

**CITY OF SKYLINE
SKYLINE, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
DECEMBER 31, 2014**

CITY OF SKYLINE, MINNESOTA

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CITY OF SKYLINE, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2014

ELECTED

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Travis Javens	Mayor	December 31, 2014
Samantha Erickson	Council Member	December 31, 2016
Dean Rengstorf	Council Member	December 31, 2016
Rebecca Lee Carpenter	Council Member	December 31, 2014
Wayne Bishop	Council Member	December 31, 2014

APPOINTED

<u>Name</u>	<u>Title</u>
Cathy Dahl	Clerk
Lon Whitehead	Treasurer

BURKHARDT & BURKHARDT, LTD
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

June 4, 2015

Honorable Mayor and
Members of the City Council
Skyline, Minnesota

Report on the Financial Statements

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, (the City) as of and for the year ended December 31, 2014, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 entity'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 entity'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 presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Skyline, Minnesota, as of December 31, 2014 and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the budget comparison information, listed under required supplemental information in the table of contents, 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 inquires 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 evidence sufficient to express an opinion or provide any assurance.

Management has omitted management’s discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by 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. Our opinion on the basic financial statements is not affected by this missing information.

The supplemental information as listed in the table of contents under supplemental section is the responsibility of management and was derived from and relates 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 supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Prior Year Comparative Information

We have previously audited the City’s 2013 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, the business-type activities and each major fund in our report dated June 23, 2014. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Burkhardt & Burkhardt, Ltd.

Burkhardt & Burkhardt, Ltd
Certified Public Accountants
Mankato, Minnesota

BASIC FINANCIAL STATEMENTS

CITY OF SKYLINE, MINNESOTA

STATEMENT OF NET POSITION

December 31, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 61,408	\$ 135,703	\$ 197,111
Receivables:			
Accounts	0	10,244	10,244
Property Taxes	5,081	6,721	11,802
Special Assessments	0	458,251	458,251
Due From Other Governments	0	5,838	5,838
Prepaid Expenses	610	371	981
Bond Costs, Net of Amortization	0	0	0
Property and Equipment	456,400	2,100,870	2,557,270
Accumulated Depreciation	<u>(96,772)</u>	<u>(482,976)</u>	<u>(579,748)</u>
TOTAL ASSETS	<u>\$ 426,727</u>	<u>\$ 2,235,022</u>	<u>\$ 2,661,749</u>
LIABILITIES AND NET POSITION			
Liabilities:			
Accounts Payable	\$ 2,769	\$ 3,592	\$ 6,361
Interest Payable	0	1,293	1,293
Current Portion of Bonds Payable	0	93,000	93,000
Bonds Payable, Less Current Portion	<u>0</u>	<u>599,000</u>	<u>599,000</u>
Total Liabilities	<u>2,769</u>	<u>696,885</u>	<u>699,654</u>
Net Position:			
Net Investment in Capital Assets	359,629	925,894	1,285,523
Unrestricted	<u>64,329</u>	<u>612,243</u>	<u>676,572</u>
Total Net Position	<u>423,958</u>	<u>1,538,137</u>	<u>1,962,095</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 426,727</u>	<u>\$ 2,235,022</u>	<u>\$ 2,661,749</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, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES:							
General Government	\$ 41,645	\$ 1,225	\$ 0	\$ 0	\$ (40,420)	\$ 0	\$ (40,420)
Public Safety	12,418	0	1,413	0	(11,005)	0	(11,005)
Public Works	15,083	0	0	0	(15,083)	0	(15,083)
Parks and Recreation	15,513	0	0	0	(15,513)	0	(15,513)
Total Governmental activities	<u>84,659</u>	<u>1,225</u>	<u>1,413</u>	<u>0</u>	<u>(82,021)</u>	<u>0</u>	<u>(82,021)</u>
BUSINESS-TYPE ACTIVITIES:							
Water	67,443	86,303	0	0	0	18,860	18,860
Sewer	46,882	19,892	0	18,227	0	(8,763)	(8,763)
Refuse	24,603	21,537	0	0	0	(3,066)	(3,066)
Total Business-type Activities	<u>138,928</u>	<u>127,732</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>7,031</u>	<u>7,031</u>
Total Primary Government	<u>\$ 223,587</u>	<u>\$ 128,957</u>	<u>\$ 1,413</u>	<u>\$ 0</u>	<u>(82,021)</u>	<u>7,031</u>	<u>(74,990)</u>
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes					49,146	0	49,146
Franchise Fees					2,890	0	2,890
Intergovernmental					10,982	0	10,982
Interest and Investments Earnings					59	0	59
Other					961	5,838	6,799
Total General Revenues					<u>64,038</u>	<u>5,838</u>	<u>69,876</u>
Changes in Net Position					(17,983)	12,869	(5,114)
Net Position - January 1					<u>441,941</u>	<u>1,525,268</u>	<u>1,967,209</u>
Net Position - December 31					<u>\$ 423,958</u>	<u>\$ 1,538,137</u>	<u>\$ 1,962,095</u>

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

CITY OF SKYLINE, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2014

	<u>General</u>
ASSETS	
Cash and Cash Equivalents	\$ 61,408
Prepaid Expenses	610
Property Taxes Receivable	<u>5,081</u>
TOTAL ASSETS	<u>\$ 67,099</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
Liabilities:	
Accounts Payable	<u>\$ 2,771</u>
Deferred Inflows of Resources:	
Unavailable Revenue - Delinquent Taxes	<u>2,872</u>
Fund Balance:	
Nonspendable - Prepaid Expenses	610
Unassigned	<u>60,846</u>
Total Fund Balance	<u>61,456</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u>\$ 67,099</u>

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

CITY OF SKYLINE, MINNESOTA

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
December 31, 2014

Total Fund Balances - Governmental Funds	\$	61,456
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital assets		456,400
Less: Accumulated depreciation		(96,772)
Certain receivables will be collected nextyear, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		
Delinquent property taxes		<u>2,874</u>
Total Net Position - Governmental Activities	\$	<u>423,958</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, 2014

	<u>General</u>
Revenues:	
Property Taxes	\$ 49,769
Franchise Fees	2,890
Intergovernmental Revenue	12,395
Charges for Services	1,225
Other Income	961
Interest Income	59
Total Revenues	<u>67,299</u>
Expenditures:	
General Government	31,394
Public Safety	9,252
Public Works	15,083
Parks and Recreation	12,736
Total Expenditures	<u>68,465</u>
Change in Fund Balance	(1,166)
Fund Balance - January 1	<u>62,622</u>
Fund Balance - December 31	<u>\$ 61,456</u>

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014

Net Change in Fund Balances - Governmental Funds	\$ (1,166)
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 are capitalized and allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(16,194)
Delinquent receivables will be collected next year, but are not available soon enough to pay for the current periods's expenditures and, therefore, are not reported as revenues in the Governmental funds.	
Delinquent property taxes	<u>(623)</u>
Change in Net Position - Governmental Activities	<u>\$ (17,983)</u>

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

CITY OF SKYLINE, MINNESOTA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

December 31, 2014

	Business-type Activities - Enterprise Funds			Totals
	Water Fund	Sewer Fund	Refuse Fund	
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 172,785	\$ (54,193)	\$ 17,111	\$ 135,703
Receivables:				
Accounts	7,047	1,827	1,370	10,244
Delinquent Assessments	0	6,721	0	6,721
Due From Other Governments	0	5,838	0	5,838
Prepaid Expenses	371	0	0	371
Total Current Assets	<u>180,203</u>	<u>(39,807)</u>	<u>18,481</u>	<u>158,877</u>
Noncurrent Assets:				
Distribution Systems	616,005	1,484,865	0	2,100,870
Accumulated Depreciation	(272,270)	(210,706)	0	(482,976)
Special Assessments	0	458,251	0	458,251
Total Noncurrent Assets	<u>343,735</u>	<u>1,732,410</u>	<u>0</u>	<u>2,076,145</u>
TOTAL ASSETS	<u>\$ 523,938</u>	<u>\$ 1,692,603</u>	<u>\$ 18,481</u>	<u>\$ 2,235,022</u>
LIABILITIES AND NET POSITION				
Current Liabilities:				
Accounts Payable	\$ 1,316	\$ 0	\$ 2,276	\$ 3,592
Interest Payable	379	914	0	1,293
Current Portion of Long-term Debt	45,000	48,000	0	93,000
Total Current Liabilities	<u>46,695</u>	<u>48,914</u>	<u>2,276</u>	<u>97,885</u>
Noncurrent Liabilities:				
Bonds Payable - Less Current Portion	<u>145,000</u>	<u>454,000</u>	<u>0</u>	<u>599,000</u>
Total Liabilities	<u>191,695</u>	<u>502,914</u>	<u>2,276</u>	<u>696,885</u>
Net Position:				
Net Investment in Capital Assets	153,735	772,159	0	925,894
Unrestricted	178,508	417,530	16,205	612,243
Total Net Position	<u>332,243</u>	<u>1,189,689</u>	<u>16,205</u>	<u>1,538,137</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 523,938</u>	<u>\$ 1,692,603</u>	<u>\$ 18,481</u>	<u>\$ 2,235,022</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 POSITION
 PROPRIETARY FUNDS

For the Year Ended December 31, 2014

	Business-type Activities - Enterprise Funds			Totals
	Water Fund	Sewer Fund	Refuse Fund	
Revenue:				
Charges for Services	\$ 18,049	\$ 19,892	\$ 21,537	\$ 59,478
Operating Expenses:				
Wages	3,440	0	0	3,440
Payroll Taxes	263	0	0	263
Insurance	1,280	0	0	1,280
Utilities	6,487	0	0	6,487
Garbage Service	0	0	24,603	24,603
Supplies	2,584	0	0	2,584
Professional Fees	3,642	0	0	3,642
Water Testing Fees	780	0	0	780
Sewer Charges	0	19,744	0	19,744
Repairs and Maintenance	21,397	0	0	21,397
Depreciation	16,484	21,585	0	38,069
Total Operating Expenses	56,357	41,329	24,603	122,289
Income (Loss) From Operations	(38,308)	(21,437)	(3,066)	(62,811)
Nonoperating Revenue (Expense):				
Special Assessments	0	18,227	0	18,227
Rental Income	68,254	0	0	68,254
Refunds and Reimbursements	0	5,838	0	5,838
Interest Expense	(11,086)	(5,553)	0	(16,639)
Total Nonoperating Expense	57,168	18,512	0	75,680
Change in Net Position	18,860	(2,925)	(3,066)	12,869
Net Position - January 1	313,383	1,192,614	19,271	1,525,268
Net Position - December 31	\$ 332,243	\$ 1,189,689	\$ 16,205	\$ 1,538,137

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, 2014

	Business-type Activities - Enterprise Funds			Totals
	Water Fund	Sewer Fund	Refuse Fund	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts From Customers and Users	\$ 17,839	\$ 19,248	\$ 21,332	\$ 58,419
Payments to Suppliers	(35,993)	(52,848)	(24,579)	(113,420)
Payments to Employees	(3,703)	0	0	(3,703)
Other Receipts	68,254	0	0	68,254
Net Cash Provided (Used) by Operating Activities	<u>46,397</u>	<u>(33,600)</u>	<u>(3,247)</u>	<u>9,550</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal Paid on Bonds	(45,000)	(93,425)	0	(138,425)
Interest Paid on Bonds	(11,172)	(5,723)	0	(16,895)
Special Assessments Received	0	79,741	0	79,741
Net Cash Used by Capital and Related Financing Activities	<u>(56,172)</u>	<u>(19,407)</u>	<u>0</u>	<u>(75,579)</u>
Net Change in Cash and Cash Equivalents	(9,775)	(53,007)	(3,247)	(66,029)
Cash and Cash Equivalents - January 1	<u>182,560</u>	<u>(1,186)</u>	<u>20,358</u>	<u>201,732</u>
Cash and Cash Equivalents - December 31	<u>\$ 172,785</u>	<u>\$ (54,193)</u>	<u>\$ 17,111</u>	<u>\$ 135,703</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ (38,308)	\$ (21,437)	\$ (3,066)	\$ (62,811)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Other Receipts	68,254	5,838	0	74,092
Depreciation Expense	16,484	21,585	0	38,069
(Increase) Decrease in Accounts Receivable	(210)	(644)	(205)	(1,059)
(Increase) Decrease in Due From Other Governments	0	(5,838)	0	(5,838)
(Increase) Decrease in Prepaid Insurance	(33)	0	0	(33)
Increase (Decrease) in Accounts Payable	210	(33,104)	24	(32,870)
Net Cash Provided (Used) by Operating Activities	<u>\$ 46,397</u>	<u>\$ (33,600)</u>	<u>\$ (3,247)</u>	<u>\$ 9,550</u>

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

CITY OF SKYLINE, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The City of Skyline, Minnesota (the City) operates under the "Optional Plan A" form of government as defined in Minnesota statutes. Under this plan, the government of the City is directed by a City Council composed of an elected Mayor and four elected City Council Members. The City Council exercises legislative authority and determines all matters of policy. The City 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. 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.

Component units for which the City has been determined to be financially accountable can be blended with the primary government or be included as a discrete presentation. 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 City. Each discretely presented component unit, on the other hand, is reported in a separate column in the financial statements to emphasize it is legally from the City. Based on the foregoing criteria as of December 31, 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 Position and the Statement of Activities) report information on all of the nonfiduciary activities of the City 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. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. *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. Internally dedicated revenues are reported as general revenues rather than as program 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 fund financial statements. Aggregate information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements.

CITY OF SKYLINE, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(Continued)

C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements and the 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.

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.

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. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred inflows of resources in the fund financial statements.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF SKYLINE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(Continued)

The City reports the following major governmental funds:

The *General fund* is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

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

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

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

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 and sewer 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.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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 enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. 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.

CITY OF SKYLINE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(Continued)

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. Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The City may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
6. 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.
7. 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.
8. 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 City's investments are reported at their respective fair market values. The City has not adopted a formal investment policy.

Property taxes

The City Council annually adopts a tax levy and certifies it to the County in December for collection in 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 December each year.

Taxes payable on homestead property, as defined by Minnesota statutes, were partially reduced by a market value credit aid. The credit is paid to the City by the State in lieu of taxes levied against the homestead property. The State remits this credit in two equal installments in October and December 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.

CITY OF SKYLINE, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

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 2012. The City annually certifies delinquent water and sewer accounts to the County for collection in the following year. Therefore, there has been no allowance for doubtful accounts established.

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 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 fund financial statements.

Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

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). 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 nonspendable fund balance account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

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, individual cost of more than the thresholds below (amount not rounded) and an estimated useful life in excess of one year. For financial statement purposes only, a capitalization threshold is established for each capital asset category as follows:

<u>Assets</u>	<u>Capitalization Threshold</u>
Land improvements	\$ 10,000
Buildings and improvements	25,000
Infrastructure	100,000
Machinery and equipment	5,000

As the City constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. 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. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the City values these capital assets at the estimated fair value of the item at the date of its donation.

CITY OF SKYLINE, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(Continued)

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

<u>Assets</u>	<u>Useful Lives in Years</u>
Buildings and improvements	15 to 75
Infrastructure	20 to 60
Machinery and equipment	3 to 15

Deferred outflows/inflows of resources

In addition to liabilities, the statement of financial position and fund financial statements 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, which qualifies as needing to be reported in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available

Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net position. Bond premiums and discounts are delayed and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize 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

Net position

In the government-wide financial statements, 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 - Consist 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 SKYLINE, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(Continued)

Fund balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

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

Restricted - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council, 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.

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

The City considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made. The City has formally adopted a fund balance policy for the General fund. The City's policy is to maintain a minimum unassigned fund balance of 20-25 percent of budgeted operating expenditures.

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 fund. All annual appropriations lapse at fiscal year-end. The City does not use encumbrance accounting.

On or before July 1 of each year, all departments of the City submit requests for appropriations to the City Clerk so that a budget may be prepared. Before September 15, the proposed budget is presented to the City Council for review. The City Council holds public hearings and a final budget is prepared and adopted in December.

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

B. Excess of Expenditures over Appropriations

For the year ended December 31, 2014 no funds had expenditures over appropriations.

C. Deficit Fund Equity

There were no funds that had fund equity deficits at year end.

CITY OF SKYLINE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

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 City 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 or bonds.

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 rated "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 December 31, 2014, the carrying amount of deposits was \$197,112 and the bank balance was \$204,475. The City's time deposits were covered by \$500,000 of federal depository insurance. The remaining balance was covered by collateral held by the City's agent in the City's name.

Investments

As of December 31, 2014, the City had no investments.

CITY OF SKYLINE, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

A reconciliation of cash and cash equivalents as shown on the statement of net position for the City follows:

	Governmental Funds	Proprietary Funds
Demand deposits	\$ (176,752)	\$ 127,967
Time deposits	238,160	7,736
Total cash and cash equivalents	<u>\$ 61,408</u>	<u>\$ 135,703</u>

B. Capital assets

Capital asset activity for the City for the year ended December 31, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 10,021	\$ -	\$ -	\$ 10,021
Capital assets being depreciated				
Buildings and Improvements	313,463	-	-	313,463
Machinery and equipment	132,916	-	-	132,916
Total capital assets being depreciated	<u>446,379</u>	<u>-</u>	<u>-</u>	<u>446,379</u>
Less accumulated depreciation for				
Buildings and Improvements	(16,174)	(8,087)	-	(24,261)
Machinery and equipment	(64,403)	(8,108)	-	(72,511)
Total accumulated depreciation	<u>(80,577)</u>	<u>(16,195)</u>	<u>-</u>	<u>(96,772)</u>
Total capital assets being depreciated, net	<u>365,802</u>	<u>(16,195)</u>	<u>-</u>	<u>349,607</u>
Governmental activities capital assets, net	<u>\$ 375,823</u>	<u>\$ (16,195)</u>	<u>\$ -</u>	<u>\$ 359,628</u>

CITY OF SKYLINE, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	\$ 15,000	\$ -	\$ -	\$ 15,000
Capital assets being depreciated				
Distribution system	2,071,390	-	-	2,071,390
Machinery and equipment	14,480	-	-	14,480
Total capital assets being depreciated	2,085,870	-	-	2,085,870
Less accumulated depreciation for				
Distribution system	(444,231)	(37,490)	-	(481,721)
Machinery and equipment	(676)	(579)	-	(1,255)
Total accumulated depreciation	(444,907)	(38,069)	-	(482,976)
Total capital assets being depreciated, net	1,640,963	(38,069)	-	1,602,894
Business-type activities capital assets, net	<u>\$ 1,655,963</u>	<u>\$ (38,069)</u>	<u>\$ -</u>	<u>\$ 1,617,894</u>

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

Governmental activities	
General government	\$ 10,251
Public safety	3,167
Parks and recreation	<u>2,777</u>
Total depreciation expense - governmental activities	<u>\$ 16,195</u>
 Business-type activities	
Water	\$ 16,484
Sewer	<u>21,585</u>
Total depreciation expense - business-type activities	<u>\$ 38,069</u>

CITY OF SKYLINE, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

C. Long-term debt

General Obligation Revenue Bonds

The City issued general obligation revenue bonds where the government pledges income derived from the acquired or constructed assets to pay debt service requirements. A portion of the revenue bonds is paid by special assessments levied on benefiting property owners. The City is obligated to levy ad valorem taxes in the event that anticipated income from the acquired or constructed assets will not be sufficient to cover debt service requirements. Revenue Bonds currently outstanding are as follows:

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Refunding Revenue					
Bonds of 2004A	\$ 590,000	1.75 - 4.85%	7/1/04	12/1/18	\$ 190,000
G.O. Revenue					
Note of 2004B	1,179,511	1.00%	8/5/04	8/20/24	<u>502,000</u>
Total general revenue bonds					<u>\$ 692,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31	Business-Type Activities		Total
	Principal	Interest	
2015	\$ 93,000	\$ 14,123	\$ 107,123
2016	94,000	11,573	105,573
2017	99,000	8,900	107,900
2018	99,000	5,985	104,985
2019	50,000	3,070	53,070
2020-2024	<u>257,000</u>	<u>7,780</u>	<u>264,780</u>
Total	<u>\$ 692,000</u>	<u>\$ 51,431</u>	<u>\$ 743,431</u>

Changes in long-term liabilities

During the year ended December 31, 2014, the following changes occurred in long-term liabilities.

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Business-type activities					
GO revenue bonds	\$ 830,425	\$ -	\$ (138,425)	\$ 692,000	\$ 93,000

CITY OF SKYLINE, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

D. Net Position/Fund Balance

Governmental Activities Net Position

Governmental activities net position reported on the government-wide statement of net position at December 31, 2014 includes the following:

Net Investment in Capital Assets:

Land	\$ 10,021
Buildings and improvements	313,463
Machinery and equipment	132,916
Less: accumulated depreciation	<u>(96,772)</u>
Total Net Investment in Capital Assets	359,629

Unrestricted	<u>64,329</u>
Total Governmental Activities Net Position	<u><u>\$ 423,958</u></u>

Business-Type Activities Net Position

Business-type activities net position reported on the government-wide statement of net position at December 31, 2014 includes the following:

Net Investment in Capital Assets:

Land	\$ 15,000
Distribution system	2,071,390
Machinery and equipment	14,480
Less: accumulated depreciation	(482,976)
Less: related debt	<u>(692,000)</u>
Total Net Investment in Capital Assets	925,894

Unrestricted	<u>612,243</u>
Total Business-Type Activities Net Position	<u><u>\$ 1,538,137</u></u>

CITY OF SKYLINE, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 4 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. Legal debt margin

In accordance with Minnesota statutes, the City may not incur or be subject to net debt in excess of 3 percent of the market value of taxable property within the City. Net debt is payable solely from ad valorem taxes and therefore, excludes debt financed partially or entirely by special assessments, enterprise fund revenues, or tax increments. The City's has no debt outstanding subjected to this limit.

C. 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 2014 was \$10,982. This accounted for 16 percent of General fund revenues.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SKYLINE, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
 For the Year Ended December 31, 2014

	Original and Final Budget	Actual Amount	Over (Under) Budget
Revenues:			
Property Taxes	\$ 42,687	\$ 49,769	\$ 7,082
Franchise Fees	2,400	2,890	490
Intergovernmental Revenue	10,982	12,395	1,413
Charges for Services	600	1,225	625
Other Income	0	961	961
Interest Income	100	59	(41)
Total Revenues	56,769	67,299	10,530
Expenditures:			
General Government	35,000	31,394	(3,606)
Public Safety	10,000	9,252	(748)
Public Works	15,000	15,083	83
Parks and Recreation	10,000	12,736	2,736
Total Expenditures	70,000	68,465	(1,535)
Change in Fund Balance	\$ (13,231)	(1,166)	\$ 12,065
Fund Balance - January 1		62,622	
Fund Balance - December 31		\$ 61,456	

SUPPLEMENTARY INFORMATION SECTION

CITY OF SKYLINE, MINNESOTA

GENERAL FUND

BALANCE SHEET

December 31, 2014

(With Comparative Amounts for December 31, 2013)

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash in Checking	\$ (176,752)	\$ (174,998)
4M Money Market	2	2
Wells Fargo Money Market Savings	238,158	238,158
Current Property Taxes	2,209	536
Delinquent Property Taxes	2,872	3,495
Prepaid Expense	<u>610</u>	<u>636</u>
TOTAL ASSETS	<u><u>\$ 67,099</u></u>	<u><u>\$ 67,829</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE		
Liabilities:		
Accounts Payable	<u>\$ 2,771</u>	<u>\$ 1,712</u>
Deferred Inflows of Resources:		
Unavailable Revenue - Delinquent Taxes	<u>2,872</u>	<u>3,495</u>
Fund Balance:		
Nonspendable - Prepaid Expenses	610	636
Unassigned	<u>60,846</u>	<u>61,986</u>
Total Fund Balance	<u>61,456</u>	<u>62,622</u>
TOTAL LIABILITIES, DEFERRED INFLOWS RESOURCES AND FUND BALANCE	<u><u>\$ 67,099</u></u>	<u><u>\$ 67,829</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, 2014

(With Comparative Amounts for the Year Ended December 31, 2013)

	2014 Budget	2014 Actual	Over (Under) Budget	2013 Actual
Revenues:				
Taxes:				
Franchise Fees	\$ 2,400	\$ 2,890	\$ 490	\$ 2,116
Property Taxes	42,687	49,769	7,082	47,570
Total Taxes	<u>45,087</u>	<u>52,659</u>	<u>7,572</u>	<u>49,686</u>
Intergovernmental Revenue:				
Local Governmental Aid	10,982	10,982	0	4,344
State Fire Aid	0	1,413	1,413	1,418
Total Intergovernmental Revenue	<u>10,982</u>	<u>12,395</u>	<u>1,413</u>	<u>5,762</u>
Charges for Services:				
City Hall Rent	<u>600</u>	<u>1,225</u>	<u>625</u>	<u>640</u>
Other Income:				
Donations	0	0	0	1,400
Miscellaneous Receipts	0	961	961	1,263
Total Other Income	<u>0</u>	<u>961</u>	<u>961</u>	<u>2,663</u>
Interest Income	<u>100</u>	<u>59</u>	<u>(41)</u>	<u>86</u>
Total Revenues	<u>56,769</u>	<u>67,299</u>	<u>10,530</u>	<u>58,837</u>
Expenditures:				
General Government:				
Wages	35,000	9,600	(25,400)	9,017
Payroll Taxes	0	734	734	887
Insurance	0	2,120	2,120	2,179
Clerk and Treasurer's Bond	0	200	200	200
Office Supplies	0	1,291	1,291	849
Supplies	0	1,772	1,772	319
Repair and Maintenance	0	3,135	3,135	40
Professional Fees	0	10,745	10,745	5,542
Telephone	0	1,079	1,079	1,123
Dues	0	718	718	1,087
Total General Government	<u>35,000</u>	<u>31,394</u>	<u>(3,606)</u>	<u>21,243</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, 2014

(With Comparative Amounts for the Year Ended December 31, 2013)

	2014 Budget	2014 Actual	Over (Under) Budget	2013 Actual
Expenditures: (Continued)				
Public Safety:				
Utilities	\$ 0	\$ 4,194	\$ 4,194	\$ 13,095
Wages	10,000	4,130	(5,870)	5,819
Payroll Taxes	0	316	316	317
Supplies	0	290	290	1,622
Repairs and Maintenance	0	0	0	1,751
Dues and Subscriptions	0	322	322	100
Total Public Safety	<u>10,000</u>	<u>9,252</u>	<u>(748)</u>	<u>22,704</u>
Streets:				
Street Repairs	15,000	11,125	(3,875)	1,645
Snow Removal	0	3,958	3,958	4,605
Total Streets	<u>15,000</u>	<u>15,083</u>	<u>83</u>	<u>6,250</u>
Parks and Recreation:				
Supplies	10,000	2,316	(7,684)	2,827
Repairs and Maintenance	0	4,520	4,520	1,473
Lawn Mowing	0	4,070	4,070	4,723
Weed Spraying	0	1,830	1,830	748
Total Parks and Recreation	<u>10,000</u>	<u>12,736</u>	<u>2,736</u>	<u>9,771</u>
Total Expenditures	<u>70,000</u>	<u>68,465</u>	<u>(1,535)</u>	<u>59,968</u>
Change in Fund Balance	<u>\$ (13,231)</u>	(1,166)	<u>\$ 12,065</u>	(1,131)
Fund Balance - January 1		<u>62,622</u>		<u>63,753</u>
Fund Balance - December 31		<u>\$ 61,456</u>		<u>\$ 62,622</u>

CITY OF SKYLINE, MINNESOTA

WATER FUND
STATEMENT OF NET POSITION

December 31, 2014

(With Comparative Amounts for December 31, 2013)

	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 172,785	\$ 182,560
Account Receivable	7,047	6,838
Prepaid Expenses	371	339
Total Current Assets	<u>180,203</u>	<u>189,737</u>
Noncurrent Assets:		
Distribution Systems	616,005	616,005
Accumulated Depreciation	<u>(272,270)</u>	<u>(255,786)</u>
Total Noncurrent Assets	<u>343,735</u>	<u>360,219</u>
TOTAL ASSETS	<u>\$ 523,938</u>	<u>\$ 549,956</u>
LIABILITIES AND NET POSITION		
Current Liabilities:		
Accounts Payable	\$ 1,316	\$ 1,107
Interest Payable	379	466
Current Portion of Long-term Debt	45,000	45,000
Total Current Liabilities	<u>46,695</u>	<u>46,573</u>
Noncurrent Liabilities:		
Bonds Payable - Less Current Portion	<u>145,000</u>	<u>190,000</u>
Net Position:		
Net Investment in Capital Assets	153,735	125,219
Unrestricted	<u>178,508</u>	<u>188,164</u>
Total Net Position	<u>332,243</u>	<u>313,383</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 523,938</u>	<u>\$ 549,956</u>

CITY OF SKYLINE, MINNESOTA

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

For the Year Ended December 31, 2014

(With Comparative Amounts for the Year Ended December 31, 2013)

	2014 Budget	2014 Actual	Over (Under) Budget	2013 Actual
Revenue:				
Water Fees	\$ 19,500	\$ 18,049	\$ (1,451)	\$ 20,282
Operating Expenses:				
Wages	50,000	3,440	(46,560)	2,103
Payroll Taxes	0	263	263	93
Supplies and Chemicals	0	2,584	2,584	845
Insurance	0	1,280	1,280	1,153
Utilities	0	6,487	6,487	(725)
Professional Fees	0	3,642	3,642	184
Repairs and Maintenance	0	21,397	21,397	5,229
Advertising	0	0	0	69
Water Testing Fees	0	780	780	2,634
Depreciation	0	16,484	16,484	16,484
Total Operating Expenses	<u>50,000</u>	<u>56,357</u>	<u>6,357</u>	<u>28,069</u>
Income from Operations	<u>(30,500)</u>	<u>(38,308)</u>	<u>(7,808)</u>	<u>(7,787)</u>
Nonoperating Revenue (Expense):				
Rental Income	67,000	68,254	1,254	65,082
Interest Expense	<u>(150,534)</u>	<u>(11,086)</u>	<u>139,448</u>	<u>(12,394)</u>
Total Nonoperating Revenue (Expense)	<u>(83,534)</u>	<u>57,168</u>	<u>140,702</u>	<u>52,688</u>
Change in Net Position	<u>\$ (114,034)</u>	18,860	<u>\$ 132,894</u>	44,901
Net Position - January 1		<u>313,383</u>		<u>268,482</u>
Net Position - December 31		<u>\$ 332,243</u>		<u>\$ 313,383</u>

CITY OF SKYLINE, MINNESOTA

SEWER FUND
STATEMENT OF NET POSITION
December 31, 2014
(With Comparative Amounts for December 31, 2013)

	2014	2013
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ (54,193)	\$ (1,186)
Receivables:		
Accounts	1,827	1,183
Delinquent Assessments	6,721	14,227
Due From Other Governments	5,838	0
Total Current Assets	(39,807)	14,224
Noncurrent Assets:		
Distribution Systems	1,484,865	1,484,865
Accumulated Depreciation	(210,706)	(189,121)
Special Assessments	458,251	512,258
Total Noncurrent Assets	1,732,410	1,808,002
TOTAL ASSETS	\$ 1,692,603	\$ 1,822,226
LIABILITIES AND NET POSITION		
Current Liabilities:		
Accounts Payable	\$ 0	\$ 33,104
Interest Payable	914	1,083
Current Portion of Long-term Debt	48,000	93,425
Total Current Liabilities	48,914	127,612
Noncurrent Liabilities:		
Bonds Payable - Less Current Portion	454,000	502,000
Net Position:		
Net Investment in Capital Assets	772,159	700,319
Unrestricted	417,530	492,295
Total Net Position	1,189,689	1,192,614
TOTAL LIABILITIES AND NET POSITION	\$ 1,692,603	\$ 1,822,226

CITY OF SKYLINE, MINNESOTA

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

For the Year Ended December 31, 2014

(With Comparative Amounts for the Year Ended December 31, 2013)

	2014 Budget	2014 Actual	Over (Under) Budget	2013 Actual
Revenue:				
Sewer Fees	\$ 26,000	\$ 19,892	\$ (6,108)	\$ 20,763
Operating Expenses:				
Sewer Charges	0	19,744	19,744	36,945
Depreciation	0	21,585	21,585	21,585
Total Operating Expenses	<u>0</u>	<u>41,329</u>	<u>41,329</u>	<u>58,530</u>
Loss from Operations	<u>26,000</u>	<u>(21,437)</u>	<u>(47,437)</u>	<u>(37,767)</u>
Nonoperating Revenue (Expenses):				
Interest Expense	0	(5,553)	5,553	(6,485)
Refunds and Reimbursements	0	5,838	5,838	0
Special Assessments	66,444	18,227	(48,217)	28,861
Total Nonoperating Expense	<u>66,444</u>	<u>18,512</u>	<u>47,932</u>	<u>22,376</u>
Change in Net Position	<u>\$ 92,444</u>	(2,925)	<u>\$ (95,369)</u>	(15,391)
Net Position - January 1		<u>1,192,614</u>		<u>1,208,005</u>
Net Position - December 31		<u>\$ 1,189,689</u>		<u>\$ 1,192,614</u>

CITY OF SKYLINE, MINNESOTA

REFUSE FUND
STATEMENT OF NET POSITION

December 31, 2014

(With Comparative Amounts for December 31, 2013)

	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 17,111	\$ 20,358
Account Receivable	<u>1,370</u>	<u>1,166</u>
TOTAL ASSETS	<u>\$ 18,481</u>	<u>\$ 21,524</u>
LIABILITIES AND NET POSITION		
Current Liabilities:		
Accounts Payable	<u>\$ 2,276</u>	<u>\$ 2,253</u>
Net Position:		
Unrestricted	<u>16,205</u>	<u>19,271</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 18,481</u>	<u>\$ 21,524</u>

CITY OF SKYLINE, MINNESOTA

REFUSE FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended December 31, 2014

(With Comparative Amounts for December 31, 2013)

	2014 Budget	2014 Actual	Over (Under) Budget	2013 Actual
Revenue:				
Charges for Services	\$ 19,500	\$ 21,537	\$ 2,037	\$ 19,604
Operating Expenses:				
Garbage Service	22,000	24,603	2,603	22,201
Change in Net Position	<u>\$ (2,500)</u>	(3,066)	<u>\$ (566)</u>	(2,597)
Net Position - January 1		<u>19,271</u>		<u>21,868</u>
Net Position - December 31		<u>\$ 16,205</u>		<u>\$ 19,271</u>

OTHER REPORTS

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MINNESOTA LEGAL COMPLIANCE

Independent Auditor's Report

June 4, 2015

Honorable Mayor and
Members of the City Council
Skyline, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, business-type activities, and each major fund of the City of Skyline as of and for the year ended December 31, 2014, and the related notes to the financial statements, and have issued our report thereon dated June 4, 2015.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 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, except that we did not test for compliance with the provisions tax increment financing since the City has no tax increment districts.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Skyline failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

This report is intended solely for the information and use of those charged with governance and management of the City of Skyline and 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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June 4, 2015

Honorable Mayor and
Members of the City Council
Skyline, Minnesota

In planning and performing our audit of the financial statements of the governmental activities, business-type activities and each major fund of the City of Skyline as of and for the year ended December 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Skyline's internal control over financial reporting (internal control) as a basis for designing 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 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 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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the following deficiencies in the City of Skyline's internal control to be significant deficiencies:

Financial Report Preparation

CONDITION: We were requested to assist in drafting the audited financial statement and related footnote disclosures as part of our regular audit services. Recent auditing standards require auditors to communicate this situation to the City Council as an internal control deficiency. Furthermore, based on recent auditing standards, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.

CRITERIA: Internal controls should be in place to provide reasonable assurance over financial reporting.

- CAUSE: The City has informed us that they do not have an internal control policy in place over annual financial reporting and that they do not have the necessary staff and expertise to prevent or detect a material misstatement in the annual financial statements including footnote disclosures.
- EFFECT: The potential exists that a material misstatement of the annual financial statements could occur and that a material disclosure could be omitted from the financial statements and not be prevented by the City's internal control.
- RECOMMENDATION: The City should continue to evaluate their internal staff, expertise, and assigned duties to determine if an internal control policy over financial reporting is beneficial.

Segregation of Duties

- CONDITION: During our audit we reviewed internal control procedures over receipts, disbursements, and payroll and found the City to have limited segregation of duties in these areas.
- CRITERIA: There are four general categories of duties: authorization, custody, record keeping, and reconciliation. In an ideal system, different employees perform each of these four major functions. No one person should have control over more than two of the four responsibilities.
- CAUSE: As a result of the small staff, the City Treasurer controls and maintains the check stock. The Treasurer also opens the mail, sets up and maintains vendors, approves vouchers for payment, prepares checks, signs checks with the Mayor, and maintains the accounting records.
- EFFECT: The existence of this limited segregation of duties increases the risk of fraud.
- RECOMMENDATION: While we recognize staff is not large enough to eliminate this deficiency, we recommend that an individual, separate from the Treasurer, review cancelled checks received with the bank statement and investigate; voided checks, inconsistent check sequence, and unusual payees. This individual should also review bank reconciliations for accuracy and timeliness of preparation. It is important that the City Council is aware of this condition and monitor all financial information.

This communication 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 and should not be used by anyone other than these specified parties.

Burkhardt & Burkhardt, Ltd.

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