

CITY OF HARMONY  
HARMONY, MINNESOTA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED  
DECEMBER 31, 2018

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City of Harmony, Minnesota  
Annual Financial Report  
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INTRODUCTORY SECTION

CITY OF HARMONY  
HARMONY, MINNESOTA

FOR THE YEAR ENDED  
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City of Harmony, Minnesota  
Elected and Appointed Officials  
For the Year Ended December 31, 2018

**ELECTED**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steve Donney	Mayor	12/31/20
Lynn Mensink	Council	12/31/20
Steve Sagen	Council	12/31/22
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, 2018

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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, 2018, 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
Ambulance Fund	Unmodified
Capital Projects 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

### 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, 2018, 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, 2018, and the budgetary comparisons for the General and Ambulance funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### ***Required Supplementary Information***

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

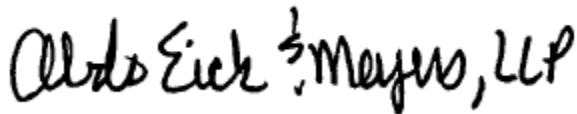
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are 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 11, 2019, 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 solely 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 effectiveness of the City's 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 11, 2019

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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, 2018.

### Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$11,217,873 (net position). Of this amount \$3,218,285 (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 \$2,538,770, a decrease of \$142,670 in comparison with the prior year. Approximately 12.5 percent of the total amount, \$317,743, 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 (\$30,642) 2) restricted (\$358,485), 3) committed (\$1,002,736), or 4) assigned (\$829,164).
- At the end of the current fiscal year, unassigned fund balance for the General fund was \$405,950, or 48.1 percent of total General fund expenditures.
- The City's total debt decreased by \$397,000, or 14.9 percent during the current fiscal year. This was attributable to the retirement of debt through principal payments. Debt retirements during the year totaled \$397,000.

### 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**

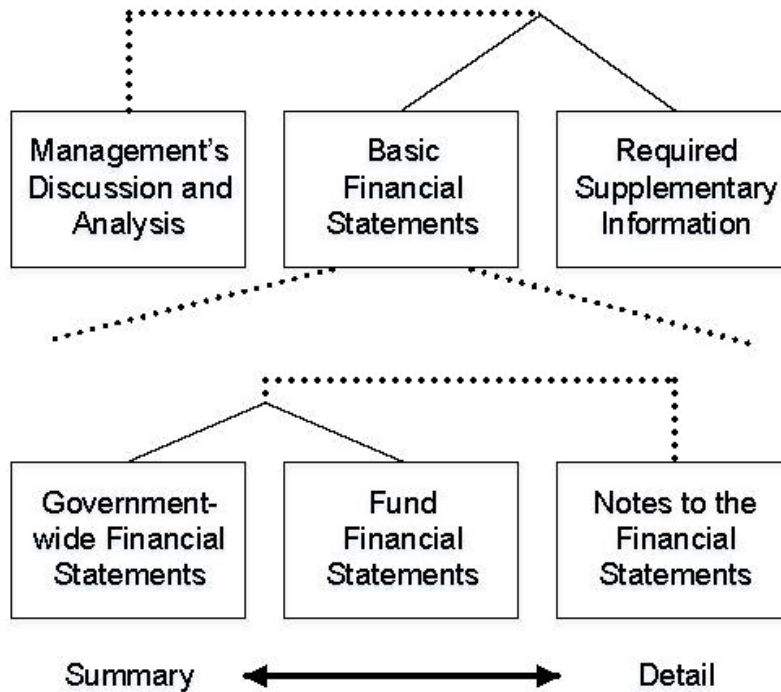


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the 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"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures, and Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Revenues, Expenses and Changes in Fund Net Position</li> <li>• Statement of Cash Flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of deferred outflows/inflows of resources information	All deferred outflows/inflows of resources, regardless of when cash is received or paid.	Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included	All deferred outflows/inflows of resources, regardless of when cash is received or paid
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

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

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

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

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

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

The government-wide financial statements can be found starting on page 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 Ambulance fund, the Capital Projects fund, and the Debt Service funds all of which are considered to be major funds. Data from the other nonmajor governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements or schedules* elsewhere in this report.

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

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

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

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 55 of this report.

**Other information.** The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to financial statements. Combining and individual fund financial statements and schedules can be found starting on page 78 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 \$11,217,873 at the close of the most recent fiscal year.

A large portion of the City’s net position (68.1 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		
	2018	2017	Increase (Decrease)	2018	2017	Increase (Decrease)
Current and Other Assets	\$ 3,228,688	\$ 3,256,709	\$ (28,021)	\$ 1,292,043	\$ 1,073,450	\$ 218,593
Capital Assets	4,086,927	3,909,970	176,957	5,529,295	5,492,533	36,762
Total Assets	<u>7,315,615</u>	<u>7,166,679</u>	<u>148,936</u>	<u>6,821,338</u>	<u>6,565,983</u>	<u>255,355</u>
Long-term Liabilities Outstanding	1,294,118	1,614,693	(320,575)	1,043,839	1,118,887	(75,048)
Other Liabilities	283,548	137,566	145,982	297,575	116,299	181,276
Total Liabilities	<u>1,577,666</u>	<u>1,752,259</u>	<u>(174,593)</u>	<u>1,341,414</u>	<u>1,235,186</u>	<u>106,228</u>
Net Investment in Capital Assets	3,127,927	2,747,200	380,727	4,508,295	4,397,533	110,762
Restricted	363,366	499,031	(135,665)	-	-	-
Unrestricted	<u>2,246,656</u>	<u>2,168,189</u>	<u>78,467</u>	<u>971,629</u>	<u>933,264</u>	<u>38,365</u>
Total Net Position	<u>\$ 5,737,949</u>	<u>\$ 5,414,420</u>	<u>\$ 323,529</u>	<u>\$ 5,479,924</u>	<u>\$ 5,330,797</u>	<u>\$ 149,127</u>

An additional portion of the City’s net assets (3.2 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (28.7 percent) may be used to meet the City’s ongoing obligations to citizens and creditors.

The City’s net position increased by \$472,656 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 \$323,529. Key elements of this increase are as follows:

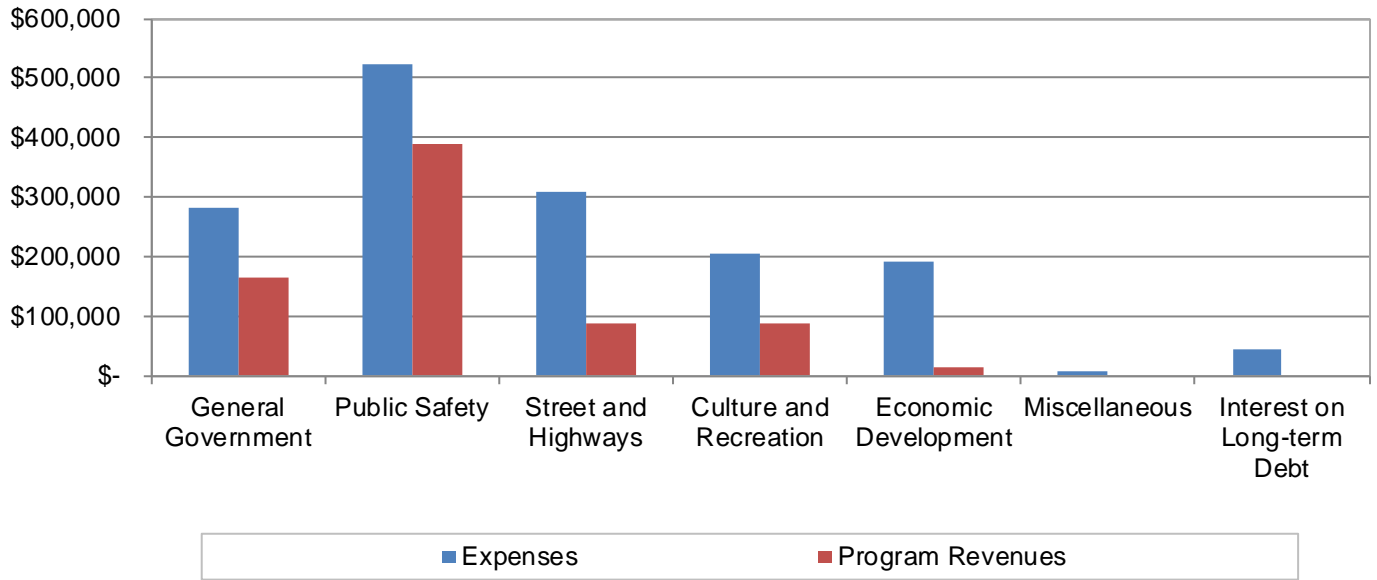
### City of Harmony, Minnesota's Changes in Net Position

	Governmental Activities			Business-type Activities		
	2018	2017	Increase (Decrease)	2018	2017	Increase (Decrease)
Revenues						
Program Revenues						
Charges for services	\$ 337,356	\$ 316,736	\$ 20,620	\$ 1,658,047	\$ 1,603,361	\$ 54,686
Operating grants and contributions	74,201	144,514	(70,313)	25,297	12,948	12,349
Capital grants and contributions	335,730	431,341	(95,611)	43,161	142,608	(99,447)
General revenues						
Property taxes/tax increments	684,084	619,586	64,498	-	-	-
Other taxes	4,361	4,419	(58)	-	-	-
Grants and contributions not restricted to specific programs	347,202	343,427	3,775	-	-	-
Unrestricted investment earnings	17,496	7,689	9,807	7,262	3,404	3,858
Gain on sale of fixed assets	55,194	86,858	(31,664)	-	-	-
Total Revenues	1,855,624	1,954,570	(98,946)	1,733,767	1,762,321	(28,554)
Expenses						
General government	282,646	230,809	51,837	-	-	-
Public safety	524,353	488,109	36,244	-	-	-
Streets and highways	307,772	180,337	127,435	-	-	-
Culture and recreation	205,113	192,654	12,459	-	-	-
Economic development	193,117	129,045	64,072	-	-	-
Miscellaneous	7,611	7,115	496	-	-	-
Interest on long-term debt	44,983	46,290	(1,307)	-	-	-
Water utility	-	-	-	171,785	199,261	(27,476)
Sewer utility	-	-	-	317,170	307,946	9,224
Electric utility	-	-	-	962,673	957,157	5,516
Refuse and recycling	-	-	-	62,691	57,220	5,471
Storm water	-	-	-	36,821	28,400	8,421
Total Expenses	1,565,595	1,274,359	291,236	1,551,140	1,549,984	1,156
Increase (Decrease) in Net						
Assets before Transfers	290,029	680,211	(390,182)	182,627	212,337	(29,710)
Transfers of Capital Assets	-	(370,439)	370,439	-	370,439	(370,439)
Transfers	33,500	69,750	(36,250)	(33,500)	(69,750)	36,250
Change in Net Position	323,529	379,522	(55,993)	149,127	513,026	(363,899)
Net Position - January 1	5,414,420	5,034,898	379,522	5,330,797	4,817,771	513,026
Net Position - December 31	\$ 5,737,949	\$ 5,414,420	\$ 323,529	\$ 5,479,924	\$ 5,330,797	\$ 149,127

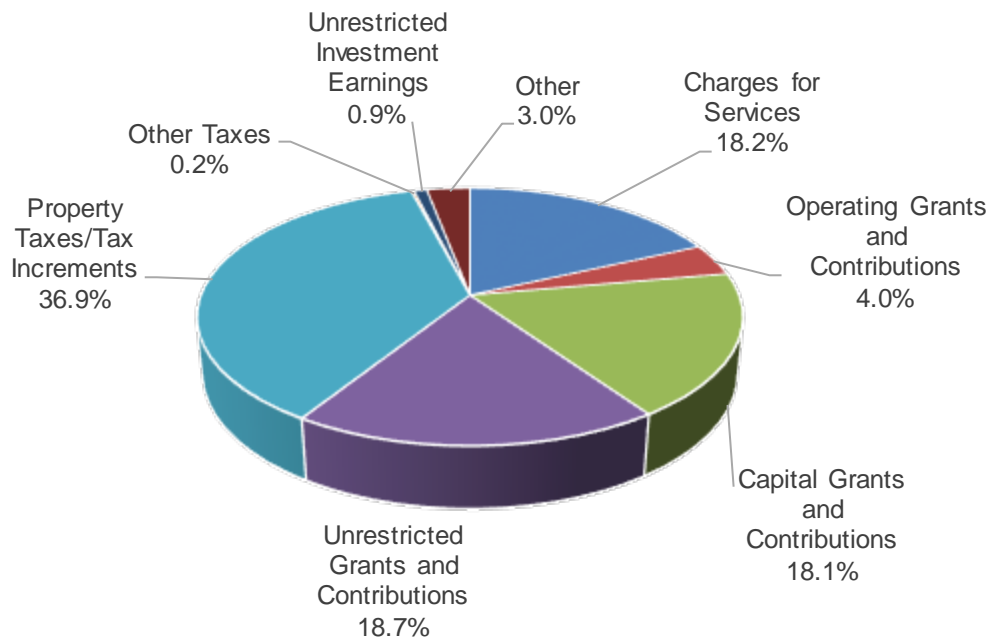
Property tax levies increased 10.5 percent during the year.

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

### Expenses and Program Revenues - Governmental Activities

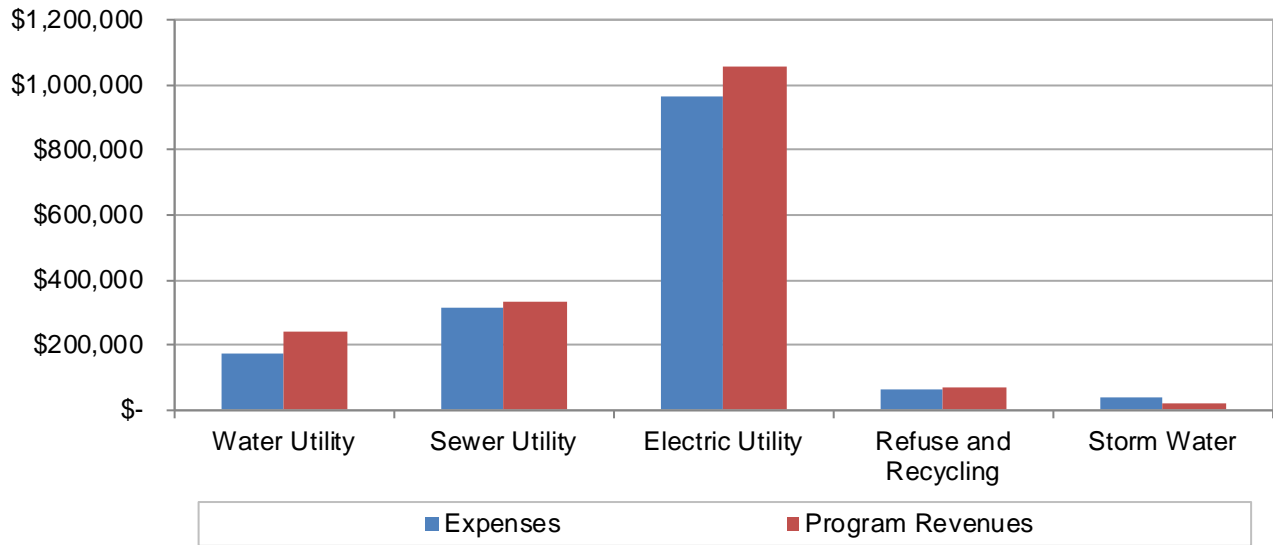


### Revenues by Source - Governmental Activities

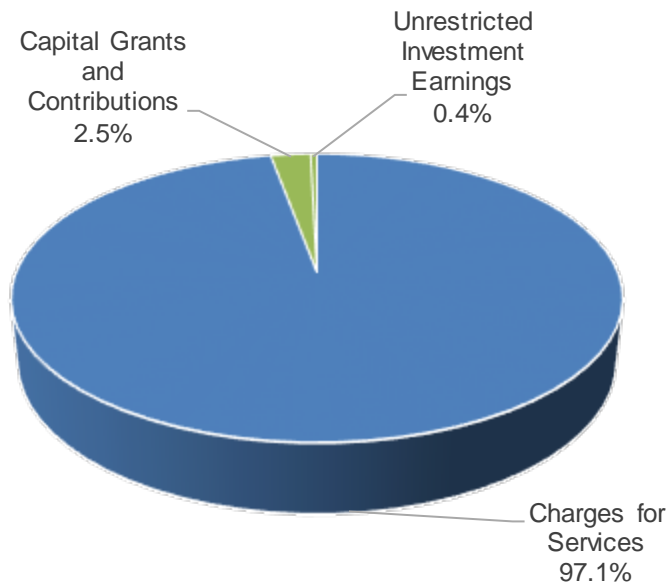


**Business-type activities.** Business-type activities increased the City's net position by \$149,127.

### 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 \$2,538,770, a decrease of \$142,670 in comparison with the prior year. Approximately 12.5 percent of the total amount, \$317,743, 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 (\$30,642) 2) restricted (\$358,485), 3) committed (\$1,002,736), or 4) assigned (\$829,164).

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 \$711,169, \$405,950 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 84.3 percent of fund expenditures.

The fund balance of the City's General fund decreased by \$134,921 during the current fiscal year. The key factor in this decrease was mainly related to capital outlay for streets and highways due to the purchase of various vehicles and equipment.

*The Ambulance fund* has a total fund balance of \$137,185 of which \$4,988 is nonspendable and the remainder assigned for ambulance services. The net decrease in fund balance during the current year in this fund was \$7,705. This was due to a \$37,500 transfer out for building funding and future capital outlay expenditures.

*The Debt Service fund* has a total fund balance of \$211,820. The net decrease in fund balance during the current year was \$126,378 mainly due to retirement of debt across all debt service funds.

*The Capital Projects fund* has a total fund balance of \$831,804, all of which is committed for future capital outlay. The net increase in fund balance during the current year in this fund was \$140,481 due to donations to the funds.

**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 \$971,629. The total growth in net position for the funds was \$149,127. 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 \$103,572 while expenditures were over budget by \$332,365 in 2018. The General fund budgeted for a decrease in reserves by \$10,962.

## 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, 2018, amounts to \$9,616,222 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges. The total increase in the City's investment in capital assets for the current fiscal year was 2.3 percent (a 4.5 percent increase for governmental activities and a 0.7 percent increase for business-type activities).

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

- The purchase of a snow plow in the amount of \$176,695.
- The purchase of a tractor with loader totaling \$90,000.
- Street improvements on the 2017 street and utility project amounted to \$544,177.
- Costs associated with re-roofing the firehall in the amount of \$30,357.

Additional information on the City's capital assets can be found in Note 3C starting on pages 65 of this report.

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

	Governmental Activities			Business-type Activities		
	2018	2017	Increase (Decrease)	2018	2017	Increase (Decrease)
Land	\$ 331,567	\$ 331,567	\$ -	\$ 36,415	\$ 36,415	\$ -
Construction in Progress	36,024	557,641	(521,617)	134,692	-	134,692
Buildings and Improvements	563,744	565,656	(1,912)	1,154,472	1,235,081	(80,609)
Systems and Infrastructure	1,870,544	1,238,068	632,476	2,949,034	2,945,745	3,289
Equipment and Machinery	491,300	503,828	(12,528)	1,254,682	1,275,292	(20,610)
Vehicles	793,748	713,210	80,538	-	-	-
<b>Total</b>	<b>\$ 4,086,927</b>	<b>\$ 3,909,970</b>	<b>\$ 176,957</b>	<b>\$ 5,529,295</b>	<b>\$ 5,492,533</b>	<b>\$ 36,762</b>

**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$2,259,000, 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		
	2018	2017	Increase (Decrease)	2018	2017	Increase (Decrease)
G.O. Improvement Bonds	\$ 959,000	\$ 1,224,000	\$ (265,000)	\$ -	\$ -	\$ -
G.O. Tax Abatement Bonds	279,000	337,000	(58,000)	-	-	-
G.O. Revenue Bonds	-	-	-	1,021,000	1,095,000	(74,000)
<b>Total</b>	<b><u>\$ 1,238,000</u></b>	<b><u>\$ 1,561,000</u></b>	<b><u>\$ (323,000)</u></b>	<b><u>\$ 1,021,000</u></b>	<b><u>\$ 1,095,000</u></b>	<b><u>\$ (74,000)</u></b>

The City's total debt decreased by \$397,000, or 14.9 percent during the current fiscal year. This was attributable to the debt retirements during the year totaling \$397,000.

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 69 of this report.

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

- The unemployment rate for Fillmore County is currently 3.7 percent, which is an increase from a rate of 3.5 percent a year ago. This compares unfavorably to the State's average unemployment rate of 2.8 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 2019 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 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, 2018

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City of Harmony, Minnesota  
Statement of Net Position  
December 31, 2018

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and temporary investments	\$ 2,430,834	\$ 1,013,027	\$ 3,443,861
Receivables			
Interest	9,901	-	9,901
Delinquent taxes	20,431	-	20,431
Accounts, net of allowances	79,655	165,793	245,448
Loans	317,597	-	317,597
Special assessments	401,504	1,476	402,980
Intergovernmental	7,274	-	7,274
Internal balances	(69,150)	69,150	-
Inventories	-	27,770	27,770
Prepaid items	30,642	14,827	45,469
Capital assets			
Nondepreciable land and construction in progress	367,591	171,107	538,698
Depreciable assets (net of accumulated depreciation)	3,719,336	5,358,188	9,077,524
Total Assets	<u>7,315,615</u>	<u>6,821,338</u>	<u>14,136,953</u>
<b>Liabilities and Net Position</b>			
<b>Liabilities</b>			
Accounts payable	225,049	270,894	495,943
Deposits payable	-	14,814	14,814
Due to other governments	36,552	5,369	41,921
Accrued interest payable	15,565	4,341	19,906
Accrued salaries payable	6,382	2,157	8,539
Noncurrent liabilities			
Due within one year	172,793	98,908	271,701
Due in more than one year	1,121,325	944,931	2,066,256
Total Liabilities	<u>1,577,666</u>	<u>1,341,414</u>	<u>2,919,080</u>
<b>Net Position</b>			
Net investment in capital assets	3,127,927	4,508,295	7,636,222
Restricted			
Economic development	146,665	-	146,665
Debt service	216,701	-	216,701
Unrestricted	<u>2,246,656</u>	<u>971,629</u>	<u>3,218,285</u>
Total Net Position	<u>\$ 5,737,949</u>	<u>\$ 5,479,924</u>	<u>\$ 11,217,873</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, 2018

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities</b>				
General government	\$ 282,646	\$ 21,599	\$ -	\$ 142,521
Public safety	524,353	269,583	28,972	92,075
Streets and highways	307,772	3,595	-	83,961
Culture and recreation	205,113	29,145	44,529	15,200
Economic development	193,117	13,434	700	1,973
Miscellaneous	7,611	-	-	-
Interest and other costs	44,983	-	-	-
<b>Total Governmental Activities</b>	<b>1,565,595</b>	<b>337,356</b>	<b>74,201</b>	<b>335,730</b>
<b>Business-type Activities</b>				
Water utility	171,785	215,649	-	26,037
Sewer utility	317,170	318,271	-	17,124
Electric utility	962,673	1,029,895	25,297	-
Refuse and recycling	62,691	72,037	-	-
Storm water	36,821	22,195	-	-
<b>Total Business-type Activities</b>	<b>1,551,140</b>	<b>1,658,047</b>	<b>25,297</b>	<b>43,161</b>
<b>Total</b>	<b>\$ 3,116,735</b>	<b>\$ 1,995,403</b>	<b>\$ 99,498</b>	<b>\$ 378,891</b>

General Revenues

- Property taxes, levied for general purposes
- Property taxes, levied for specific purposes
- Property taxes, levied for debt service
- Tax increments
- Franchise taxes
- Grants and contributions not restricted to specific programs
- Unrestricted investment earnings
- Gain on sale of capital assets

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position, January 1

Net Position, December 31

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



Net (Expense) Revenue and  
Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (118,526)		\$ (118,526)
(133,723)		(133,723)
(220,216)		(220,216)
(116,239)		(116,239)
(177,010)		(177,010)
(7,611)		(7,611)
(44,983)		(44,983)
<u>(818,308)</u>		<u>(818,308)</u>
	\$ 69,901	69,901
	18,225	18,225
	92,519	92,519
	9,346	9,346
	<u>(14,626)</u>	<u>(14,626)</u>
	<u>175,365</u>	<u>175,365</u>
<u>(818,308)</u>	<u>175,365</u>	<u>(642,943)</u>
180,317	-	180,317
281,650	-	281,650
193,196	-	193,196
28,921	-	28,921
4,361	-	4,361
347,202	-	347,202
17,496	7,262	24,758
55,194	-	55,194
33,500	(33,500)	-
<u>1,141,837</u>	<u>(26,238)</u>	<u>1,115,599</u>
323,529	149,127	472,656
<u>5,414,420</u>	<u>5,330,797</u>	<u>10,745,217</u>
<u>\$ 5,737,949</u>	<u>\$ 5,479,924</u>	<u>\$ 11,217,873</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, 2018

City of Harmony, Minnesota

Balance Sheet

Governmental Funds

December 31, 2018

	<b>101</b>	<b>223</b>	<b>300's</b>	<b>401</b>
	General	Ambulance	Debt Service	Capital Projects
<b>Assets</b>				
Cash and temporary investments	\$ 914,936	\$ 70,045	\$ 209,538	\$ 831,804
Receivables				
Interest	9,901	-	-	-
Delinquent taxes	14,951	-	5,416	-
Accounts, net of allowances	6,614	65,146	-	-
Special assessments	443	-	294,030	-
Loans	-	-	-	-
Intergovernmental	4,992	-	2,282	-
Advances to other funds	-	-	-	-
Prepaid items	18,544	4,988	-	-
	<u>970,381</u>	<u>140,179</u>	<u>511,266</u>	<u>831,804</u>
<b>Total Assets</b>	<b>\$ 970,381</b>	<b>\$ 140,179</b>	<b>\$ 511,266</b>	<b>\$ 831,804</b>
<b>Liabilities</b>				
Accounts payable	\$ 215,834	\$ 1,442	\$ -	\$ -
Due to other governments	24,559	-	-	-
Accrued salaries payable	3,425	1,552	-	-
Advances from other funds	-	-	-	-
<b>Total Liabilities</b>	<b>243,818</b>	<b>2,994</b>	<b>-</b>	<b>-</b>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue - property taxes	14,951	-	5,416	-
Unavailable revenue - special assessments	443	-	294,030	-
<b>Total Deferred Inflows of Resources</b>	<b>15,394</b>	<b>-</b>	<b>299,446</b>	<b>-</b>
<b>Fund Balances</b>				
<b>Nonspendable</b>				
Prepaid items	18,544	4,988	-	-
<b>Restricted</b>				
Economic development	-	-	-	-
Debt service	-	-	211,820	-
<b>Committed</b>				
Capital outlay	-	-	-	831,804
Loans	-	-	-	-
<b>Assigned</b>				
Working capital	286,675	-	-	-
Economic development	-	-	-	-
Park and recreation	-	-	-	-
Public safety	-	132,197	-	-
Unassigned	405,950	-	-	-
<b>Total Fund Balances</b>	<b>711,169</b>	<b>137,185</b>	<b>211,820</b>	<b>831,804</b>
	<u>970,381</u>	<u>140,179</u>	<u>511,266</u>	<u>831,804</u>
<b>Total Liabilities, Deferred Inflows     of Resources and Fund Balances</b>	<b>\$ 970,381</b>	<b>\$ 140,179</b>	<b>\$ 511,266</b>	<b>\$ 831,804</b>

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

Other Governmental Funds	Totals
\$ 404,511	\$ 2,430,834
-	9,901
64	20,431
7,895	79,655
107,031	401,504
317,597	317,597
-	7,274
51,055	51,055
7,110	30,642
<u>\$ 895,263</u>	<u>\$ 3,348,893</u>
\$ 7,773	\$ 225,049
11,993	36,552
1,405	6,382
120,205	120,205
<u>141,376</u>	<u>388,188</u>
64	20,431
107,031	401,504
<u>107,095</u>	<u>421,935</u>
7,110	30,642
146,665	146,665
-	211,820
-	831,804
170,932	170,932
-	286,675
336,287	336,287
74,005	74,005
-	132,197
(88,207)	317,743
<u>646,792</u>	<u>2,538,770</u>
<u>\$ 895,263</u>	<u>\$ 3,348,893</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, 2018

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

Total Fund Balances - Governmental Funds	\$ 2,538,770
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds.	4,086,927
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of	
Compensated absences	(56,118)
Bonds payable	(1,238,000)
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	20,431
Special assessments receivable	401,504
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(15,565)</u>
Total Net Position - Governmental Activities	<u><u>\$ 5,737,949</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, 2018

	101	223	300's	401
	General	Ambulance	Debt Service	Capital Projects
Revenues				
Taxes	\$ 188,147	\$ -	\$ 190,661	\$ -
Special assessments	-	-	48,497	-
Licenses and permits	7,653	-	-	-
Intergovernmental	380,259	20,071	-	-
Fines and forfeits	777	-	-	-
Charges for services	3,733	192,553	-	-
Investment earnings	6,215	784	1,771	6,483
Miscellaneous	89,485	11,793	-	221,748
Total Revenues	<u>676,269</u>	<u>225,201</u>	<u>240,929</u>	<u>228,231</u>
Expenditures				
Current				
General government	102,362	-	-	-
Government buildings	139,309	-	-	-
Public safety	135,623	191,539	-	-
Streets and highways	193,446	-	-	-
Culture and recreation	16,894	-	-	-
Economic development	6,503	-	-	-
Miscellaneous	7,611	-	-	-
Capital outlay				
General government	2,214	-	-	-
Public safety	-	3,867	-	10,000
Streets and highways	239,312	-	-	-
Culture and recreation	-	-	-	-
Debt service				
Principal	-	-	323,000	-
Interest and other costs	-	-	44,307	-
Total Expenditures	<u>843,274</u>	<u>195,406</u>	<u>367,307</u>	<u>10,000</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(167,005)</u>	<u>29,795</u>	<u>(126,378)</u>	<u>218,231</u>
Other Financing Sources (Uses)				
Transfers in	184,500	-	-	153,000
Transfers out	<u>(152,416)</u>	<u>(37,500)</u>	<u>-</u>	<u>(230,750)</u>
Total Other Financing Sources (Uses)	<u>32,084</u>	<u>(37,500)</u>	<u>-</u>	<u>(77,750)</u>
Net Change in Fund Balances	(134,921)	(7,705)	(126,378)	140,481
Fund Balances, January 1	<u>846,090</u>	<u>144,890</u>	<u>338,198</u>	<u>691,323</u>
Fund Balances, December 31	<u>\$ 711,169</u>	<u>\$ 137,185</u>	<u>\$ 211,820</u>	<u>\$ 831,804</u>

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



Other Governmental Funds	Totals
\$ 310,507	\$ 689,315
1,973	50,470
-	7,653
30,139	430,469
203	980
54,421	250,707
2,243	17,496
47,452	370,478
<u>446,938</u>	<u>1,817,568</u>
-	102,362
-	139,309
58,292	385,454
-	193,446
162,319	179,213
186,534	193,037
-	7,611
-	2,214
61,337	75,204
69,396	308,708
38,191	38,191
-	323,000
1,682	45,989
<u>577,751</u>	<u>1,993,738</u>
<u>(130,813)</u>	<u>(176,170)</u>
147,666	485,166
<u>(31,000)</u>	<u>(451,666)</u>
<u>116,666</u>	<u>33,500</u>
(14,147)	(142,670)
<u>660,939</u>	<u>2,681,440</u>
<u>\$ 646,792</u>	<u>\$ 2,538,770</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 Statement of  
 Revenues, Expenditures and Changes in Fund Balances  
 to the Statement of Activities  
 Governmental Funds  
 For the Year Ended December 31, 2018

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

Net Change in Fund Balances - Governmental Funds	\$ (142,670)
<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	424,317
Depreciation expense	(317,754)
<p>The net effect of various miscellaneous transactions involving capital assets.</p>	
Gain on disposal of capital assets	(21,306)
Book value of trade-in of capital assets	76,500
Assets contributed from outside parties	15,200
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.</p>	
Principal repayments	323,000
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>	
	1,006
<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>	
	5,282
<p>Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.</p>	
Special assessments	(37,620)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	
Compensated absences	<u>(2,426)</u>
Change in Net Position - Governmental Activities	<u><u>\$ 323,529</u></u>

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

City of Harmony, Minnesota  
General and Ambulance Fund  
Statement of Revenues, Expenditures and Changes in Fund Balances -  
Budget and Actual  
For the Year Ended December 31, 2018

	General			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 185,787	\$ 185,787	\$ 188,147	\$ 2,360
Licenses and permits	7,200	7,200	7,653	453
Intergovernmental	362,210	362,210	380,259	18,049
Charges for services	550	550	3,733	3,183
Fines and forfeits	750	750	777	27
Investment earnings	1,500	1,500	6,215	4,715
Miscellaneous	14,700	14,700	89,485	74,785
Total Revenues	<u>572,697</u>	<u>572,697</u>	<u>676,269</u>	<u>103,572</u>
Expenditures				
Current				
General government	241,402	241,402	241,671	(269)
Public safety	120,719	120,719	135,623	(14,904)
Streets and highways	118,768	118,768	193,446	(74,678)
Culture and recreation	6,305	6,305	16,894	(10,589)
Economic development	8,000	8,000	6,503	1,497
Miscellaneous	7,215	7,215	7,611	(396)
Capital outlay				
General government	1,000	1,000	2,214	(1,214)
Public safety	-	-	-	-
Streets and highways	7,500	7,500	239,312	(231,812)
Total Expenditures	<u>510,909</u>	<u>510,909</u>	<u>843,274</u>	<u>(332,365)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>61,788</u>	<u>61,788</u>	<u>(167,005)</u>	<u>(228,793)</u>
Other Financing Sources (Uses)				
Transfers in	10,750	10,750	184,500	173,750
Transfers out	(83,500)	(83,500)	(152,416)	(68,916)
Total Other Financing Sources (Uses)	<u>(72,750)</u>	<u>(72,750)</u>	<u>32,084</u>	<u>104,834</u>
Net Change in Fund Balances	(10,962)	(10,962)	(134,921)	(123,959)
Fund Balances, January 1	<u>846,090</u>	<u>846,090</u>	<u>846,090</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 835,128</u>	<u>\$ 835,128</u>	<u>\$ 711,169</u>	<u>\$ (123,959)</u>

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

Ambulance

Budgeted Amounts		Actual Amounts	Variance with Final Budget
Original	Final		
\$ -	\$ -	\$ -	\$ -
-	-	-	-
20,196	20,196	20,071	(125)
182,500	182,500	192,553	10,053
-	-	-	-
500	500	784	284
-	-	11,793	11,793
<u>203,196</u>	<u>203,196</u>	<u>225,201</u>	<u>22,005</u>
-	-	-	-
187,379	187,379	191,539	(4,160)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
5,000	5,000	3,867	1,133
-	-	-	-
<u>192,379</u>	<u>192,379</u>	<u>195,406</u>	<u>(3,027)</u>
10,817	10,817	29,795	18,978
-	-	-	-
(37,500)	(37,500)	(37,500)	-
<u>(37,500)</u>	<u>(37,500)</u>	<u>(37,500)</u>	<u>-</u>
(26,683)	(26,683)	(7,705)	18,978
144,890	144,890	144,890	-
<u>\$ 118,207</u>	<u>\$ 118,207</u>	<u>\$ 137,185</u>	<u>\$ 18,978</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, 2018

	Business-type Activities - Business-type Activities - Enterprise Funds	
	601	602
	Water Utility	Sewer Utility
<b>Assets</b>		
<b>Current Assets</b>		
Cash and temporary investments	\$ 219,474	\$ 28,140
Receivables		
Accounts	28,062	32,284
Special assessments	-	736
Advance to other funds - current	-	-
Inventories	12,562	-
Prepaid items	3,767	4,555
<b>Total Current Assets</b>	<b>263,865</b>	<b>65,715</b>
<b>Noncurrent Assets</b>		
Advance to other funds - noncurrent	-	-
<b>Capital assets, at cost</b>		
Land	17,015	14,400
Construction in progress	-	-
Buildings and improvements	-	2,351,348
Systems and infrastructure	1,402,664	887,537
Equipment and machinery	1,361,682	90,666
Vehicles	-	-
Less accumulated depreciation	(445,818)	(1,535,400)
<b>Total Capital Assets</b> (Net of Accumulated Depreciation)	<b>2,335,543</b>	<b>1,808,551</b>
<b>Total Noncurrent Assets</b>	<b>2,335,543</b>	<b>1,808,551</b>
<b>Total Assets</b>	<b>2,599,408</b>	<b>1,874,266</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	4,302	10,400
Deposits payable	-	-
Due to other governments	173	-
Advances from other funds - current	-	50,000
Accrued salaries payable	594	963
Accrued interest payable	3,748	593
Bonds payable - current	49,000	35,000
Compensated absences payable - current	2,838	7,603
<b>Total Current Liabilities</b>	<b>60,655</b>	<b>104,559</b>
<b>Noncurrent Liabilities</b>		
Compensated absences payable - noncurrent	1,780	4,205
Bonds payable - noncurrent	794,000	143,000
<b>Total Noncurrent Liabilities</b>	<b>795,780</b>	<b>147,205</b>
<b>Total Liabilities</b>	<b>856,435</b>	<b>251,764</b>
<b>Net Position</b>		
Net investment in capital assets	1,492,543	1,630,551
Unrestricted	250,430	(8,049)
<b>Total Net Position</b>	<b>\$ 1,742,973</b>	<b>\$ 1,622,502</b>

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

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

<b>603</b>	<b>604</b>	<b>605</b>	
Refuse and Recycling	Electric Utility	Storm Water Utility	Totals
\$ 109	\$ 753,580	\$ 11,724	\$ 1,013,027
7,047	96,331	2,069	165,793
-	740	-	1,476
-	55,943	-	55,943
-	15,208	-	27,770
81	5,915	509	14,827
<u>7,237</u>	<u>927,717</u>	<u>14,302</u>	<u>1,278,836</u>
-	63,207	-	63,207
-	5,000	-	36,415
-	134,692	-	134,692
-	187,008	-	2,538,356
-	1,759,106	784,703	4,834,010
4,952	39,723	45,922	1,542,945
-	28,700	-	28,700
<u>(1,485)</u>	<u>(1,217,889)</u>	<u>(385,231)</u>	<u>(3,585,823)</u>
<u>3,467</u>	<u>936,340</u>	<u>445,394</u>	<u>5,529,295</u>
<u>3,467</u>	<u>999,547</u>	<u>445,394</u>	<u>5,592,502</u>
<u>10,704</u>	<u>1,927,264</u>	<u>459,696</u>	<u>6,871,338</u>
-	256,192	-	270,894
-	14,814	-	14,814
288	4,908	-	5,369
-	-	-	50,000
185	404	11	2,157
-	-	-	4,341
-	-	-	84,000
1,613	2,670	184	14,908
<u>2,086</u>	<u>278,988</u>	<u>195</u>	<u>446,483</u>
544	1,402	-	7,931
-	-	-	937,000
<u>544</u>	<u>1,402</u>	<u>-</u>	<u>944,931</u>
<u>2,630</u>	<u>280,390</u>	<u>195</u>	<u>1,391,414</u>
3,467	936,340	445,394	4,508,295
<u>4,607</u>	<u>710,534</u>	<u>14,107</u>	<u>971,629</u>
<u>\$ 8,074</u>	<u>\$ 1,646,874</u>	<u>\$ 459,501</u>	<u>\$ 5,479,924</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 Year Ended December 31, 2018

	Business-type Activities - Business-type Activities - Enterprise Funds	
	<b>601</b>	<b>602</b>
	Water Utility	Sewer Utility
Operating Revenues		
Charges for services	\$ 215,184	\$ 317,887
Operating Expenses		
Personal services	53,235	77,828
Supplies	11,147	24,177
Other services and charges	10,660	24,980
Insurance	4,415	5,052
Utilities	14,323	54,756
Purchased power	-	-
Repairs and maintenance	7,630	17,244
Depreciation	59,628	111,126
Total Operating Expenses	<u>161,038</u>	<u>315,163</u>
Operating Income (Loss)	<u>54,146</u>	<u>2,724</u>
Nonoperating Revenues (Expenses)		
Special assessments	-	74
Other income	465	310
Investment earnings	1,589	361
Interest and other expense	<u>(10,747)</u>	<u>(2,007)</u>
Total Nonoperating Revenues (Expenses)	<u>(8,693)</u>	<u>(1,262)</u>
Income (Loss) Before Contributions	45,453	1,462
Capital Contributions from Developer	26,037	17,124
Transfers Out	<u>(1,000)</u>	<u>(1,000)</u>
Change in Net Position	70,490	17,586
Net Position, January 1	<u>1,672,483</u>	<u>1,604,916</u>
Net Position, December 31	<u>\$ 1,742,973</u>	<u>\$ 1,622,502</u>

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



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

<b>603</b>	<b>604</b>	<b>605</b>	
Refuse and Recycling	Electric Utility	Storm Water Utility	Totals
\$ 72,037	\$ 1,029,090	\$ 22,195	\$ 1,656,393
13,764	31,690	7,775	184,292
556	3,992	658	40,530
46,724	13,207	100	95,671
-	8,084	675	18,226
-	18,020	-	87,099
-	808,068	-	808,068
657	33,987	4,377	63,895
990	45,625	23,236	240,605
<u>62,691</u>	<u>962,673</u>	<u>36,821</u>	<u>1,538,386</u>
<u>9,346</u>	<u>66,417</u>	<u>(14,626)</u>	<u>118,007</u>
-	740	-	814
-	25,362	-	26,137
37	5,202	73	7,262
-	-	-	(12,754)
<u>37</u>	<u>31,304</u>	<u>73</u>	<u>21,459</u>
9,383	97,721	(14,553)	139,466
-	-	-	43,161
<u>(1,000)</u>	<u>(28,000)</u>	<u>(2,500)</u>	<u>(33,500)</u>
8,383	69,721	(17,053)	149,127
<u>(309)</u>	<u>1,577,153</u>	<u>476,554</u>	<u>5,330,797</u>
<u>\$ 8,074</u>	<u>\$ 1,646,874</u>	<u>\$ 459,501</u>	<u>\$ 5,479,924</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 Year Ended December 31, 2018

	Business-type Activities - Business-type Activities - Enterprise Funds	
	601	602
	Water Utility	Sewer Utility
Cash Flows from Operating Activities		
Receipts from customers	\$ 214,266	\$ 314,732
Payments to suppliers and vendors	(40,609)	(123,325)
Payments to and on behalf of employees	(53,144)	(78,688)
Other receipts	465	310
Net Cash Provided (Used) by Operating Activities	<u>120,978</u>	<u>113,029</u>
Cash Flows from Noncapital Financing Activities		
Principal received (paid) on advances from (to) other funds	-	(55,000)
Transfers to other funds	(1,000)	(1,000)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(1,000)</u>	<u>(56,000)</u>
Cash Flows from Capital and Related Financing Activities		
Special assessments received	-	810
Acquisition of capital assets	(21,243)	-
Principal paid on bonds and notes payable	(40,000)	(34,000)
Interest and fees paid on bonds and notes payable	(10,626)	(2,121)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(71,869)</u>	<u>(35,311)</u>
Cash Flows from Investing Activities		
Interest received (paid) on cash and temporary investments	1,589	361
Net Increase (Decrease) in Cash and Temporary Investments	49,698	22,079
Cash and Temporary Investments, January 1	169,776	6,061
Cash and Temporary Investments, December 31	<u>\$ 219,474</u>	<u>\$ 28,140</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating income (loss)	\$ 54,146	\$ 2,724
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Other income related to operations	465	310
Depreciation	59,628	111,126
(Increase) decrease in assets		
Accounts receivable	(918)	(3,155)
Special assessments	-	-
Inventories	5,229	-
Prepaid items	(285)	40
Increase (decrease) in liabilities		
Accounts payable	2,629	2,844
Due to other governments	(7)	-
Deposits payable	-	-
Accrued salaries payable	(90)	(325)
Accrued interest payable	-	-
Compensated absences payable	181	(535)
Net Cash Provided (Used) by Operating Activities	<u>\$ 120,978</u>	<u>\$ 113,029</u>
Schedule of Noncash Investing, Capital and Financing Activities		
Infrastructure contributed from developers	<u>\$ 26,037</u>	<u>\$ 17,124</u>
Capital assets acquired on account	<u>\$ -</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 Refuse and Recycling	604 Electric Utility	605 Storm Water Utility	Totals
\$ 71,729	\$ 1,015,415	\$ 22,075	\$ 1,638,217
(48,372)	(886,295)	(5,834)	(1,104,435)
(14,133)	(31,904)	(7,807)	(185,676)
-	25,362	-	26,137
<u>9,224</u>	<u>122,578</u>	<u>8,434</u>	<u>374,243</u>
(8,500)	69,443	-	5,943
<u>(1,000)</u>	<u>(28,000)</u>	<u>(2,500)</u>	<u>(33,500)</u>
<u>(9,500)</u>	<u>41,443</u>	<u>(2,500)</u>	<u>(27,557)</u>
-	740	-	1,550
-	(33,424)	-	(54,667)
-	-	-	(74,000)
-	-	-	(12,747)
<u>-</u>	<u>(32,684)</u>	<u>-</u>	<u>(139,864)</u>
37	5,202	73	7,262
(239)	136,539	6,007	214,084
348	617,041	5,717	798,943
<u>\$ 109</u>	<u>\$ 753,580</u>	<u>\$ 11,724</u>	<u>\$ 1,013,027</u>
\$ 9,346	\$ 66,417	\$ (14,626)	\$ 118,007
-	25,362	-	26,137
990	45,625	23,236	240,605
(308)	(12,935)	(120)	(17,436)
-	(740)	-	(740)
-	2,255	-	7,484
(17)	(210)	(24)	(496)
(413)	(3,110)	-	1,950
(5)	(247)	-	(259)
-	375	-	375
(32)	104	7	(336)
<u>(337)</u>	<u>(318)</u>	<u>(39)</u>	<u>(1,048)</u>
<u>\$ 9,224</u>	<u>\$ 122,578</u>	<u>\$ 8,434</u>	<u>\$ 374,243</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 43,161</u>
<u>\$ -</u>	<u>\$ 179,539</u>	<u>\$ -</u>	<u>\$ 179,539</u>

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

City of Harmony, Minnesota  
Statement of Fiduciary Net Position  
Trust Fund  
December 31, 2018

Assets	
Cash and cash equivalents	<u>\$ 6,556</u>
Net Position	
Unrestricted	<u>\$ 6,556</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, 2018

Additions		
Investment income		\$ 122
Deductions		
Expenditures		<u>4,005</u>
Change in Net Position		(3,883)
Net Position, January 1		<u>10,439</u>
Net Position, December 31		<u><u>\$ 6,556</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.

### 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.

## Note 1: Summary of Significant Accounting Policies (Continued)

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.

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

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

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

The City reports the following major proprietary funds:

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

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

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

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

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



City of Harmony, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 1: Summary of Significant Accounting Policies (Continued)**

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.

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.

## Note 1: Summary of Significant Accounting Policies (Continued)

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.

### **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.

## **Note 1: Summary of Significant Accounting Policies (Continued)**

### ***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 2018. 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, 2018 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.

### ***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.

## **Note 1: Summary of Significant Accounting Policies (Continued)**

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 2018 was \$78,957. The General fund is typically used to liquidate governmental compensated absences payable.

### ***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.

## Note 1: Summary of Significant Accounting Policies (Continued)

### ***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.

### ***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 of 50 percent of budgeted operating expenditures for cash-flow timing needs.

### ***Net Position***

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

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

City of Harmony, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**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	\$ 510,909	\$ 843,274	\$ 332,365
Ambulance	192,379	195,406	3,027
Nonmajor Special Revenue			
Fire	88,181	119,629	31,448
Economic Development Authority	122,165	141,030	18,865

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, 2018:

Fund	Amount
Nonmajor Special Revenue	
Fire	\$ 35,338
Nonmajor Capital Projects	
TIF District #6	51,008

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 \$1,915,153 and the bank balance was \$1,938,252. Of the bank balance, \$500,000 was covered by federal depository insurance. The remaining balance of \$1,438,252 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, 2018

**Note 3: Detailed Notes on All Funds (Continued)**

**Investments**

As of December 31, 2018, 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>\$ 1,535,099</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	\$ 1,915,153
Investments	1,535,099
Cash on Hand	<u>165</u>
 Total Cash and Temporary Investments	 <u>\$ 3,450,417</u>
 Cash and Temporary Investments	 \$ 3,443,861
Fiduciary Fund Cash	<u>6,556</u>
 Total	 <u>\$ 3,450,417</u>



City of Harmony, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**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, 2018 is \$170,932.

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, 2018.

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, 2018 is \$146,665. These loans are secured by equipment and other assets.

**C. Capital Assets**

Capital asset activity for the City for the year ended December 31, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital Assets not being Depreciated				
Land	\$ 331,567	\$ -	\$ -	\$ 331,567
Construction in progress	557,641	202,386	(724,003)	36,024
Total Capital Assets being Depreciated	<u>889,208</u>	<u>202,386</u>	<u>(724,003)</u>	<u>367,591</u>
Capital Assets being Depreciated				
Buildings and improvements	1,183,625	30,357	-	1,213,982
Systems and infrastructure	3,415,601	740,023	-	4,155,624
Equipment and machinery	928,525	145,757	(90,771)	983,511
Vehicles	1,325,802	176,691	(127,037)	1,375,456
Total Capital Assets being Depreciated	<u>6,853,553</u>	<u>1,092,828</u>	<u>(217,808)</u>	<u>7,728,573</u>
Less Accumulated Depreciation for				
Buildings and improvements	(617,969)	(32,269)	-	(650,238)
Systems and infrastructure	(2,177,533)	(107,547)	-	(2,285,080)
Equipment and machinery	(424,697)	(81,785)	14,271	(492,211)
Vehicles	(612,592)	(96,153)	127,037	(581,708)
Total Accumulated Depreciation	<u>(3,832,791)</u>	<u>(317,754)</u>	<u>141,308</u>	<u>(4,009,237)</u>
Total Capital Assets being Depreciated, Net	<u>3,020,762</u>	<u>775,074</u>	<u>(76,500)</u>	<u>3,719,336</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,909,970</u>	<u>\$ 977,460</u>	<u>\$ (800,503)</u>	<u>\$ 4,086,927</u>

City of Harmony, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 3: Detailed Notes on All Funds (Continued)**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type Activities</b>				
Capital Assets not being Depreciated				
Land	\$ 36,415	\$ -	\$ -	\$ 36,415
Construction in progress	-	134,692	-	134,692
Total Capital Assets not being Depreciated	<u>36,415</u>	<u>134,692</u>	<u>-</u>	<u>171,107</u>
Capital Assets being Depreciated				
Buildings and improvements	2,538,356	-	-	2,538,356
Systems and infrastructure	4,717,092	116,918	-	4,834,010
Equipment and machinery	1,517,188	25,757	-	1,542,945
Vehicles	28,700	-	-	28,700
Total Capital Assets being Depreciated	<u>8,801,336</u>	<u>142,675</u>	<u>-</u>	<u>8,944,011</u>
Less Accumulated Depreciation For				
Buildings and improvements	(1,303,275)	(80,609)	-	(1,383,884)
Systems and infrastructure	(1,771,347)	(113,629)	-	(1,884,976)
Equipment and machinery	(241,896)	(46,367)	-	(288,263)
Vehicles	(28,700)	-	-	(28,700)
Total Accumulated Depreciation	<u>(3,345,218)</u>	<u>(240,605)</u>	<u>-</u>	<u>(3,585,823)</u>
Total Capital Assets being Depreciated, Net	<u>5,456,118</u>	<u>(97,930)</u>	<u>-</u>	<u>5,358,188</u>
Business-type Activities Capital Assets, Net	<u>\$ 5,492,533</u>	<u>\$ 36,762</u>	<u>\$ -</u>	<u>\$ 5,529,295</u>

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

<b>Governmental Activities</b>		
General government		\$ 38,663
Public safety		140,020
Streets and highways		114,326
Culture and recreation		24,546
Economic development		199
Total Depreciation Expense - Governmental Activities		<u>\$ 317,754</u>
<b>Business-type Activities</b>		
Water utility		\$ 59,628
Sewer utility		111,126
Refuse and recycling		990
Electric utility		45,625
Storm water utility		23,236
Total Depreciation Expense - Business-type Activities		<u>\$ 240,605</u>

City of Harmony, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 3: Detailed Notes on All Funds (Continued)**

**D. Interfund Receivables, Payables and Transfers**

The composition of interfund balances at December 31, 2018 is as follows:

**Advances to/from Other Funds**

Receivable Fund	Payable Fund	Amount
Revolving Loan	Nonmajor governmental TIF District #6	\$ 45,557
Electric Utility	Fire	69,150
	Sewer Utility	50,000
EDA	Nonmajor governmental TIF District #6	5,498
		<u>170,205</u>
Totals		<u>\$ 170,205</u>

The General fund advanced \$69,327 to the TIF District #5 in order to fund the cash deficit from the preliminary costs of the tax increment project. The advance was paid in full during 2018 upon decertification of the District.

The Revolving Loan fund and EDA fund advanced \$65,000 and \$6,933 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 outstanding balances as of December 31, 2018 were \$45,557 and \$5,498, respectively.

The Electric Utility fund advanced the Fire fund \$203,394 to assist in the purchase of a fire truck. This advance shall be paid back with annual payments paid by township charges. There is no interest rate on this advance. The outstanding balance as of December 31, 2018 was \$69,150.

The Electric Utility fund advanced the Sewer Utility and Refuse and Recycling funds \$155,000 and \$12,750 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. The outstanding balances as of December 31, 2018 were \$50,000 in the Sewer Utility fund while the Refuse and Recycling portion was paid in full during 2018. The City anticipates the remaining portion to be paid in full during 2019.

City of Harmony, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 3: Detailed Notes on All Funds (Continued)**

**Interfund Transfers**

In the year ended December 31, 2018, the City made the following transfers:

Fund	Transfers In			Total
	General	Capital Projects	Nonmajor Governmental	
<b>Transfers Out</b>				
Governmental				
General	\$ -	\$ 83,500	\$ 68,916	\$ 152,416
Ambulance	-	25,000	12,500	37,500
Capital Projects	179,500	-	51,250	230,750
Nonmajor Governmental	-	31,000	-	31,000
Business-type				
Water Utility	1,000	-	-	1,000
Sewer Utility	1,000	-	-	1,000
Refuse and Recycling	1,000	-	-	1,000
Electric Utility	2,000	11,000	15,000	28,000
Storm Water Utility	-	2,500	-	2,500
<b>Total</b>	<b><u>\$ 184,500</u></b>	<b><u>\$ 153,000</u></b>	<b><u>\$ 147,666</u></b>	<b><u>\$ 485,166</u></b>

During the year, transfers are used to 1) move General fund resources to provide an annual savings for future capital spending to the capital projects fund, 2) move special revenue resources in the ambulance fund to provide for its share of annual operating expenditures 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, 2018, the government made the following one-time transfers:

- Transfers from the Capital Projects fund to the General fund of \$179,500 to fund the purchase of a snow plow and seal coating expenditures.
- Transfers from the Capital Projects fund to the Fire fund of \$43,750 to fund the firehall roof and radio purchase.
- A transfer of \$8,166 from the General fund to the 2017 Street and Utility Project fund to close the fund upon completion of the project.

**E. Leases**

**Operating Leases**

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

Year Ending December 31	Amount
2019	<u>\$ 992</u>

City of Harmony, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**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 2014	\$ 370,000	2.25 %	08/01/14	02/01/22	\$ 99,000
G.O. Improvement Notes of 2017	935,000	3.05	09/01/17	02/01/28	<u>860,000</u>
Total General Obligation Improvement Bonds					<u><u>\$ 959,000</u></u>

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

Year Ending December 31,	<b>G.O. Improvement Bonds</b> Governmental Activities		
	Principal	Interest	Total
2019	\$ 87,500	\$ 27,219	\$ 114,719
2020	101,500	24,529	126,029
2021	105,500	21,568	127,068
2022	108,500	18,509	127,009
2023	85,500	15,654	101,154
2024 - 2028	<u>470,500</u>	<u>36,730</u>	<u>507,230</u>
Total	<u><u>\$ 959,000</u></u>	<u><u>\$ 144,209</u></u>	<u><u>\$ 1,103,209</u></u>

City of Harmony, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**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	\$ 115,000
G.O. Tax Abatement Bonds, 2013B	250,000	4.50	08/29/13	02/01/24	<u>164,000</u>
Total General Obligation Tax Abatement Bonds					<u><u>\$ 279,000</u></u>

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

Year Ending December 31,	<b>G.O. Tax Abatement Bonds</b>		
	Governmental Activities		
	Principal	Interest	Total
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
2023	45,000	2,706	47,706
2024	<u>46,000</u>	<u>1,027</u>	<u>47,027</u>
Total	<u><u>\$ 279,000</u></u>	<u><u>\$ 30,828</u></u>	<u><u>\$ 309,828</u></u>

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	\$ 178,000
2015 Public Facilities Authority Bonds	857,100	1.00	11/10/15	08/20/35	743,000
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><u>\$ 1,021,000</u></u>

City of Harmony, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 3: Detailed Notes on All Funds (Continued)**

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

	Water Utility	Sewer Utility
Revenues	\$ 215,184	\$ 317,887
Principal and Interest	50,626	36,121
Percentage of Revenues	23.5%	11.4%

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

Year Ending December 31,	<b>G.O. Revenue Bonds</b> Business-type Activities		
	Principal	Interest	Total
	2019	\$ 84,000	\$ 12,138
2020	85,000	11,119	96,119
2021	86,000	10,085	96,085
2022	87,000	9,025	96,025
2023	88,000	7,950	95,950
2024 - 2028	270,000	26,760	296,760
2029 - 2033	226,000	11,580	237,580
2034 - 2035	95,000	1,430	96,430
Total	\$ 1,021,000	\$ 90,087	\$ 1,111,087

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Bonds Payable					
G.O. improvement bonds	\$ 1,224,000	\$ -	\$ (265,000)	\$ 959,000	\$ 87,500
G.O. tax abatement bonds	337,000	-	(58,000)	279,000	60,000
Total Bonds Payable	1,561,000	-	(323,000)	1,238,000	147,500
Compensated Absences Payable	53,693	27,748	(25,323)	56,118	25,293
Governmental Activities Long-term Liabilities	\$ 1,614,693	\$ 27,748	\$ (348,323)	\$ 1,294,118	\$ 172,793
<b>Business-type Activities</b>					
Bonds Payable					
G.O. revenue bonds	\$ 1,095,000	\$ -	\$ (74,000)	\$ 1,021,000	\$ 84,000
Compensated Absences Payable	23,887	14,862	(15,910)	22,839	14,908
Business-type Activities Long-term Liabilities	\$ 1,118,887	\$ 14,862	\$ (89,910)	\$ 1,043,839	\$ 98,908

## **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 the Coordinated Plan.

### **B. Benefits Provided**

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

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. Members hired prior to July 1, 1989 receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent for each of the first 10 years of service and 1.7 percent for each additional year. The rates are 2.2 percent and 2.7 percent, respectively, for Basic members. Under Method 2, the accrual rate for Coordinated members is 1.7 percent for all years of service, and 2.7 percent for Basic members. The accrual rates for former MERF members is 2.0 percent for each of the first 10 years of service and 2.5 percent for each additional year. 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.

Beginning January 1, 2019, benefit recipients will receive a future annual increase equal to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

### **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

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in calendar year 2018. The City was required to contribute 7.50 percent for Coordinated Plan members in fiscal year 2018. The City's contributions to the GERF for the years ending December 31, 2018, 2017 and 2016 were \$26,570, \$24,658 and \$23,670, respectively. The City's contributions were equal to the 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.

The defined contribution plan consists of individual accounts paying a lump-sum benefit. Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses, therefore, there is no future liability to the employer. 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, 2018, 2017 and 2016 were \$9,720, \$9,780 and \$10,260 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 Sample Fire Department (the Department) are covered by a defined benefit plan administered by the Sample Fire Department Relief Association (the Association). As of December 31, 2017, the plan covered 26 active firefighters and 1 vested terminated fire fighters whose pension benefits are deferred. 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.

### **B. Benefits Provided**

A firefighter who completes at least 20 years as an active member of the Department is entitled, after age 50, to a full service pension upon retirement.

The bylaws of the Association also provide for an early vested service pension for a retiring member who has completed fewer than 20 years of service. The reduced pension, available to members with 10 years of service, shall be equal to 60 percent of the pension as prescribed by the bylaws. This percentage increases 4 percent per year so that at 20 years of service, the full amount prescribed is paid. Members who retire with less than 20 years of service and have reached the age of 50 years and have completed at least 10 years of active membership are entitled to a reduced service pension not to exceed the amount calculated by multiplying the member's service pension for the completed years of service times the applicable non-forfeitable percentage of pension.

City of Harmony, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**Note 6: Defined Benefit Pension Plan - Fire Relief Association (Continued)**

**C. Contributions**

Minnesota statutes, chapters 424 and 424A authorize pension benefits for volunteer fire relief associations. The plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota statutes and voluntary City contributions (if applicable). The State of Minnesota contributed \$20,532 in fire state aid to the plan on behalf of the City Fire Department for the year ended December 31, 2017, which was recorded as a revenue. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contributions to the plan for the year ended December 31, 2016 were \$16,203. The City's contributions were equal to the required contributions as set by state statute. In addition, the City made voluntary contributions of \$7,500 to the plan.

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	\$	28,032
Contributions Made		
City (voluntary)		7,500
State aid		20,532
Actuarial Valuation Date		12/31/18
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
12/31/18	\$ 28,032	100.0 %	\$ -
12/31/17	23,703	100.0	-
12/31/16	24,827	100.0	-

City of Harmony, Minnesota  
Notes to the Financial Statements  
December 31, 2018

**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
12/31/18	*	*	*	*	\$ 900
12/31/17	\$ 398,297	\$ 327,556	\$ 70,741	121.60 %	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 2018 were \$69,576.

**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, 2018 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 2018 was \$346,233 for LGA. This accounted for 51.2 percent of General fund revenues.

**E. Tax Increment Districts**

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

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COMBINING AND INDIVIDUAL FUND  
FINANCIAL STATEMENTS AND SCHEDULES

CITY OF HARMONY  
HARMONY, MINNESOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2018

City of Harmony, Minnesota  
Combining Balance Sheet  
Nonmajor Governmental Funds  
December 31, 2018

	<u>Nonmajor Special Revenue</u>	<u>Nonmajor Capital Project</u>	<u>Totals</u>
<b>Assets</b>			
Cash and temporary investments	\$ 392,471	\$ 12,040	\$ 404,511
Receivables			
Accounts, net of allowances	7,895	-	7,895
Delinquent taxes	-	64	64
Special assessments	107,031	-	107,031
Loans	317,597	-	317,597
Advances to other funds	51,055	-	51,055
Prepaid items	7,110	-	7,110
	<u>7,110</u>	<u>-</u>	<u>7,110</u>
Total Assets	<u>\$ 883,159</u>	<u>\$ 12,104</u>	<u>\$ 895,263</u>
<b>Liabilities</b>			
Accounts payable	\$ 7,773	\$ -	\$ 7,773
Due to other governments	-	11,993	11,993
Accrued salaries payable	1,405	-	1,405
Advances from other funds	69,150	51,055	120,205
Total Liabilities	<u>78,328</u>	<u>63,048</u>	<u>141,376</u>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue - property taxes	-	64	64
Unavailable revenue - special assessments	107,031	-	107,031
Total Deferred Inflows of Resources	<u>107,031</u>	<u>64</u>	<u>107,095</u>
<b>Fund Balances</b>			
Nonspendable			
Prepaid items	7,110	-	7,110
Restricted			
Economic development	146,665	-	146,665
Committed			
Loans	170,932	-	170,932
Assigned			
Economic development	336,287	-	336,287
Culture and recreation	74,005	-	74,005
Unassigned	(37,199)	(51,008)	(88,207)
Total Fund Balances	<u>697,800</u>	<u>(51,008)</u>	<u>646,792</u>
Total Deferred Inflows of Resources and Fund Balances	<u>\$ 883,159</u>	<u>\$ 12,104</u>	<u>\$ 895,263</u>

City of Harmony, Minnesota  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended December 31, 2018

	Nonmajor Special Revenue	Nonmajor Capital Project	Totals
<b>Revenues</b>			
Taxes	\$ 281,650	\$ 28,857	\$ 310,507
Special assessments	1,973	-	1,973
Intergovernmental	30,139	-	30,139
Fine and forfeits	203	-	203
Charges for services	54,421	-	54,421
Investment earnings	2,211	32	2,243
Miscellaneous	47,452	-	47,452
<b>Total Revenues</b>	<b>418,049</b>	<b>28,889</b>	<b>446,938</b>
<b>Expenditures</b>			
<b>Current</b>			
Public Safety	58,292	-	58,292
Culture and recreation	162,319	-	162,319
Economic development	174,541	11,993	186,534
<b>Capital outlay</b>			
Public Safety	61,337	-	61,337
Streets and highways	-	69,396	69,396
Culture and recreation	38,191	-	38,191
<b>Debt service</b>			
Interest and other	-	1,682	1,682
<b>Total Expenditures</b>	<b>494,680</b>	<b>83,071</b>	<b>577,751</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(76,631)</u>	<u>(54,182)</u>	<u>(130,813)</u>
<b>Other Financing Sources (Uses)</b>			
Transfer in	139,500	8,166	147,666
Transfer out	(31,000)	-	(31,000)
<b>Total Other Financing Sources (Uses)</b>	<b>108,500</b>	<b>8,166</b>	<b>116,666</b>
Net Change in Fund Balances	31,869	(46,016)	(14,147)
Fund Balances, January 1	<u>665,931</u>	<u>(4,992)</u>	<u>660,939</u>
Fund Balances, December 31	<u><b>\$ 697,800</b></u>	<u><b>\$ (51,008)</b></u>	<u><b>\$ 646,792</b></u>

City of Harmony, Minnesota  
 Nonmajor Special Revenue Funds  
 Combining Balance Sheet  
 December 31, 2018

	<b>201</b>	<b>202</b>	<b>211</b>	<b>222</b>
	Revolving Loan	Small Cities Grant	Library Fund	Fire
<b>Assets</b>				
Cash and temporary investments	\$ 116,143	\$ 12,000	\$ 6,655	\$ 25,631
Receivables				
Accounts, net of allowances	-	-	-	7,895
Special assessments	-	-	-	-
Loans	170,932	146,665	-	-
Advances to other funds	45,557	-	-	-
Prepaid items	-	-	356	4,081
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Assets	<u>\$ 332,632</u>	<u>\$ 158,665</u>	<u>\$ 7,011</u>	<u>\$ 37,607</u>
<b>Liabilities</b>				
Accounts payable	\$ -	\$ -	\$ 3,307	\$ 3,773
Accrued salaries payable	-	-	1,128	22
Advances from other funds	-	-	-	69,150
Total Liabilities	<u>          </u>	<u>          </u>	<u>4,435</u>	<u>72,945</u>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue - special assessments	-	-	-	-
<b>Fund Balances</b>				
<b>Nonspendable</b>				
Prepaid items	-	-	356	4,081
<b>Restricted</b>				
Economic development	-	146,665	-	-
<b>Committed</b>				
Loans	170,932	-	-	-
<b>Assigned</b>				
Economic development	161,700	12,000	-	-
Culture and recreation	-	-	-	-
Unassigned	-	-	2,220	(39,419)
Total Fund Balances	<u>332,632</u>	<u>158,665</u>	<u>2,576</u>	<u>(35,338)</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities and Fund Balances	<u>\$ 332,632</u>	<u>\$ 158,665</u>	<u>\$ 7,011</u>	<u>\$ 37,607</u>



<b>251</b>	<b>261</b>	<b>620</b>	Total Nonmajor Special Nonmajor Funds
Park Fund	Arts Fund	EDA	
\$ 70,195	\$ 4,327	\$ 157,520	\$ 392,471
-	-	-	7,895
-	-	107,031	107,031
-	-	-	317,597
-	-	5,498	51,055
2,634	-	39	7,110
<u>\$ 72,829</u>	<u>\$ 4,327</u>	<u>\$ 270,088</u>	<u>\$ 883,159</u>
\$ 169	\$ 297	\$ 227	\$ 7,773
51	-	204	1,405
-	-	-	69,150
<u>220</u>	<u>297</u>	<u>431</u>	<u>78,328</u>
-	-	107,031	107,031
2,634	-	39	7,110
-	-	-	146,665
-	-	-	170,932
-	-	162,587	336,287
69,975	4,030	-	74,005
-	-	-	(37,199)
<u>72,609</u>	<u>4,030</u>	<u>162,626</u>	<u>697,800</u>
<u>\$ 72,829</u>	<u>\$ 4,327</u>	<u>\$ 270,088</u>	<u>\$ 883,159</u>

City of Harmony, Minnesota  
 Nonmajor Governmental Funds  
 Combining Statement of Revenues, Expenditures and  
 Changes in Fund Balances  
 For the Year Ended December 31, 2018

	<b>201</b>	<b>202</b>	<b>211</b>	<b>222</b>
	Revolving Loan	Small Cities Grant	Library Fund	Fire
<b>Revenues</b>				
Taxes				
Property taxes	\$ -	\$ -	\$ 86,400	\$ 29,550
Special assessments	-	-	-	-
Intergovernmental	-	700	29,439	-
Fines and forfeits	-	-	203	-
Charges for services	-	-	612	52,691
Investment earnings (loss)	690	92	(89)	250
Miscellaneous				
Contributions and donations	-	-	663	8,931
Loan interest	8,108	-	-	-
Other	300	-	725	2,715
Total Revenues	<u>9,098</u>	<u>792</u>	<u>117,953</u>	<u>94,137</u>
<b>Expenditures</b>				
Current				
Public safety	-	-	-	58,292
Culture and recreation	-	-	112,306	-
Economic development	219	33,292	-	-
Capital outlay				
Public safety	-	-	-	61,337
Culture and recreation	-	-	1,935	-
Total Expenditures	<u>219</u>	<u>33,292</u>	<u>114,241</u>	<u>119,629</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>8,879</u>	<u>(32,500)</u>	<u>3,712</u>	<u>(25,492)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	-	56,250
Transfers out	-	-	-	(25,000)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,250</u>
Net Change in Fund Balances	8,879	(32,500)	3,712	5,758
Fund Balances, January 1	<u>323,753</u>	<u>191,165</u>	<u>(1,136)</u>	<u>(41,096)</u>
Fund Balances, December 31	<u>\$ 332,632</u>	<u>\$ 158,665</u>	<u>\$ 2,576</u>	<u>\$ (35,338)</u>

<b>251</b>	<b>261</b>	<b>620</b>	Total Nonmajor Special Nonmajor Funds
Park Fund	Arts Fund	EDA	
\$ 59,700	\$ 6,000	\$ 100,000	\$ 281,650
-	-	1,973	1,973
-	-	-	30,139
-	-	-	203
1,118	-	-	54,421
489	23	756	2,211
25,883	27	-	35,504
-	-	-	8,108
100	-	-	3,840
<u>87,290</u>	<u>6,050</u>	<u>102,729</u>	<u>418,049</u>
-	-	-	58,292
44,257	5,756	-	162,319
-	-	141,030	174,541
-	-	-	61,337
36,256	-	-	38,191
<u>80,513</u>	<u>5,756</u>	<u>141,030</u>	<u>494,680</u>
<u>6,777</u>	<u>294</u>	<u>(38,301)</u>	<u>(76,631)</u>
7,500	-	75,750	139,500
<u>(6,000)</u>	<u>-</u>	<u>-</u>	<u>(31,000)</u>
<u>1,500</u>	<u>-</u>	<u>75,750</u>	<u>108,500</u>
8,277	294	37,449	31,869
<u>64,332</u>	<u>3,736</u>	<u>125,177</u>	<u>665,931</u>
<u>\$ 72,609</u>	<u>\$ 4,030</u>	<u>\$ 162,626</u>	<u>\$ 697,800</u>

City of Harmony, Minnesota  
Fire Fund  
Statement of Revenues, Expenditures and Changes in Fund Balances -  
Budget and Actual  
For the Year Ended December 31, 2018  
(With Comparative Actual Amounts for Year Ended December 31, 2017)

	2018				2017
	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
Charges for services	47,500	47,500	52,691	5,191	53,363
Investment earnings	-	-	250	250	201
Miscellaneous					
Contributions and donations	-	-	8,931	8,931	35,000
Other	6,500	6,500	2,715	(3,785)	2,432
Total Revenues	<u>83,550</u>	<u>83,550</u>	<u>94,137</u>	<u>10,587</u>	<u>190,405</u>
Expenditures					
Current					
Public safety					
Personal services	15,611	15,611	22,075	(6,464)	27,824
Supplies	10,850	10,850	7,409	3,441	4,285
Other services	22,170	22,170	17,306	4,864	17,184
Other charges	9,550	9,550	11,502	(1,952)	12,020
Capital outlay					
Public safety					
Fire	30,000	30,000	61,337	(31,337)	67,289
Total Expenditures	<u>88,181</u>	<u>88,181</u>	<u>119,629</u>	<u>(31,448)</u>	<u>128,602</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(4,631)</u>	<u>(4,631)</u>	<u>(25,492)</u>	<u>(20,861)</u>	<u>61,803</u>
Other Financing Sources (Uses)					
Transfers in	42,500	42,500	56,250	13,750	12,500
Transfers out	(35,000)	(35,000)	(25,000)	10,000	(60,000)
Total Other Financing Sources (Uses)	<u>7,500</u>	<u>7,500</u>	<u>31,250</u>	<u>23,750</u>	<u>(47,500)</u>
Net Change in Fund Balances	2,869	2,869	5,758	2,889	14,303
Fund Balances, January 1	<u>(41,096)</u>	<u>(41,096)</u>	<u>(41,096)</u>	<u>-</u>	<u>(55,399)</u>
Fund Balances, December 31	<u>\$ (38,227)</u>	<u>\$ (38,227)</u>	<u>\$ (35,338)</u>	<u>\$ 2,889</u>	<u>\$ (41,096)</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, 2018  
 (With Comparative Actual Amounts for Year Ended December 31, 2017)

	2018				2017
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Intergovernmental	\$ 20,196	\$ 20,196	\$ 20,071	\$ (125)	\$ 29,171
Charges for services	182,500	182,500	192,553	10,053	179,278
Investment earnings	500	500	784	284	86
Miscellaneous					
Contributions and donations	-	-	3,867	3,867	25,887
Other	-	-	7,926	7,926	2,302
Total Revenues	<u>203,196</u>	<u>203,196</u>	<u>225,201</u>	<u>22,005</u>	<u>236,724</u>
Expenditures					
Current					
Public safety					
Personal services	111,233	111,233	112,905	(1,672)	118,660
Supplies	13,975	13,975	12,845	1,130	7,679
Other services	22,431	22,431	16,620	5,811	16,708
Other charges	39,740	39,740	49,169	(9,429)	58,940
Capital outlay					
Public safety	5,000	5,000	3,867	1,133	143,595
Total Expenditures	<u>192,379</u>	<u>192,379</u>	<u>195,406</u>	<u>(3,027)</u>	<u>345,582</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>10,817</u>	<u>10,817</u>	<u>29,795</u>	<u>18,978</u>	<u>(108,858)</u>
Other Financing Sources (Uses)					
Transfers in	-	-	-	-	117,500
Transfers out	<u>(37,500)</u>	<u>(37,500)</u>	<u>(37,500)</u>	<u>-</u>	<u>(37,500)</u>
Total Financing Sources (Uses)	<u>(37,500)</u>	<u>(37,500)</u>	<u>(37,500)</u>	<u>-</u>	<u>80,000</u>
Net Change in Fund Balances	(26,683)	(26,683)	(7,705)	18,978	(28,858)
Fund Balances, January 1	<u>144,890</u>	<u>144,890</u>	<u>144,890</u>	<u>-</u>	<u>173,748</u>
Fund Balances, December 31	<u>\$ 118,207</u>	<u>\$ 118,207</u>	<u>\$ 137,185</u>	<u>\$ 18,978</u>	<u>\$ 144,890</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, 2018  
(With Comparative Actual Amounts for Year Ended December 31, 2017)

	2018				2017
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Investment earnings	\$ -	\$ -	\$ 690	\$ 690	\$ 132
Miscellaneous					
Loan interest	46,500	46,500	8,108	(38,392)	8,964
Other	300	300	300	-	300
Total Revenues	<u>46,800</u>	<u>46,800</u>	<u>9,098</u>	<u>(37,702)</u>	<u>9,396</u>
Expenditures					
Current					
Economic development					
Other services	1,500	1,500	219	1,281	120
Other charges	-	-	-	-	10
Loans made	25,000	25,000	-	25,000	-
Total Expenditures	<u>26,500</u>	<u>26,500</u>	<u>219</u>	<u>26,281</u>	<u>130</u>
Net Change in Fund Balances	25,300	25,300	8,879	(16,421)	9,266
Fund Balances, January 1	<u>323,753</u>	<u>323,753</u>	<u>323,753</u>	-	<u>314,487</u>
Fund Balances, December 31	<u>\$ 349,053</u>	<u>\$ 349,053</u>	<u>\$ 332,632</u>	<u>\$ (16,421)</u>	<u>\$ 323,753</u>

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

Economic Development Authority Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balances -  
Budget and Actual  
For the Year Ended December 31, 2018  
(With Comparative Actual Amounts for Year Ended December 31, 2017)

	2018				2017
	Budgeted Amounts		Actual	Variance with	Actual
	Original	Final	Amounts	Final Budget	Amounts
Revenues					
Property taxes	\$ 100,000	\$ 100,000	\$ 100,000	\$ -	\$ 97,500
Special assessments	1,000	1,000	1,973	973	2,125
Investment earnings	-	-	756	756	283
Miscellaneous					
Other	-	-	-	-	4,000
Total Revenues	<u>101,000</u>	<u>101,000</u>	<u>102,729</u>	<u>1,729</u>	<u>103,908</u>
Expenditures					
Current					
Economic development					
Personal services	17,044	17,044	17,998	(954)	16,923
Supplies	-	-	120	(120)	776
Other services	38,311	38,311	33,907	4,404	31,630
Other charges	66,810	66,810	89,005	(22,195)	53,450
Total Expenditures	<u>122,165</u>	<u>122,165</u>	<u>141,030</u>	<u>(18,865)</u>	<u>102,779</u>
Excess (Deficiency) of Revenues Over Expenditures	(21,165)	(21,165)	(38,301)	(17,136)	1,129
Other Financing Sources (Uses)					
Transfers in	<u>15,000</u>	<u>15,000</u>	<u>75,750</u>	<u>60,750</u>	<u>25,000</u>
Net Change in Fund Balances	(6,165)	(6,165)	37,449	43,614	26,129
Fund Balances, January 1	<u>125,177</u>	<u>125,177</u>	<u>125,177</u>	<u>-</u>	<u>99,048</u>
Fund Balances, December 31	<u>\$ 119,012</u>	<u>\$ 119,012</u>	<u>\$ 162,626</u>	<u>\$ 43,614</u>	<u>\$ 125,177</u>

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

City of Harmony, Minnesota  
 Nonmajor Capital Project Funds  
 Combining Balance Sheet  
 December 31, 2018

	<b>418</b> TIF District #5	<b>420</b> TIF District #6	<b>423</b> 2017 Street and Utility Project	Total Nonmajor Funds
<b>Assets</b>				
Cash and temporary investments	\$ 11,993	\$ 47	\$ -	\$ 12,040
Delinquent taxes	-	64	-	64
<b>Total Assets</b>	<b><u>\$ 11,993</u></b>	<b><u>\$ 111</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 12,104</u></b>
<b>Liabilities</b>				
Due to other governments	\$ 11,993	\$ -	\$ -	\$ 11,993
Advance from other funds	-	51,055	-	51,055
<b>Total Liabilities</b>	<b><u>11,993</u></b>	<b><u>51,055</u></b>	<b><u>-</u></b>	<b><u>63,048</u></b>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue - property taxes	-	64	-	64
<b>Fund Balances</b>				
Unassigned	-	(51,008)	-	(51,008)
<b>Total Deferred Inflows of Resources And Fund Balances</b>	<b><u>\$ 11,993</u></b>	<b><u>\$ 111</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 12,104</u></b>



City of Harmony, Minnesota  
 Nonmajor Capital Project Funds  
 Combining Statement of Revenues, Expenditures and  
 Changes in Fund Balances  
 For the Year Ended December 31, 2018

	<b>418</b> TIF District #5	<b>420</b> TIF District #6	<b>423</b> 2017 Street and Utility Project	Total Nonmajor Funds
Revenues				
Tax increments	\$ 14,719	\$ 14,138	\$ -	\$ 28,857
Investment earnings	-	32	-	32
Total Revenues	<u>14,719</u>	<u>14,170</u>	<u>-</u>	<u>28,889</u>
Expenditures				
Current				
Economic development	11,993	-	-	11,993
Capital outlay				
Street and highways	-	-	69,396	69,396
Debt service				
Interest and other	50	1,632	-	1,682
Total Expenditures	<u>12,043</u>	<u>1,632</u>	<u>69,396</u>	<u>83,071</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,676	12,538	(69,396)	(54,182)
Other Financing Sources (Uses)				
Transfers in	-	-	8,166	8,166
Net Change in Fund Balances	2,676	12,538	(61,230)	(46,016)
Fund Balances, January 1	<u>(2,676)</u>	<u>(63,546)</u>	<u>61,230</u>	<u>(4,992)</u>
Fund Balances, December 31	<u>\$ -</u>	<u>\$ (51,008)</u>	<u>\$ -</u>	<u>\$ (51,008)</u>

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City of Harmony, Minnesota  
 General Fund  
 Comparative Balance Sheets  
 December 31, 2018 and 2017

	2018	2017
<b>Assets</b>		
Cash and temporary investments	\$ 914,936	\$ 902,341
Receivables		
Interest	9,901	3,935
Special assessments	443	284
Delinquent taxes	14,951	12,268
Accounts	6,614	5,689
Intergovernmental	4,992	5,422
Advance to other funds	-	3,081
Prepaid items	18,544	19,459
	\$ 970,381	\$ 952,479
<b>Liabilities</b>		
Accounts payable	\$ 215,834	\$ 32,594
Accrued salaries payable	3,425	4,844
Due to other governments	24,559	56,399
Total Liabilities	243,818	93,837
<b>Deferred Inflows of Resources</b>		
Unavailable revenue - property taxes	14,951	12,268
Unavailable revenue - special assessment	443	284
Total Deferred Inflows of Resources	15,394	12,552
<b>Fund Balances</b>		
<b>Nonspendable</b>		
Prepaid items	18,544	19,459
Advance to other funds	-	3,081
<b>Assigned</b>	286,675	261,817
<b>Unassigned</b>	405,950	561,733
Total Fund Balances	711,169	846,090
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	\$ 970,381	\$ 952,479

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, 2018  
(With Comparative Actual Amounts for Year Ended December 31, 2017)

	2018			Variance with Final Budget	2017
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
Revenues					
Taxes					
Property taxes	\$ 177,287	\$ 177,287	\$ 178,760	\$ 1,473	\$ 179,667
Franchise taxes	3,500	3,500	4,361	861	4,419
Lodging	5,000	5,000	5,026	26	4,281
Total Taxes	<u>185,787</u>	<u>185,787</u>	<u>188,147</u>	<u>2,360</u>	<u>188,367</u>
Special assessments	-	-	-	-	1,390
Licenses and permits					
Business	4,450	4,450	5,105	655	4,350
Nonbusiness	2,750	2,750	2,548	(202)	2,991
Total Licenses and Permits	<u>7,200</u>	<u>7,200</u>	<u>7,653</u>	<u>453</u>	<u>7,341</u>
State					
Local government aid	346,233	346,233	346,233	-	342,450
Property tax credits and aids	113	113	105	(8)	113
Fire aid	15,000	15,000	20,532	5,532	16,203
Other State aids	864	864	13,389	12,525	13,623
Total State	<u>362,210</u>	<u>362,210</u>	<u>380,259</u>	<u>18,049</u>	<u>372,389</u>
Total Intergovernmental	<u>362,210</u>	<u>362,210</u>	<u>380,259</u>	<u>18,049</u>	<u>372,389</u>
Charges for services					
General government	50	50	28	(22)	36
Public safety	-	-	110	110	55
Streets and highways	500	500	3,595	3,095	1,627
Total Charges for Services	<u>550</u>	<u>550</u>	<u>3,733</u>	<u>3,183</u>	<u>1,718</u>
Fines and forfeits	<u>750</u>	<u>750</u>	<u>777</u>	<u>27</u>	<u>960</u>
Investment earnings	<u>1,500</u>	<u>1,500</u>	<u>6,215</u>	<u>4,715</u>	<u>3,223</u>
Miscellaneous					
Contributions and donations	4,000	4,000	74,959	70,959	13,500
Refunds and reimbursements	7,500	7,500	3,019	(4,481)	6,618
Rents	2,500	2,500	1,453	(1,047)	9,341
Other	700	700	10,054	9,354	11,921
Total Miscellaneous	<u>14,700</u>	<u>14,700</u>	<u>89,485</u>	<u>74,785</u>	<u>41,380</u>
Total Revenues	<u>572,697</u>	<u>572,697</u>	<u>676,269</u>	<u>103,572</u>	<u>616,768</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, 2018  
(With Comparative Actual Amounts for Year Ended December 31, 2017)

	2018			Variance with Final Budget	2017
	Budgeted Amounts		Actual		Actual
	Original	Budget	Amounts		Amounts
Expenditures					
Current					
General Government					
Mayor and Council					
Personal services	\$ 7,655	\$ 7,655	\$ 7,423	\$ 232	\$ 7,724
Materials and supplies	350	350	473	(123)	91
Other services and charges	1,994	1,994	1,243	751	1,242
Total Mayor and Council	<u>9,999</u>	<u>9,999</u>	<u>9,139</u>	<u>860</u>	<u>9,057</u>
Finance and administration					
Personal services	63,298	63,298	66,074	(2,776)	62,181
Materials and supplies	7,150	7,150	7,765	(615)	4,847
Printing and publication	3,008	3,008	1,978	1,030	2,440
Training	1,000	1,000	50	950	35
Repairs and maintenance	1,500	1,500	1,455	45	1,206
Professional fees	7,500	7,500	6,762	738	7,282
Miscellaneous	2,320	2,320	2,807	(487)	1,101
Total Finance and Administration	<u>85,776</u>	<u>85,776</u>	<u>86,891</u>	<u>(1,115)</u>	<u>79,092</u>
Elections	<u>1,465</u>	<u>1,465</u>	<u>1,826</u>	<u>(361)</u>	<u>-</u>
Professional services					
Legal	<u>8,000</u>	<u>8,000</u>	<u>4,506</u>	<u>3,494</u>	<u>6,873</u>
Total General Government	<u>105,240</u>	<u>105,240</u>	<u>102,362</u>	<u>2,878</u>	<u>95,022</u>
Government Buildings					
Visitor center					
Personal services	10,343	10,343	9,894	449	7,842
Materials and supplies	2,600	2,600	1,710	890	1,712
Insurance	1,469	1,469	1,702	(233)	1,360
Repairs and maintenance	3,750	3,750	3,173	577	3,263
Utilities	7,500	7,500	5,980	1,520	5,381
Total Visitor Center	<u>25,662</u>	<u>25,662</u>	<u>22,459</u>	<u>3,203</u>	<u>19,558</u>
Community center					
Personal services	42,845	42,845	33,216	9,629	31,513
Materials and supplies	6,250	6,250	6,379	(129)	5,814
Insurance	14,705	14,705	14,292	413	13,538
Repairs and maintenance	11,000	11,000	32,747	(21,747)	4,381
Utilities	35,600	35,600	30,208	5,392	27,845
Miscellaneous	100	100	8	92	-
Total Community Center	<u>110,500</u>	<u>110,500</u>	<u>116,850</u>	<u>(6,350)</u>	<u>83,091</u>
Total Government Buildings	<u>136,162</u>	<u>136,162</u>	<u>139,309</u>	<u>(3,147)</u>	<u>102,649</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, 2018  
(With Comparative Actual Amounts for Year Ended December 31, 2017)

	2018				2017
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Expenditures (Continued)					
Current (continued)					
Public safety					
Police					
Contracted services	\$ 83,500	\$ 83,500	\$ 89,424	\$ (5,924)	\$ 74,919
Vehicle expense	3,500	3,500	5,291	(1,791)	3,982
Materials and supplies	600	600	30	570	-
Insurance	447	447	663	(216)	435
Repairs and maintenance	1,000	1,000	1,834	(834)	1,613
Miscellaneous	775	775	558	217	1,347
Total Police	<u>89,822</u>	<u>89,822</u>	<u>97,800</u>	<u>(7,978)</u>	<u>82,296</u>
Fire					
Firemen's relief	<u>22,500</u>	<u>22,500</u>	<u>28,032</u>	<u>(5,532)</u>	<u>23,703</u>
Civil defense					
Personal services	646	646	646	-	646
Supplies	100	100	-	100	-
Repairs and maintenance	1,000	1,000	2,359	(1,359)	-
Other charges	1,903	1,903	1,947	(44)	1,918
Total Civil Defense	<u>3,649</u>	<u>3,649</u>	<u>4,952</u>	<u>(1,303)</u>	<u>2,564</u>
Animal control					
Personal services	4,198	4,198	4,270	(72)	3,731
Materials and supplies	350	350	372	(22)	393
Other services	200	200	197	3	195
Total Animal and Pest Control	<u>4,748</u>	<u>4,748</u>	<u>4,839</u>	<u>(91)</u>	<u>4,319</u>
Total Public Safety	<u>120,719</u>	<u>120,719</u>	<u>135,623</u>	<u>(14,904)</u>	<u>112,882</u>
Streets and Highways					
Personal services	21,375	21,375	22,526	(1,151)	23,745
Vehicle expenses	3,500	3,500	1,625	1,875	1,558
Materials and supplies	12,000	12,000	8,942	3,058	9,492
Insurance	1,392	1,392	1,937	(545)	822
Repairs and maintenance	21,650	21,650	95,539	(73,889)	9,623
Snow and ice	34,093	34,093	32,533	1,560	22,530
Building maintenance	24,758	24,758	30,344	(5,586)	22,432
Total Streets and Highways	<u>118,768</u>	<u>118,768</u>	<u>193,446</u>	<u>(74,678)</u>	<u>90,202</u>
Culture and recreation					
Community events	<u>6,305</u>	<u>6,305</u>	<u>16,894</u>	<u>(10,589)</u>	<u>14,299</u>
Economic development					
Lodging tax	5,000	5,000	4,006	994	3,685
Community development	3,000	3,000	2,497	503	671
Total Economic Development	<u>8,000</u>	<u>8,000</u>	<u>6,503</u>	<u>1,497</u>	<u>4,356</u>
Unallocated					
Miscellaneous	5,000	5,000	5,465	(465)	5,000
Insurance	2,215	2,215	2,146	69	2,115
Total Miscellaneous	<u>7,215</u>	<u>7,215</u>	<u>7,611</u>	<u>(396)</u>	<u>7,115</u>
Total Current	<u>502,409</u>	<u>502,409</u>	<u>601,748</u>	<u>(99,339)</u>	<u>426,525</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, 2018  
(With Comparative Actual Amounts for Year Ended December 31, 2017)

	2018			Variance with Final Budget	2017
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
Expenditures (Continued)					
Current (continued)					
Capital outlay					
Finance and administration	\$ 1,000	\$ 1,000	\$ 2,214	\$ (1,214)	\$ -
Government buildings	-	-	-	-	73,306
Public safety	-	-	-	-	32,211
Streets and highways	7,500	7,500	239,312	(231,812)	104,295
Total Capital Outlay	<u>8,500</u>	<u>8,500</u>	<u>241,526</u>	<u>(233,026)</u>	<u>209,812</u>
Total Expenditures	<u>510,909</u>	<u>510,909</u>	<u>843,274</u>	<u>(332,365)</u>	<u>636,337</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>61,788</u>	<u>61,788</u>	<u>(167,005)</u>	<u>(228,793)</u>	<u>(19,569)</u>
Other Financing Sources (Uses)					
Sale of capital assets	-	-	-	-	15,205
Transfers in	10,750	10,750	184,500	173,750	66,000
Transfers out	<u>(83,500)</u>	<u>(83,500)</u>	<u>(152,416)</u>	<u>(68,916)</u>	<u>(101,000)</u>
Total Other Financing Sources (Uses)	<u>(72,750)</u>	<u>(72,750)</u>	<u>32,084</u>	<u>104,834</u>	<u>(19,795)</u>
Net Change in Fund Balances	(10,962)	(10,962)	(134,921)	(123,959)	(39,364)
Fund Balances, January 1	<u>846,090</u>	<u>846,090</u>	<u>846,090</u>	<u>-</u>	<u>885,454</u>
Fund Balances, December 31	<u>\$ 835,128</u>	<u>\$ 835,128</u>	<u>\$ 711,169</u>	<u>\$ (123,959)</u>	<u>\$ 846,090</u>

City of Harmony, Minnesota

Debt Service Funds

Combining Balance Sheet

December 31, 2018

	<b>314</b> 2010 G.O. Improvement Bonds	<b>315</b> 2013A G.O. Tax Abatement Bonds	<b>316</b> 2013B G.O. Tax Abatement Bonds	<b>317</b> 2014A G.O. Improvement Bonds
<b>Assets</b>				
Cash and temporary investments	\$ 40,299	\$ 7,620	\$ 24,619	\$ 33,497
Delinquent taxes	131	1,170	964	1,014
Special assessments	10,628	-	-	99,975
Intergovernmental	90	435	359	382
	<u>90</u>	<u>435</u>	<u>359</u>	<u>382</u>
<b>Total Assets</b>	<u>\$ 51,148</u>	<u>\$ 9,225</u>	<u>\$ 25,942</u>	<u>\$ 134,868</u>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue - property taxes	\$ 131	\$ 1,170	\$ 964	\$ 1,014
Unavailable revenue - special assessments	10,628	-	-	99,975
<b>Total Deferred Inflows of Resources</b>	<u>10,759</u>	<u>1,170</u>	<u>964</u>	<u>100,989</u>
<b>Fund Balances</b>				
Restricted for debt service	<u>40,389</u>	<u>8,055</u>	<u>24,978</u>	<u>33,879</u>
<b>Total Deferred Inflows of Resources and Fund Balances</b>	<u>\$ 51,148</u>	<u>\$ 9,225</u>	<u>\$ 25,942</u>	<u>\$ 134,868</u>



**318**  
 2017A G.O.  
 Improvement  
 Bonds

<u>Bonds</u>	<u>Totals</u>
\$ 103,503	\$ 209,538
2,137	5,416
183,427	294,030
1,016	2,282
<u>\$ 290,083</u>	<u>\$ 511,266</u>
\$ 2,137	\$ 5,416
183,427	294,030
<u>185,564</u>	<u>299,446</u>
<u>104,519</u>	<u>211,820</u>
<u>\$ 290,083</u>	<u>\$ 511,266</u>

City of Harmony, Minnesota  
Debt Service Funds  
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
For the Year Ended December 31, 2018

	<b>314</b> 2010 G.O. Improvement Bonds	<b>315</b> 2013A G.O. Tax Abatement Bonds	<b>316</b> 2013B G.O. Tax Abatement	<b>317</b> 2014A G.O. Improvement Bonds
Revenues				
Property taxes	\$ 517	\$ 39,678	\$ 32,734	\$ 34,848
Special assessments	5,488	-	-	19,300
Investment earnings	296	89	75	605
Total Revenues	<u>6,301</u>	<u>39,767</u>	<u>32,809</u>	<u>54,753</u>
Expenditures				
Debt service				
Principal	16,000	35,000	23,000	174,000
Interest and other costs	260	3,300	7,898	5,758
Total Expenditures	<u>16,260</u>	<u>38,300</u>	<u>30,898</u>	<u>179,758</u>
Net Change in Fund Balances	(9,959)	1,467	1,911	(125,005)
Fund Balances, January 1	<u>50,348</u>	<u>6,588</u>	<u>23,067</u>	<u>158,884</u>
Fund Balances, December 31	<u>\$ 40,389</u>	<u>\$ 8,055</u>	<u>\$ 24,978</u>	<u>\$ 33,879</u>

**318**  
 2017A G.O.  
 Improvement  
 Bonds

	Totals
\$ 82,884	\$ 190,661
23,709	48,497
706	1,771
107,299	240,929
75,000	323,000
27,091	44,307
102,091	367,307
5,208	(126,378)
99,311	338,198
\$ 104,519	\$ 211,820

City of Harmony, Minnesota  
 Summary Financial Report  
 Revenues and Expenditures For General Operations -  
 Governmental Funds  
 For the Years Ended December 31, 2018 and 2017

	Total 2018	Total 2017	Percent Increase (Decrease)
<b>Revenues</b>			
Taxes	\$ 689,315	\$ 625,757	10.16 %
Special assessments	50,470	127,500	(60.42)
Licenses and permits	7,653	7,341	4.25
Intergovernmental	430,469	557,690	(22.81)
Charges for services	250,707	237,211	5.69
Fines and forfeits	980	1,253	(21.79)
Investment earnings	17,496	7,689	127.55
Miscellaneous	370,478	122,732	201.86
<b>Total Revenues</b>	<b><u>\$ 1,817,568</u></b>	<b><u>\$ 1,687,173</u></b>	7.73 %
<b>Per Capita</b>	<b>\$ 1,768</b>	<b>\$ 1,643</b>	7.62 %
<b>Expenditures</b>			
<b>Current</b>			
General government	\$ 241,671	\$ 197,671	22.26 %
Public safety	385,454	376,182	2.46
Streets and highways	193,446	90,202	114.46
Culture and recreation	179,213	171,677	4.39
Economic development	193,037	128,793	49.88
Miscellaneous	7,611	7,115	6.97
<b>Capital outlay</b>			
General government	2,214	73,306	(96.98)
Public safety	75,204	243,095	(69.06)
Streets and highways	308,708	951,656	(67.56)
Culture and recreation	38,191	11,420	234.42
<b>Debt service</b>			
Principal	323,000	139,000	132.37
Interest and other charges	45,989	38,209	20.36
<b>Total Expenditures</b>	<b><u>\$ 1,993,738</u></b>	<b><u>\$ 2,428,326</u></b>	(17.90) %
<b>Per Capita</b>	<b>\$ 1,939</b>	<b>\$ 2,364</b>	(17.98) %
<b>Total Long-term Indebtedness</b>	<b>\$ 959,000</b>	<b>\$ 1,224,000</b>	(21.65) %
<b>Per Capita</b>	<b>933</b>	<b>1,192</b>	(21.73)
<b>General Fund Balance - December 31</b>	<b>\$ 711,169</b>	<b>\$ 846,090</b>	(15.95) %
<b>Per Capita</b>	<b>692</b>	<b>824</b>	(16.03)

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, 2018

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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, 2018, and the noted to the financial statements, and have issued our report thereon dated March 11, 2019.

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 11, 2019



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, 2018, 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 11, 2019.

**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 2018-001 that we consider to be a significant deficiency.



## Compliance and Other Matters

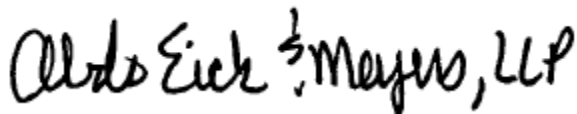
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 11, 2019

City of Harmony, Minnesota  
Schedule of Findings and Responses  
For the Year Ended December 31, 2018

<u>Finding</u>	<u>Description</u>
<b>2018-001</b>	<b>Segregation of Duties</b>
<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**

<i>Cause:</i>	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.
<i>Recommendation:</i>	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**

<i>Cause:</i>	The Deputy Clerk has control over the check stock, sets up and maintains vendors, prepares checks and enters transactions into the accounting system.
<i>Recommendation:</i>	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, 2018

Finding                      Description

**2018-001                      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.