Improvement Notes of 2017	100,000	3.05	09/01/17	02/01/28	<u>100,000</u>
Total G.O. Revenue Bonds					<u>\$ 1,095,000</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	\$ 209,692	\$ 307,938
Principal and Interest	45,542	36,460
Percentage of Revenues	21.7%	11.8%

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

Year Ending December 31,	G.O. Revenue Bonds		
	Business-type Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 74,000	\$ 12,746	\$ 86,746
2019	84,000	12,138	96,138
2020	85,000	11,119	96,119
2021	86,000	10,085	96,085
2022	87,000	9,025	96,025
2023 - 2027	303,000	30,892	333,892
2028 - 2032	235,000	13,988	248,988
2033 - 2035	141,000	2,840	143,840
Total	<u>\$ 1,095,000</u>	<u>\$ 102,833</u>	<u>\$ 1,197,833</u>

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Bonds Payable					
G.O. improvement bonds	\$ 372,000	\$ 935,000	\$ (83,000)	\$ 1,224,000	\$ 68,000
G.O. tax abatement bonds	393,000	-	(56,000)	337,000	58,000
Total Bonds Payable	<u>765,000</u>	<u>935,000</u>	<u>(139,000)</u>	<u>1,561,000</u>	<u>126,000</u>
Compensated Absences Payable	<u>57,883</u>	<u>25,036</u>	<u>(29,226)</u>	<u>53,693</u>	<u>23,945</u>
Governmental Activities Long-term Liabilities	<u>\$ 822,883</u>	<u>\$ 960,036</u>	<u>\$ (168,226)</u>	<u>\$ 1,614,693</u>	<u>\$ 149,945</u>
Business-type Activities					
Bonds Payable					
G.O. revenue bonds	\$ 1,068,256	\$ 100,000	\$ (73,256)	\$ 1,095,000	\$ 74,000
Compensated Absences Payable	<u>32,753</u>	<u>14,211</u>	<u>(23,077)</u>	<u>23,887</u>	<u>12,241</u>
Business-type Activities Long-term Liabilities	<u>\$ 1,101,009</u>	<u>\$ 114,211</u>	<u>\$ (96,333)</u>	<u>\$ 1,118,887</u>	<u>\$ 86,241</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.

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 2017. 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 2017. The City's contributions to the GERF for the years ending December 31, 2017, 2016 and 2015 were \$24,658, \$23,670 and \$23,192, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

Note 5: Defined Contribution Plan

There are 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, 2017, 2016 and 2015 were \$9,780, \$10,260 and \$9,660 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, 2017

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	\$	23,703
Contributions Made		
City (voluntary)		7,500
State aid		16,203
Actuarial Valuation Date		12/31/17
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
12/31/17	\$ 23,703	100.0 %	\$ -
12/31/16	24,827	100.0	-
12/31/15	58,903	100.0	-

City of Harmony, Minnesota
Notes to the Financial Statements
December 31, 2017

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
12/31/17	*	*	*	*	\$ 850
12/31/16	\$ 403,556	\$ 343,671	\$ 59,885	117.43 %	775
12/31/15	362,090	321,453	40,637	112.64	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 2017 were \$93,400.

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 \$52,638,418 at December 31, 2017 for a limit of \$1,579,153. 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 2017 was \$342,450 for LGA. This accounted for 55.5 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, 2017

City of Harmony, Minnesota
 Nonmajor Governmental Funds
 Combining Balance Sheet
 December 31, 2017

	Special Revenue			
	251	211	202	261
	Park Fund	Library Fund	Small Cities Grant	Arts Fund
Assets				
Cash and temporary investments	\$ 62,102	\$ 3,832	\$ 11,127	\$ 3,879
Loans	-	-	180,443	-
Prepaid items	2,465	307	-	-
Total Assets	<u>\$ 64,567</u>	<u>\$ 4,139</u>	<u>\$ 191,570</u>	<u>\$ 3,879</u>
Liabilities				
Accounts payable	\$ 179	\$ 4,292	\$ 405	\$ 143
Accrued salaries payable	56	983	-	-
Advances from other funds	-	-	-	-
Total Liabilities	<u>235</u>	<u>5,275</u>	<u>405</u>	<u>143</u>
Fund Balances				
Nonspendable				
Prepaid items	2,465	307	-	-
Restricted				
Economic development	-	-	180,443	-
Assigned				
Economic development	-	-	10,722	-
Culture and recreation	61,867	-	-	3,736
Unassigned	-	(1,443)	-	-
Total Fund Balances	<u>64,332</u>	<u>(1,136)</u>	<u>191,165</u>	<u>3,736</u>
Total Liabilities and Fund Balances	<u>\$ 64,567</u>	<u>\$ 4,139</u>	<u>\$ 191,570</u>	<u>\$ 3,879</u>

Capital Projects

418	420	
TIF	TIF	Total
District	District	Nonmajor
#5	#6	Funds
\$ 405	\$ 14	\$ 81,359
-	-	180,443
-	-	2,772
<u>\$ 405</u>	<u>\$ 14</u>	<u>\$ 264,574</u>
\$ -	\$ -	\$ 5,019
-	-	1,039
3,081	63,560	66,641
<u>3,081</u>	<u>63,560</u>	<u>72,699</u>
-	-	2,772
-	-	180,443
-	-	10,722
-	-	65,603
(2,676)	(63,546)	(67,665)
<u>(2,676)</u>	<u>(63,546)</u>	<u>191,875</u>
<u>\$ 405</u>	<u>\$ 14</u>	<u>\$ 264,574</u>

City of Harmony, Minnesota
 Nonmajor Governmental Funds
 Combining Statement of Revenues, Expenditures and
 Changes in Fund Balances
 For the Year Ended December 31, 2017

	Special Revenue			
	251	211	202	261
	Park Fund	Library Fund	Small Cities Grant	Arts Fund
Revenues				
Taxes				
Property taxes	\$ 59,700	\$ 83,700	\$ -	\$ 6,000
Tax increments	-	-	-	-
Intergovernmental	-	29,000	57,271	-
Charges for services	1,738	1,114	-	-
Fines and forfeits	-	293	-	-
Investment earnings (loss)	224	(78)	18	8
Miscellaneous				
Contributions and donations	1,260	890	-	-
Other	77	240	-	-
Total Revenues	<u>62,999</u>	<u>115,159</u>	<u>57,289</u>	<u>6,008</u>
Expenditures				
Current				
Culture and recreation	39,116	114,500	-	3,762
Economic development	-	-	21,191	-
Capital outlay				
Streets and highways	-	-	-	-
Culture and recreation	11,420	-	-	-
Debt service				
Interest and other costs	-	-	-	-
Total Expenditures	<u>50,536</u>	<u>114,500</u>	<u>21,191</u>	<u>3,762</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>12,463</u>	<u>659</u>	<u>36,098</u>	<u>2,246</u>
Other Financing Sources (Uses)				
Transfers in	5,000	-	6,250	-
Transfers out	(6,000)	-	-	-
Total Other Financing Sources (Uses)	<u>(1,000)</u>	<u>-</u>	<u>6,250</u>	<u>-</u>
Net Change in Fund Balances	11,463	659	42,348	2,246
Fund Balances, January 1	<u>52,869</u>	<u>(1,795)</u>	<u>148,817</u>	<u>1,490</u>
Fund Balances, December 31	<u>\$ 64,332</u>	<u>\$ (1,136)</u>	<u>\$ 191,165</u>	<u>\$ 3,736</u>

Capital Projects

<u>418</u> TIF District #5	<u>420</u> TIF District #6	Total Nonmajor Funds
\$ -	\$ -	\$ 149,400
14,616	9,304	23,920
-	-	86,271
-	-	2,852
-	-	293
14	10	196
-	-	2,150
-	-	317
<u>14,630</u>	<u>9,314</u>	<u>265,399</u>
-	-	157,378
84	253	21,528
-	-	-
-	-	11,420
454	1,441	1,895
<u>538</u>	<u>1,694</u>	<u>192,221</u>
<u>14,092</u>	<u>7,620</u>	<u>73,178</u>
-	-	11,250
-	-	(6,000)
-	-	5,250
14,092	7,620	78,428
<u>(16,768)</u>	<u>(71,166)</u>	<u>113,447</u>
<u>\$ (2,676)</u>	<u>\$ (63,546)</u>	<u>\$ 191,875</u>

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City of Harmony, Minnesota
 General Fund
 Comparative Balance Sheets
 December 31, 2017 and 2016

	2017	2016
Assets		
Cash and temporary investments	\$ 902,341	\$ 868,229
Receivables		
Interest	3,935	3,263
Special assessments	284	1,248
Delinquent taxes	12,268	9,114
Accounts	5,689	4,410
Intergovernmental	5,422	51,787
Advance to other funds	3,081	16,893
Prepaid items	19,459	15,973
 Total Assets	 \$ 952,479	 \$ 970,917
Liabilities		
Accounts payable	\$ 32,594	\$ 12,948
Accrued salaries payable	4,844	5,781
Due to other governments	56,399	56,372
Total Liabilities	93,837	75,101
Deferred Inflows of Resources		
Unavailable revenue - property taxes	12,268	9,114
Unavailable revenue - special assessment	284	1,248
Total Deferred Inflows of Resources	12,552	10,362
Fund Balances		
Nonspendable		
Prepaid items	19,459	15,973
Advance to other funds	3,081	16,893
Restricted		
Streets	-	4,125
Assigned	261,817	259,925
Unassigned	561,733	588,538
Total Fund Balances	846,090	885,454
 Total Liabilities, Deferred Inflows of Resources and Fund Balances	 \$ 952,479	 \$ 970,917

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, 2017
(With Comparative Actual Amounts for Year Ended December 31, 2016)

	2017			Variance with Final Budget	2016
	Budgeted Amounts		Actual Amounts		Actual
	Original	Final			Amounts
Revenues					
Taxes					
Property taxes	\$ 177,287	\$ 177,287	\$ 179,667	\$ 2,380	\$ 200,195
Franchise taxes	3,500	3,500	4,419	919	4,410
Lodging	5,000	5,000	4,281	(719)	4,966
Total Taxes	<u>185,787</u>	<u>185,787</u>	<u>188,367</u>	<u>2,580</u>	<u>209,571</u>
Special assessments	-	-	1,390	1,390	1,560
Licenses and permits					
Business	4,450	4,450	4,350	(100)	4,450
Nonbusiness	2,750	2,750	2,991	241	3,096
Total Licenses and Permits	<u>7,200</u>	<u>7,200</u>	<u>7,341</u>	<u>141</u>	<u>7,546</u>
Intergovernmental					
Federal					
USDA grant	-	-	-	-	50,000
State					
Local government aid	342,450	342,450	342,450	-	342,069
Property tax credits and aids	113	113	113	-	112
Fire aid	15,000	15,000	16,203	1,203	17,327
Other State aids	864	864	13,623	12,759	864
Total State	<u>358,427</u>	<u>358,427</u>	<u>372,389</u>	<u>13,962</u>	<u>360,372</u>
Total Intergovernmental	<u>358,427</u>	<u>358,427</u>	<u>372,389</u>	<u>13,962</u>	<u>410,372</u>
Charges for services					
General government	100	100	36	(64)	40
Public safety	-	-	55	55	175
Streets and highways	500	500	1,627	1,127	845
Total Charges For Services	<u>600</u>	<u>600</u>	<u>1,718</u>	<u>1,118</u>	<u>1,060</u>
Fines and forfeits	750	750	960	210	1,227
Investment earnings	1,500	1,500	3,223	1,723	2,516
Miscellaneous					
Contributions and donations	4,000	4,000	13,500	9,500	7,200
Refunds and reimbursements	7,500	7,500	6,618	(882)	27,702
Rents	22,500	22,500	9,341	(13,159)	21,169
Other	2,500	2,500	11,921	9,421	11,891
Total Miscellaneous	<u>36,500</u>	<u>36,500</u>	<u>41,380</u>	<u>4,880</u>	<u>67,962</u>
Total Revenues	<u>590,764</u>	<u>590,764</u>	<u>616,768</u>	<u>26,004</u>	<u>701,814</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, 2017
(With Comparative Actual Amounts for Year Ended December 31, 2016)

	2017			Variance with Final Budget	2016
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Budget			
Expenditures					
Current					
General Government					
Mayor and Council					
Personal services	\$ 7,655	\$ 7,655	\$ 7,724	\$ (69)	\$ 7,379
Materials and supplies	350	350	91	259	2,270
Other services and charges	2,075	2,075	1,242	833	77
Total Mayor and Council	<u>10,080</u>	<u>10,080</u>	<u>9,057</u>	<u>1,023</u>	<u>9,726</u>
Finance and administration					
Personal services	61,800	61,800	62,181	(381)	60,401
Materials and supplies	6,650	6,650	4,847	1,803	8,897
Printing and publication	2,774	2,774	2,440	334	2,815
Training	1,000	1,000	35	965	73
Repairs and maintenance	1,500	1,500	1,206	294	2,591
Professional fees	7,500	7,500	7,282	218	7,190
Miscellaneous	2,280	2,280	1,101	1,179	1,119
Total Finance and Administration	<u>83,504</u>	<u>83,504</u>	<u>79,092</u>	<u>4,412</u>	<u>83,086</u>
Elections	-	-	-	-	1,783
Professional services					
Legal	8,000	8,000	6,873	1,127	5,769
Total General Government	<u>101,584</u>	<u>101,584</u>	<u>95,022</u>	<u>6,562</u>	<u>100,364</u>
Government Buildings					
Visitor center					
Personal services	11,398	11,398	7,842	3,556	8,818
Materials and supplies	3,100	3,100	1,712	1,388	2,198
Insurance	1,453	1,453	1,360	93	1,268
Repairs and maintenance	3,750	3,750	3,263	487	3,173
Utilities	7,450	7,450	5,381	2,069	5,811
Total Visitor Center	<u>27,151</u>	<u>27,151</u>	<u>19,558</u>	<u>7,593</u>	<u>21,268</u>
Community center					
Personal services	43,411	43,411	31,513	11,898	33,161
Materials and supplies	6,250	6,250	5,814	436	5,058
Insurance	14,951	14,951	13,538	1,413	13,683
Repairs and maintenance	10,750	10,750	4,381	6,369	16,016
Utilities	35,600	35,600	27,845	7,755	28,765
Miscellaneous	100	100	-	100	8
Total Community Center	<u>111,062</u>	<u>111,062</u>	<u>83,091</u>	<u>27,971</u>	<u>96,691</u>
Total Government Buildings	<u>138,213</u>	<u>138,213</u>	<u>102,649</u>	<u>35,564</u>	<u>117,959</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, 2017
(With Comparative Actual Amounts for Year Ended December 31, 2016)

	2017			Variance with Final Budget	2016
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
Expenditures (Continued)					
Current (continued)					
Public safety					
Police					
Contracted services	\$ 83,500	\$ 83,500	\$ 74,919	\$ 8,581	\$ 90,777
Vehicle expense	3,500	3,500	3,982	(482)	3,874
Materials and supplies	600	600	-	600	-
Insurance	492	492	435	57	455
Repairs and maintenance	1,000	1,000	1,613	(613)	9,334
Miscellaneous	775	775	1,347	(572)	598
Total Police	<u>89,867</u>	<u>89,867</u>	<u>82,296</u>	<u>7,571</u>	<u>105,038</u>
Fire					
Firemen's relief	<u>22,500</u>	<u>22,500</u>	<u>23,703</u>	<u>(1,203)</u>	<u>24,827</u>
Civil defense					
Personal services	646	646	646	-	646
Supplies	100	100	-	100	-
Repairs and maintenance	1,000	1,000	-	1,000	-
Other charges	<u>1,927</u>	<u>1,927</u>	<u>1,918</u>	<u>9</u>	<u>1,943</u>
Total Civil Defense	<u>3,673</u>	<u>3,673</u>	<u>2,564</u>	<u>1,109</u>	<u>2,589</u>
Animal and pest control					
Personal services	4,204	4,204	3,731	473	2,943
Materials and supplies	350	350	393	(43)	408
Other services	<u>200</u>	<u>200</u>	<u>195</u>	<u>5</u>	<u>205</u>
Total Animal and Pest Control	<u>4,754</u>	<u>4,754</u>	<u>4,319</u>	<u>435</u>	<u>3,556</u>
Total Public Safety	<u>120,794</u>	<u>120,794</u>	<u>112,882</u>	<u>7,912</u>	<u>136,010</u>
Streets and Highways					
Personal services	21,752	21,752	23,745	(1,993)	16,243
Vehicle expenses	3,500	3,500	1,558	1,942	1,660
Materials and supplies	12,000	12,000	9,492	2,508	10,256
Insurance	1,930	1,930	822	1,108	1,485
Repairs and maintenance	21,650	21,650	9,623	12,027	7,465
Snow and ice	37,736	37,736	22,530	15,206	26,362
Building maintenance	<u>25,218</u>	<u>25,218</u>	<u>22,432</u>	<u>2,786</u>	<u>22,722</u>
Total Streets and Highways	<u>123,786</u>	<u>123,786</u>	<u>90,202</u>	<u>33,584</u>	<u>86,193</u>
Culture and recreation					
Community events	<u>6,305</u>	<u>6,305</u>	<u>14,299</u>	<u>(7,994)</u>	<u>9,968</u>
Economic development					
Lodging tax	5,000	5,000	3,685	1,315	4,488
Community development	3,000	3,000	671	2,329	1,715
Total Economic Development	<u>8,000</u>	<u>8,000</u>	<u>4,356</u>	<u>3,644</u>	<u>6,203</u>
Unallocated					
Miscellaneous	5,000	5,000	5,000	-	10,455
Insurance	<u>3,499</u>	<u>3,499</u>	<u>2,115</u>	<u>1,384</u>	<u>2,948</u>
Total Miscellaneous	<u>8,499</u>	<u>8,499</u>	<u>7,115</u>	<u>1,384</u>	<u>13,403</u>
Total Current	<u>507,181</u>	<u>507,181</u>	<u>426,525</u>	<u>80,656</u>	<u>470,100</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, 2017
 (With Comparative Actual Amounts for Year Ended December 31, 2016)

	2017			Variance with Final Budget	2016
	Budgeted Amounts		Actual Amounts		Actual
	Original	Final			Amounts
Expenditures (Continued)					
Capital outlay					
Finance and administration	\$ 1,000	\$ 1,000	\$ -	\$ 1,000	\$ -
Government buildings	-	-	73,306	(73,306)	-
Public safety	27,500	27,500	32,211	(4,711)	68,860
Streets and highways	7,500	7,500	104,295	(96,795)	9,500
Total Capital Outlay	<u>36,000</u>	<u>36,000</u>	<u>209,812</u>	<u>(173,812)</u>	<u>78,360</u>
Total Expenditures	<u>543,181</u>	<u>543,181</u>	<u>636,337</u>	<u>(93,156)</u>	<u>548,460</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>47,583</u>	<u>47,583</u>	<u>(19,569)</u>	<u>(67,152)</u>	<u>153,354</u>
Other Financing Sources (Uses)					
Sale of capital assets	5,000	5,000	15,205	10,205	14,500
Transfers in	43,500	43,500	66,000	22,500	47,000
Transfers out	<u>(91,000)</u>	<u>(91,000)</u>	<u>(101,000)</u>	<u>(10,000)</u>	<u>(101,000)</u>
Total Other Financing Sources (Uses)	<u>(42,500)</u>	<u>(42,500)</u>	<u>(19,795)</u>	<u>22,705</u>	<u>(39,500)</u>
Net Change in Fund Balances	5,083	5,083	(39,364)	(44,447)	113,854
Fund Balances, January 1	<u>885,454</u>	<u>885,454</u>	<u>885,454</u>	<u>-</u>	<u>771,600</u>
Fund Balances, December 31	<u>\$ 890,537</u>	<u>\$ 890,537</u>	<u>\$ 846,090</u>	<u>\$ (44,447)</u>	<u>\$ 885,454</u>

City of Harmony, Minnesota
Debt Service Funds
Combining Balance Sheet
December 31, 2017

	314 2010 G.O. Improvement Bonds	315 2013A G.O. Tax Abatement Bonds	316 2013B G.O. Tax Abatement Bonds	317 2014A G.O. Improvement Bonds
Assets				
Cash and temporary investments	\$ 50,013	\$ 6,110	\$ 22,673	\$ 157,995
Receivables				
Delinquent taxes	649	838	690	704
Special assessments	15,343	-	-	117,556
Intergovernmental	335	478	394	889
	<u>66,340</u>	<u>7,426</u>	<u>23,757</u>	<u>277,144</u>
Total Assets	<u>\$ 66,340</u>	<u>\$ 7,426</u>	<u>\$ 23,757</u>	<u>\$ 277,144</u>
Deferred Inflows of Resources				
Unavailable revenue - property taxes	\$ 649	\$ 838	\$ 690	\$ 704
Unavailable revenue - special assessments	15,343	-	-	117,556
Total Deferred Inflows of Resources	<u>15,992</u>	<u>838</u>	<u>690</u>	<u>118,260</u>
Fund Balances				
Restricted for debt service	<u>50,348</u>	<u>6,588</u>	<u>23,067</u>	<u>158,884</u>
	<u>50,348</u>	<u>6,588</u>	<u>23,067</u>	<u>158,884</u>
Total Deferred Inflows of Resources and Fund Balances	<u>\$ 66,340</u>	<u>\$ 7,426</u>	<u>\$ 23,757</u>	<u>\$ 277,144</u>

318	
2017A G.O.	
Improvement	
Bonds	Totals
<u> </u>	<u> </u>
\$ 99,311	\$ 336,102
-	2,881
198,180	331,079
<u> </u>	<u> </u>
-	2,096
<u><u>\$ 297,491</u></u>	<u><u>\$ 672,158</u></u>
\$ -	\$ 2,881
198,180	331,079
<u> </u>	<u> </u>
198,180	333,960
<u> </u>	<u> </u>
99,311	338,198
<u><u>\$ 297,491</u></u>	<u><u>\$ 672,158</u></u>

City of Harmony, Minnesota
Debt Service Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2017

	314 2010 G.O. Improvement Bonds	315 2013A G.O. Tax Abatement Bonds	316 2013B G.O. Tax Abatement	317 2014A G.O. Improvement Bonds
Revenues				
Property taxes	\$ 28,562	\$ 40,120	\$ 33,096	\$ 35,242
Special assessments	5,185	-	-	19,532
Investment earnings	163	28	22	542
Total Revenues	<u>33,910</u>	<u>40,148</u>	<u>33,118</u>	<u>55,316</u>
Debt service				
Principal	32,000	34,000	22,000	51,000
Interest and other costs	1,300	4,048	8,910	6,716
Total Expenditures	<u>33,300</u>	<u>38,048</u>	<u>30,910</u>	<u>57,716</u>
Net Change in Fund Balances	610	2,100	2,208	(2,400)
Fund Balances, January 1	<u>49,738</u>	<u>4,488</u>	<u>20,859</u>	<u>161,284</u>
Fund Balances, December 31	<u>\$ 50,348</u>	<u>\$ 6,588</u>	<u>\$ 23,067</u>	<u>\$ 158,884</u>

318
 2017A G.O.
 Improvement

<u>Bonds</u>	<u>Totals</u>
\$ -	\$ 137,020
99,268	123,985
43	798
99,311	261,803
-	139,000
-	20,974
-	159,974
99,311	101,829
-	236,369
<u>\$ 99,311</u>	<u>\$ 338,198</u>

City of Harmony, Minnesota
 Summary Financial Report
 Revenues and Expenditures For General Operations -
 Governmental Funds
 For the Years Ended December 31, 2017 and 2016

	<u>Total 2017</u>	<u>Total 2016</u>	<u>Percent Increase (Decrease)</u>
Revenues			
Taxes	\$ 625,757	\$ 620,041	0.92 %
Special assessments	127,500	41,616	206.37
Licenses and permits	7,341	7,546	(2.72)
Intergovernmental	557,690	689,650	(19.13)
Charges for services	237,211	271,335	(12.58)
Fines and forfeits	1,253	1,521	(17.62)
Investment earnings	7,689	6,136	25.31
Miscellaneous	<u>122,732</u>	<u>131,276</u>	(6.51)
 Total Revenues	 <u>\$ 1,687,173</u>	 <u>\$ 1,769,121</u>	 (4.63) %
Per Capita	\$ 1,643	\$ 1,729	(5.00) %
 Expenditures			
Current			
General government	\$ 197,671	\$ 218,323	(9.46) %
Public safety	376,182	430,610	(12.64)
Streets and highways	90,202	86,193	4.65
Culture and recreation	171,677	165,630	3.65
Economic development	128,793	134,155	(4.00)
Miscellaneous	7,115	13,403	(46.91)
Capital outlay			
General government	73,306	-	100.00
Public safety	243,095	248,205	(2.06)
Streets and highways	951,656	20,569	4,526.65
Culture and recreation	11,420	15,408	(25.88)
Economic development	-	23,524	(100.00)
Debt service			
Principal	139,000	130,000	6.92
Interest and other charges	<u>38,209</u>	<u>30,453</u>	25.47
 Total Expenditures	 <u>\$ 2,428,326</u>	 <u>\$ 1,516,473</u>	 60.13 %
Per Capita	\$ 2,364	\$ 1,482	59.51 %
 Total Long-Term Indebtedness	 \$ 1,224,000	 \$ 372,000	 229.03 %
Per Capita	1,192	364	227.75
 General Fund Balance - December 31	 \$ 846,090	 \$ 885,454	 (4.45) %
Per Capita	824	866	(4.82)

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

OTHER REQUIRED REPORTS

CITY OF HARMONY
HARMONY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT ON
MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and City Council
City of Harmony, Minnesota, 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, Minnesota (the City) as of and for the year ended December 31, 2017, and the notes to the financial statements, and have issued our report thereon dated March 19, 2018.

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
Mankato, Minnesota
March 19, 2018



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, 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, Minnesota (the City), as of and for the year ended December 31, 2017, 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 19, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2017-001 that we consider to be a significant deficiency.

Compliance and Other Matters

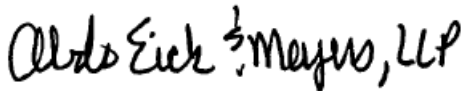
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect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

The City's Response to Finding

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

Purpose of this Report

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



ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
March 19, 2018

City of Harmony, Minnesota
Schedule of Findings and Responses
For the Year Ended December 31, 2017

<u>Finding</u>	<u>Description</u>
2017-001	Segregation of Duties
<i>Condition:</i>	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.
<i>Criteria:</i>	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.
<i>Effect:</i>	The existence of this limited segregation of duties increases the risk of fraud and misstatement.

Internal Control Over Payroll

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

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

Management Response:

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

Updated Progress From Prior Year:

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

Internal Control Over Cash Disbursements

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

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

Management Response:

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

City of Harmony, Minnesota
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2017

<u>Finding</u>	<u>Description</u>
2017-001	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.