

**CITY OF SKYLINE  
MANKATO, MINNESOTA**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
DECEMBER 31, 2011**

CITY OF SKYLINE, MINNESOTA  
December 31, 2011

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CITY OF SKYLINE, MINNESOTA

CITY OFFICIALS  
December 31, 2011

	<u>ELECTED</u>	<u>Term Expires</u>
Mayor	Mike Kluck	12-31-12
Council Members	Travis Javens	12-31-14
	Samantha Erickson	12-31-14
	Dean Rengstorf	12-31-12
	Rebecca Lee Carpenter	12-31-12

APPOINTED

Clerk	Cathy Dahl
Treasurer	Lon Whitehead
City Auditor	Michael J. Burkhardt, CPA Burkhardt & Burkhardt, Ltd. Certified Public Accountants

**BURKHARDT & BURKHARDT, LTD**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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**Mankato, MN 56002**  
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INDEPENDENT AUDITOR'S REPORT

September 8, 2012

Honorable Mayor and  
Members of the City Council  
City of Skyline, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund, of the City of Skyline, Minnesota, as of December 31, 2011, and for the year then ended, as listed in the Table of Contents. These basic financial statements are the responsibility of the City of Skyline's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, and each major fund of the City of Skyline, Minnesota, as of December 31, 2011, and the respective changes in financial position and the cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

The Management's Discussion and Analysis report is a required supplemental information report. However management has elected not to include it within the basic financial statements

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City of Skyline's basic financial statements. The required supplemental information and the individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. These financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Burkhardt & Burkhardt, Ltd.*

Burkhardt & Burkhardt, Ltd.  
Certified Public Accountants  
Mankato, Minnesota

## CITY OF SKYLINE, MINNESOTA

## STATEMENT OF NET ASSETS

December 31, 2011

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 76,754	\$ 147,030	\$ 223,784
Accounts Receivable	0	14,909	14,909
Prepaid Expenses	563	364	927
Property Taxes Receivable	2,023	5,026	7,049
Special Assessments Receivable	0	675,962	675,962
Bond Costs, Net of Amortization	0	9,345	9,345
Property and Equipment	456,400	2,086,390	2,542,790
Accumulated Depreciation	<u>(48,188)</u>	<u>(369,251)</u>	<u>(417,439)</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 487,552</u></u>	<u><u>\$ 2,569,775</u></u>	<u><u>\$ 3,057,327</u></u>
<b>LIABILITIES AND FUND EQUITY</b>			
<b>Liabilities:</b>			
Accounts Payable	\$ 2,970	\$ 3,097	\$ 6,067
Interest Payable	0	3,735	3,735
Current Portion of Bonds Payable	0	111,898	111,898
Bonds Payable, Less Current Portion	0	957,242	957,242
Total Liabilities	<u>2,970</u>	<u>1,075,972</u>	<u>1,078,942</u>
<b>Net Assets:</b>			
Investment in Capital Assets	408,212	647,999	1,056,211
Unrestricted	76,370	845,804	922,174
Total Fund Equity	<u>484,582</u>	<u>1,493,803</u>	<u>1,978,385</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u><u>\$ 487,552</u></u>	<u><u>\$ 2,569,775</u></u>	<u><u>\$ 3,057,327</u></u>

The Notes to the Financial Statements are an Integral Part of These Statements.

CITY OF SKYLINE, MINNESOTA

STATEMENT OF ACTIVITIES  
For The Year Ended December 31, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
<b>GOVERNMENTAL ACTIVITIES:</b>							
General Government	\$ 21,857	\$ 2,562	\$ 0	\$ 0	\$ (19,295)	\$ 0	\$ (19,295)
Public Safety	22,947	0	961	15,210	(6,776)	0	(6,776)
Public Works	7,711	0	0	0	(7,711)	0	(7,711)
Parks and Recreation	11,322	0	0	0	(11,322)	0	(11,322)
Total Governmental activities	<u>63,837</u>	<u>2,562</u>	<u>961</u>	<u>15,210</u>	<u>(45,104)</u>	<u>0</u>	<u>(45,104)</u>
<b>BUSINESS-TYPE ACTIVITIES:</b>							
Water	49,036	75,704	0	0	0	26,668	26,668
Sewer	44,352	18,304	0	24,409	0	(1,639)	(1,639)
Refuse	20,066	22,777	0	0	0	2,711	2,711
Total Business-type Activities	<u>113,454</u>	<u>116,785</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>27,740</u>	<u>27,740</u>
Total Primary Government	<u>\$ 177,291</u>	<u>\$ 119,347</u>	<u>\$ 961</u>	<u>\$ 15,210</u>	<u>(45,104)</u>	<u>27,740</u>	<u>(17,364)</u>
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes					42,438	0	42,438
Intergovernmental					8,382	0	8,382
Interest and Investments Earnings					317	0	317
Other					2,489	0	2,489
Total General Revenues					<u>53,626</u>	<u>0</u>	<u>53,626</u>
Changes in Net Assets					8,522	27,740	36,262
Net Assets - Beginning					<u>476,060</u>	<u>1,466,063</u>	<u>1,942,123</u>
Net Assets - Ending					<u>\$ 484,582</u>	<u>\$ 1,493,803</u>	<u>\$ 1,978,385</u>

The Notes to the Financial Statements are an Integral Part of These Statements.

CITY OF SKYLINE, MINNESOTA

BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2011

<b>ASSETS</b>	<u>General</u>
Cash and Cash Equivalents	\$ 76,754
Prepaid Expenses	563
Property Taxes Receivable	<u>2,023</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 79,340</u></b>
<b>LIABILITIES AND FUND EQUITY</b>	
<b>Liabilities:</b>	
Accounts Payable	\$ 2,968
Deferred Revenue	1,135
Total Liabilities	<u>4,103</u>
<b>Fund Equity:</b>	
Nonspendable - Prepaid Expenses	536
Unassigned	<u>74,701</u>
Total Fund Equity	<u>75,237</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b><u>\$ 79,340</u></b>

CITY OF SKYLINE, MINNESOTA

RECONCILIATION OF THE BALANCE SHEET TO THE  
STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS  
December 31, 2011

Total Governmental Fund Balances	\$ 75,237
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	
Cost of Capital Assets	456,400
Less Accumulated Depreciation	(48,188)
Amounts That Are Liabilities in Governmental Funds But Are Revenue in Governmental Activities.	<u>1,133</u>
Net Assets of Governmental Activities	<u>\$484,582</u>

The Notes to the Financial Statements are an Integral Part of These Statements.



CITY OF SKYLINE, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2011

	<u>General</u>
<b>Revenues:</b>	
General Property Taxes	\$ 41,608
Intergovernmental Revenue	24,553
Charges for Services	2,562
Other Income	2,489
Interest Income	317
Total Revenues	<u>71,529</u>
<b>Expenditures:</b>	
General Government	136,322
Public Safety	40,695
Public Works	7,711
Parks and Recreation	8,545
Total Expenditures	<u>193,273</u>
Excess of Revenue Over(Under) Expenditures	(121,744)
Fund Balance - January 1	<u>196,981</u>
Fund Balance - December 31	<u>\$ 75,237</u>

CITY OF SKYLINE, MINNESOTA

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS  
For The Year Ended December 31, 2011

Net Change in Fund Balances - Total Governmental Funds	\$(121,744)
Amounts Reported for Governmental Activities in The Statement of Activities Are Different Because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital Outlays	134,633
Depreciation Expense	(5,197)
Amounts That Are Revenue in Governmental Activities Which Are Liabilities in the Governmental Funds	<u>830</u>
Change in Net Assets of Governmental Activities	<u>\$ 8,522</u>

The Notes to the Financial Statements are an Integral Part of These Statements.

## CITY OF SKYLINE, MINNESOTA

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
December 31, 2011

ASSETS	Business-type Activities - Enterprise Funds			Totals
	Water Fund	Sewer Fund	Refuse Fund	
<b>Current Assets:</b>				
Cash and Cash Equivalents	\$ 150,056	\$ (25,989)	\$ 22,963	\$ 147,030
Account Receivable	6,312	1,498	1,997	9,807
Reimbursement Receivable	0	5,102	0	5,102
Delinquent Assessments Receivable	0	5,026	0	5,026
Prepaid Expenses	364	0	0	364
Total Current Assets	<u>156,732</u>	<u>(14,363)</u>	<u>24,960</u>	<u>167,329</u>
<b>Property and Equipment:</b>				
Distribution Systems	616,005	1,470,385	0	2,086,390
Accumulated Depreciation	<u>(222,817)</u>	<u>(146,434)</u>	<u>0</u>	<u>(369,251)</u>
Net Property and Equipment	<u>393,188</u>	<u>1,323,951</u>	<u>0</u>	<u>1,717,139</u>
<b>Other Assets:</b>				
Special Assessments	0	675,962	0	675,962
Bond Costs - Net of Amortization	<u>9,345</u>	<u>0</u>	<u>0</u>	<u>9,345</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 559,265</b></u>	<u><b>\$ 1,985,550</b></u>	<u><b>\$ 24,960</b></u>	<u><b>\$ 2,569,775</b></u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current Liabilities:</b>				
Accounts Payable	\$ 933	\$ 1	\$ 2,163	\$ 3,097
Interest Payable	1,221	2,514	0	3,735
Current Portion of Long-term Debt	<u>40,000</u>	<u>71,898</u>	<u>0</u>	<u>111,898</u>
Total Current Liabilities	<u>42,154</u>	<u>74,413</u>	<u>2,163</u>	<u>118,730</u>
<b>Long-term Debt:</b>				
Bonds Payable - Less Current Portion	<u>275,000</u>	<u>682,242</u>	<u>0</u>	<u>957,242</u>
<b>Net Assets:</b>				
Invested in Capital Assets	78,188	569,811	0	647,999
Unrestricted	<u>163,923</u>	<u>659,084</u>	<u>22,797</u>	<u>845,804</u>
Total Net Assets	<u>242,111</u>	<u>1,228,895</u>	<u>22,797</u>	<u>1,493,803</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$ 559,265</b></u>	<u><b>\$ 1,985,550</b></u>	<u><b>\$ 24,960</b></u>	<u><b>\$ 2,569,775</b></u>

The Notes to the Financial Statements are an Integral Part of These Statements.

## CITY OF SKYLINE, MINNESOTA

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

## PROPRIETARY FUNDS

For the Year Ended December 31, 2011

	Business-type Activities - Enterprise Funds			Totals
	Water Fund	Sewer Fund	Refuse Fund	
<b>Revenue:</b>				
Charges for Services	\$ 75,704	\$ 18,304	\$ 22,777	\$ 116,785
<b>Operating Expenses:</b>				
Wages	2,150	0	0	2,150
Payroll Taxes	111	0	0	111
Insurance	907	0	0	907
Utilities	918	0	0	918
Garbage Service	0	0	20,066	20,066
Supplies	1,551	0	0	1,551
Professional Fees	1,956	0	0	1,956
Advertising	25	0	0	25
Sewer Charges	0	15,678	0	15,678
Repairs and Maintenance	7,631	0	0	7,631
Depreciation	16,484	21,006	0	37,490
Total Operating Expenses	<u>31,733</u>	<u>36,684</u>	<u>20,066</u>	<u>88,483</u>
Income (Loss) From Operations	<u>43,971</u>	<u>(18,380)</u>	<u>2,711</u>	<u>28,302</u>
<b>Nonoperating Revenue (Expense):</b>				
Special Assessments	0	24,409	0	24,409
Interest Expense	(15,968)	(7,668)	0	(23,636)
Amortization of Bond Costs	(1,335)	0	0	(1,335)
Total Nonoperating Revenue (Expense)	<u>(17,303)</u>	<u>16,741</u>	<u>0</u>	<u>(562)</u>
Net Income (Loss)	26,668	(1,639)	2,711	27,740
Net Assets - January 1	<u>215,443</u>	<u>1,230,534</u>	<u>20,086</u>	<u>1,466,063</u>
Net Assets - December 31	<u>\$ 242,111</u>	<u>\$ 1,228,895</u>	<u>\$ 22,797</u>	<u>\$ 1,493,803</u>

The Notes to the Financial Statements are an Integral Part of These Statements.

CITY OF SKYLINE, MINNESOTA

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 For The Year Ended December 31, 2011

	Business-type Activities - Enterprise Funds			Totals
	Water Fund	Sewer Fund	Refuse Fund	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts From Customers and Users	\$ 76,464	\$ 19,231	\$ 24,012	\$ 119,707
Payments to Suppliers	(12,161)	(40,176)	(20,304)	(72,641)
Payments to Employees	(2,261)	0	0	(2,261)
Net Cash Provided by Operating Activities	<u>62,042</u>	<u>(20,945)</u>	<u>3,708</u>	<u>44,805</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Principal Paid on Bonds	(35,000)	(55,000)	0	(90,000)
Interest Paid on Bonds	(16,088)	(7,372)	0	(23,460)
Special Assessments Received	0	82,899	0	82,899
Net Cash Provided(Used) by Capital and Related Financing Activities	<u>(51,088)</u>	<u>20,527</u>	<u>0</u>	<u>(30,561)</u>
Net Change in Cash and Cash Equivalents	10,954	(418)	3,708	14,244
Cash and Cash Equivalents - January 1	<u>139,102</u>	<u>(25,571)</u>	<u>19,255</u>	<u>132,786</u>
Cash and Cash Equivalents - December 31	<u>\$ 150,056</u>	<u>\$ (25,989)</u>	<u>\$ 22,963</u>	<u>\$ 147,030</u>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>				
Operating Income (Loss)	\$ 43,971	\$ (18,380)	\$ 2,711	\$ 28,302
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation Expense	16,484	21,006	0	37,490
(Increase)Decrease in Accounts Receivable	760	(4,175)	1,235	(2,180)
(Increase)Decrease in Prepaid Insurance	(93)	0	0	(93)
Increase(Decrease) in Accounts Payable	920	(19,396)	(238)	(18,714)
Net Cash Provided(Used) by Operating Activities	<u>\$ 62,042</u>	<u>\$ (20,945)</u>	<u>\$ 3,708</u>	<u>\$ 44,805</u>

CITY OF SKYLINE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2011

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the City relating to the activities included in the accompanying financial statements conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by Governmental Accounting Standards Board (GASB), the American Institute of Certified Public accountants in the publication entitled *Audits of State and Local Governmental Units* and by the financial Accounting Standards Board (when applicable).

A. Financial Reporting Entity of the City

The City of Skyline is operated by a council composed of an elected mayor and four elected council members. 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. As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The criteria for including organizations as component units within the City's reporting entity include whether the organization is legally separate and whether the City holds the corporate powers, whether the City appoints a majority of the organization's board and is able to impose its will, and the ability of the organization to impose a financial benefit or burden on the City. 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. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the City. Based on the foregoing criteria as of December 31, 2011, the City had no blended or discretely presented component units.

B. Government-wide and Fund financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the City. 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, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods, service or privileges provided by a given 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 and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the financial statements.

C. Measurement Focus, Basis of Accounting, and Basis of 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 statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers all revenues available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are

CITY OF SKYLINE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2011

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

recognized when the obligations are expected to liquidated with expendable available financial resources.

Property taxes, franchise taxes, licenses, interest and special assessments are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

The financial transactions of the City are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classifications within the financial statements.

The new model as defined in GASB Statement No. 34 establishes criterial (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a single column in the fund financial statements.

The City reports the following major governmental funds:

General Fund - The General Fund is the primary operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The city reports the following major proprietary funds:

The water fund and the sewer fund account for activities related to the operation of a water distribution system and a sanitary sewer distribution system, respectively.

The refuse fund accounts for activities related to the operation of a garbage and recycling system for the City.

D. Policy Regarding use of FASB Pronouncements

The City has adopted paragraph 7 of GASB Statement No. 20. With this adoption, the City's enterprise fund(s) will apply all FASB pronouncements issued after November 30, 1989, unless they conflict with or contradict GASB pronouncements.

E. Property Taxes

The City Council annually adopts a tax levy and certifies it to the County for collection. 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 by May 15 and October 15 each year. The taxes are collected by the County Treasurer and tax settlements are to be made to the City three times each year in March, June, and November.

Taxes payable on homestead property as defined by State Statutes are partially reduced by a homestead credit. This credit is paid to the City by the State of Minnesota in lieu of taxes levied against homestead property. The State remits this credit in two equal installments in July and December each year.

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by a deferred revenue account. Delinquent taxes are recorded as revenue when collected.

F. Cash and Cash Equivalents

The City has adopted the provisions of Statement No. 9 of the Governmental Accounting Standards Board, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting." For purposes of this statement, all highly liquid investments with a maturity of one year or less when

CITY OF SKYLINE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2011

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

purchased are considered to be cash equivalents.

G. Fund Equity/Net Assets

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

Restricted - Amounts related to externally imposed constraints established by creditors, grantors, or contributors, or by enabling legislation or constitutional provisions.

Committed - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) by the City Council, which is the City's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the City 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 City Council itself or by an official to which the governing body delegates the authority. The city Council has adopted a fund balance policy which delegates the authority to assign amounts for specific purposes to the City Clerk/Treasurer.

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

When both restricted and unrestricted fund balances are available for use, it is the City's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

Net assets represent the difference between assets and liabilities. Net assets are displayed in two components:

Restricted net assets - Consist of net assets restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Invested in capital assets, net of related debt - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.

Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

H. 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. The City continues to carry commercial insurance or coverage through the League of Minnesota Cities, a public entity risk pool currently operating as a common risk management and insurance program for member cities. Any settled claims resulting from these risks have not exceeded the insurance coverage in any of the past three years.

I. Capital Assets

Capital assets, which includes property, plant, and equipment, 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



CITY OF SKYLINE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are valued at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value on the date of acquisition.

When capital assets are purchased, they are capitalized and depreciated in the government-wide statements and the proprietary fund statements. Capital assets are recorded as expenditures of the current period in the governmental fund financial statements.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extended assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

Buildings and structures	10 - 40 years
Distribution and collection systems	25 - 40 years

J. Use of Estimates

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

K. Encumbrances

Encumbrance accounting is not used by the City; therefore, no reservation of fund balances is made at year end for encumbrances outstanding.

L. Vacation and Sick Pay Benefits

The City does not have any full time employees in either the governmental or proprietary funds. Therefore, at December 31, 2011, there were no liabilities accrued for unused vacation or sick pay benefits.

Note 2 CASH AND CASH EQUIVALENTS

In accordance with Minnesota statutes, the City maintains deposits at a depository bank authorized by the City Council, which is a member of the Federal Reserve System.

The city's cash and investments are subjected to several types of risk, which are examined in more detail below.

Custodial Credit Risk of Bank Deposits

Custodial risk is the risk that in the event of a bank failure, City's deposits may not be returned to it. The city's investment policy does not directly address a deposit policy for custodial credit risk. As of December 31, the city's bank deposits (checking and money market accounts) were either insured and collateralized. As a result, the City evaluates the financial institution with which it deposits funds and assesses the level of risk based on an acceptable estimated risk level used at the financial institution.

CITY OF SKYLINE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2011

Note 2 CASH AND CASH EQUIVALENTS

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. As of December 31, 2011, the City had no investments.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City does not have a policy for interest rate risk. As of December 31, 2011, the City had no investments.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the city's investment in a single issuer. The City does not have a policy for concentration of credit risk. As of December 31, 2011, the city had no investments.

The following is summary of the cash and cash equivalents as reported in the government-wide financial statements as of December 31, 2011:

Checking	\$ 44,729
Money Market Savings	<u>179,055</u>
Total	<u>\$223,784</u>

Note 3 FUND DEFICIENCIES/DEFICITS

Expenditures of \$193,273 did not exceed appropriations of \$216,000 for the year ended December 31, 2011 in the general fund. No other fund had a budget adopted.

No fund had a deficit fund balance/retained earnings for the year ended December 31, 2011.

Note 4 LONG-TERM DEBT

The following is a summary of the long-term debt of the City of Skyline at December 31, 2011:

	Balance Dec. 31 <u>2010</u>	Debt <u>Issued</u>	Debt <u>Retired</u>	Balance Dec. 31 <u>2011</u>	Due Within <u>One Year</u>
<u>Business-type Activities:</u>					
2004 General Obligation Water Revenue Refunding Bonds. Due in annual installments of \$30,000 to \$50,000 with interest due semi-annually at 1.75% to 4.85%	\$ 350,000	\$ 0	\$35,000	\$315,000	\$ 40,000
General Obligation Revenue Note. Due in various annual installments of \$57,000 to \$68,000 with interest due semiannual at 1.0%	<u>809,140</u>	<u>0</u>	<u>55,000</u>	<u>754,140</u>	<u>71,898</u>
	<u>\$1,159,140</u>	<u>\$ 0</u>	<u>\$90,000</u>	<u>\$1,069,140</u>	<u>\$111,898</u>

CITY OF SKYLINE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2011

Note 4 LONG-TERM DEBT (Continued)

	Balance Dec. 31 <u>2010</u>	Debt Issued	Debt Retired	Balance Dec. 31 <u>2011</u>	Due Within <u>One Year</u>
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Annual requirements to amortize all debt outstanding as of December 31, 2011 are as follows:

Year Ending December 31	2004 Water Revenue <u>Refunding Bonds</u>		2004 General <u>Obligation Revenue Note</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$40,000	\$14,652	\$71,898	\$7,624
2013	40,000	13,013	56,000	7,074
2014	45,000	11,173	56,000	6,514
2015	45,000	9,103	56,000	5,881
2016	45,000	7,033	57,000	5,321
2017-2021	100,000	7,275	293,000	17,967
2022-2024	<u>0</u>	<u>0</u>	<u>164,242</u>	<u>3,654</u>
	<u>\$315,000</u>	<u>\$62,249</u>	<u>\$754,140</u>	<u>\$54,035</u>

Note 5 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Assets being depreciated:				
Building	\$ 214,932	\$108,552	\$ 0	\$ 323,484
Vehicles and equipment	<u>106,835</u>	<u>26,081</u>	<u>0</u>	<u>132,916</u>
	<u>\$ 321,767</u>	<u>\$134,633</u>	<u>\$ 0</u>	<u>\$ 456,400</u>
Depreciation:				
General Government	\$ 0	\$ 0	\$ 0	\$ 0
Public safety	<u>42,991</u>	<u>5,197</u>	<u>0</u>	<u>48,188</u>
	<u>\$ 42,991</u>	<u>\$ 5,197</u>	<u>\$ 0</u>	<u>\$ 48,188</u>
Business-type Activities:				
Assets being depreciated:				
Building and Water/Sewer Systems	\$2,000,263	\$ 0	\$ 0	\$2,000,263
Equipment	<u>86,127</u>	<u>0</u>	<u>0</u>	<u>86,127</u>
	<u>\$2,086,390</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$2,086,390</u>
Depreciation:				
Building and Water/Sewer Systems	\$ 283,067	\$ 34,649	\$ 0	\$ 317,725
Equipment	<u>48,685</u>	<u>2,841</u>	<u>0</u>	<u>51,526</u>
	<u>\$ 331,761</u>	<u>\$ 37,490</u>	<u>\$ 0</u>	<u>\$ 369,251</u>

CITY OF SKYLINE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

Note 6 NET ASSETS

The following is a summary of the components of net assets as of December 31, 2011:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Invested in capital assets, net of related debt		
Capital assets, net of accumulated depreciation	\$408,212	\$1,717,139
Less: related long-term debt outstanding	<u>0</u>	<u>1,069,140</u>
Total Invested in Capital assets	408,212	647,999
Unrestricted	<u>76,370</u>	<u>845,804</u>
Total Net Assets	<u>\$484,582</u>	<u>\$1,493,803</u>

**REQUIRED SUPPLEMENTAL INFORMATION SECTION**

CITY OF SKYLINE, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
 IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND  
 For the Year Ended December 31, 2011

	Original and Final Budget	Actual Amount	Over (Under) Budget
<b>Revenues:</b>			
General Property Taxes	\$ 45,000	\$ 41,608	\$ (3,392)
Intergovernmental Revenue	4,000	24,553	20,553
Charges for Services	0	2,562	2,562
Other Income	2,200	2,489	289
Interest Income	1,200	317	(883)
Total Revenues	<u>52,400</u>	<u>71,529</u>	<u>19,129</u>
<b>Expenditures:</b>			
General Government	172,000	136,322	(35,678)
Public Safety	24,000	40,695	16,695
Public Works	12,000	7,711	(4,289)
Parks and Recreation	8,000	8,545	545
Total Expenditures	<u>216,000</u>	<u>193,273</u>	<u>(22,727)</u>
Excess of Revenue Over(Under) Expenditures	<u>\$ (163,600)</u>	(121,744)	<u>\$ 41,856</u>
Fund Balance - January 1		<u>196,981</u>	
Fund Balance - December 31		<u>\$ 75,237</u>	

CITY OF SKYLINE, MINNESOTA

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION  
December 31, 2011

The City follows these procedures in establishing the budget reflected in the financial statements:

1. The City clerk submits to the City Council a proposed operating budget for the year starting the following January 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution at the Council meeting in October.
4. A budget for the General Fund is adopted on a basis consistent with general accepted accounting principles (GAAP).

Budgeted amounts are as originally adopted and have not been amended by the City Council. Budgeted expenditure appropriations lapse at year-end.

## **SUPPLEMENTAL INFORMATION SECTION**



CITY OF SKYLINE, MINNESOTA

GENERAL FUND

BALANCE SHEET

December 31, 2011

(With Comparative Amounts for December 31, 2010)

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Cash in Checking	\$ (93,678)	\$ (96,455)
4M Money Market	2	27,041
Wells Fargo Money Market Savings	170,430	334,121
Current Property Taxes	888	124
Delinquent Property Taxes	1,135	3,200
Prepaid Expense	<u>563</u>	<u>581</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 79,340</u></u>	<u><u>\$ 268,612</u></u>
<b>LIABILITIES AND FUND EQUITY</b>		
<b><u>Liabilities:</u></b>		
Accounts Payable	\$ 2,968	\$ 68,434
Deferred Revenue	<u>1,135</u>	<u>3,200</u>
Total Liabilities	<u>4,103</u>	<u>71,634</u>
<b><u>Fund Equity:</u></b>		
Nonspendable - Prepaid Expenses	536	0
Unassigned	<u>74,701</u>	<u>196,978</u>
Total Fund Equity	<u>75,237</u>	<u>196,978</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u><u>\$ 79,340</u></u>	<u><u>\$ 268,612</u></u>

CITY OF SKYLINE, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND  
For the Year Ended December 31, 2011  
(With Comparative Amounts for the Year Ended December 31, 2010)

	2011 Budget	2011 Actual	Over (Under) Budget	2010 Actual
<b>Revenues:</b>				
General Property Taxes	\$ 45,000	\$ 41,608	\$ (3,392)	\$ 42,383
Intergovernmental Revenue:				
Local Governmental Aid	4,000	4,344	344	4,533
MV Credit	0	4,038	4,038	4,038
State Fire Aid	0	961	961	1,206
Other Grants and Aids	0	15,210	15,210	0
Total Intergovernmental Revenue	4,000	24,553	20,553	9,777
Charges for Services:				
Cable TV Franchise Fee	0	2,322	2,322	2,209
City Hall Rent	0	240	240	25
Total Charges for Services	0	2,562	2,562	2,234
Other Income:				
Donations	0	1,600	1,600	4,250
Miscellaneous Receipts	2,200	889	(1,311)	1,432
Total Other Income	2,200	2,489	289	5,682
Interest Income	1,200	317	(883)	1,664
Total Revenues	52,400	71,529	19,129	61,740
<b>Expenditures:</b>				
General Government:				
Wages	9,000	8,080	(920)	8,060
Payroll Taxes	0	914	914	649
Insurance	3,000	2,262	(738)	1,419
Clerk and Treasurer's Bond	0	200	200	200
Office Supplies	1,800	9	(1,791)	1,165
Supplies	1,000	754	(246)	1,455
Repair and Maintenance	1,000	620	(380)	2,354
Election Expense	0	0	0	670
Professional Fees	4,200	4,059	(141)	4,067
Telephone	1,000	637	(363)	432
Dues	1,000	929	(71)	937
Minor Equipment	0	2,238	2,238	0
Capital Outlay	150,000	115,620	(34,380)	238,024
Total General Government	172,000	136,322	(35,678)	259,432

CITY OF SKYLINE, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended December 31, 2011

(With Comparative Amounts for the Year Ended December 31, 2010)

	2011 <u>Budget</u>	2011 <u>Actual</u>	Over (Under) <u>Budget</u>	2010 <u>Actual</u>
Public Safety:				
Utilities	11,000	11,119	119	11,087
Wages	5,000	4,500	(500)	4,725
Payroll Taxes	0	116	116	361
Training & Medical	1,000	919	(81)	0
Office Supplies	0	0	0	18
Supplies	7,000	3,966	(3,034)	2,209
Repairs and Maintenance	0	60	60	479
Mileage	0	444	444	18
Dues and Subscriptions	0	558	558	188
Capital Outlay	0	19,013	19,013	0
Total Public Safety	<u>24,000</u>	<u>40,695</u>	<u>16,695</u>	<u>19,085</u>
Streets:				
Street Repairs	\$ 6,000	\$ 2,635	\$ (3,365)	\$ 3,459
Snow Removal	<u>6,000</u>	<u>5,076</u>	<u>(924)</u>	<u>10,383</u>
Total Streets	<u>12,000</u>	<u>7,711</u>	<u>(4,289)</u>	<u>13,842</u>
Parks and Recreation:				
Supplies	2,000	2,324	324	601
Repairs and Maintenance	0	1,176	1,176	2,018
Lawn Mowing	4,000	3,924	(76)	4,493
Weed Spraying	<u>2,000</u>	<u>1,121</u>	<u>(879)</u>	<u>1,125</u>
Total Parks and Recreation	<u>8,000</u>	<u>8,545</u>	<u>545</u>	<u>8,237</u>
Total Expenditures	<u>216,000</u>	<u>193,273</u>	<u>(22,727)</u>	<u>300,596</u>
Excess of Revenue Over(Under) Expenditures	<u>\$ (163,600)</u>	(121,744)	<u>\$ 41,856</u>	(238,856)
Fund Balance - January 1		<u>196,981</u>		<u>435,837</u>
Fund Balance - December 31		<u>\$ 75,237</u>		<u>\$ 196,981</u>

## CITY OF SKYLINE, MINNESOTA

WATER FUND  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS

For the Year Ended December 31, 2011  
(With Comparative Amounts for the Year Ended December 31, 2010)

	<u>2011</u>	<u>2010</u>
<b><u>Revenue:</u></b>		
Water Fees	\$ 18,294	\$ 17,980
Antenna Rent	<u>57,410</u>	<u>59,902</u>
Total Revenues	<u>75,704</u>	<u>77,882</u>
<b><u>Operating Expenses:</u></b>		
Wages	2,150	2,350
Payroll Taxes	111	186
Supplies and Chemicals	1,551	1,417
Insurance	907	692
Utilities	918	0
Professional Fees	1,956	431
Repairs and Maintenance	7,631	2,815
Advertising	25	144
Water Testing Fees	0	780
Depreciation	<u>16,484</u>	<u>16,484</u>
Total Operating Expenses	<u>31,733</u>	<u>25,299</u>
Income (Loss) from Operations	<u>43,971</u>	<u>52,583</u>
<b><u>Nonoperating Revenue (Expense):</u></b>		
Interest Expense	(15,968)	(18,863)
Amortization of Bond Issue Costs	<u>(1,335)</u>	<u>(1,335)</u>
Total Nonoperating Revenue (Expense)	<u>(17,303)</u>	<u>(20,198)</u>
Net Income (Loss)	26,668	32,385
Net Assets - January 1	<u>215,443</u>	<u>183,058</u>
Net Assets - December 31	<u>\$ 242,111</u>	<u>\$ 215,443</u>

CITY OF SKYLINE, MINNESOTA

SEWER FUND  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS

For the Year Ended December 31, 2011  
(With Comparative Amounts for the Year Ended December 31, 2010)

	<u>2011</u>	<u>2010</u>
<b><u>Revenue:</u></b>		
Sewer Fees	\$ 18,304	\$ 19,078
<b><u>Operating Expenses:</u></b>		
Sewer Charges	15,678	31,858
Depreciation	<u>21,006</u>	<u>21,006</u>
Total Operating Expenses	<u>36,684</u>	<u>52,864</u>
Income (Loss) from Operations	<u>(18,380)</u>	<u>(33,786)</u>
<b><u>Nonoperating Revenue (Expenses):</u></b>		
Interest Expense	(7,668)	(10,528)
Special Assessments	<u>24,409</u>	<u>82,797</u>
Total Nonoperating Revenue (Expense)	<u>16,741</u>	<u>72,269</u>
Net Income (Loss)	(1,639)	38,483
Net Assets - January 1	<u>1,230,534</u>	<u>1,192,051</u>
Net Assets - December 31	<u>\$ 1,228,895</u>	<u>\$ 1,230,534</u>

## **OTHER REPORTS**

# **BURKHARDT & BURKHARDT, LTD**

## **CERTIFIED PUBLIC ACCOUNTANTS**

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### INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

September 8, 2012

The Honorable Mayor and  
Members of the City Council  
City of Skyline, Minnesota

We have audited the financial statements of City of Skyline, State of Minnesota as of and for the year ended December 31, 2011, and have issued our report thereon dated September 8, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the Minnesota Legal Compliance Audit Guide for Local Government, promulgated by the Legal Compliance Tax Force pursuant to Minn. Stat. 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Minnesota Legal Compliance Audit Guide for Local Government covers seven main 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 study included all of the listed categories, except for tax increment financing which is not applicable to the City.

The results of our tests indicate that for the items tested City of Skyline, Minnesota complied with the material terms and conditions of the applicable legal provisions.

This report is intended solely for the use of the City of Skyline, Minnesota and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

*Burkhardt & Burkhardt, Ltd.*

Burkhardt & Burkhardt, Ltd.  
Certified Public Accountants  
Mankato, Minnesota

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September 8, 2012

Honorable Mayor and  
Members of the City Council  
City of Skyline, Minnesota

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Skyline for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States, we considered the city of Skyline's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Skyline's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Skyline's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

### Oversight of the Financial Reporting Process

Management is responsible for establishing and maintaining internal control and for the fair presentation of the net assets and the changes in net assets, cash flows, and functional expenses for the year ended. The City does not have a system of internal controls that would enable management to conclude the financial statements and related disclosures are complete and presented in accordance with the accounting principles generally accepted in the United States. As such, management requested us to prepare the financial statements, including the related footnote disclosures. The outsourcing of these services is not unusual in organizations of your size and is a result of management's cost benefit decision to rely on our accounting expertise rather than incurring this internal resource cost.

This report is intended solely for the information and use of the City Council and management of the City of Skyline and is not intended to be should not be used by anyone other than these specified parties.

*Burkhardt & Burkhardt, Ltd.*

Burkhardt & Burkhardt, Ltd.  
Certified Public Accountants  
Mankato, Minnesota