

**CITY OF SKYLINE
SKYLINE, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
DECEMBER 31, 2023**

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CITY OF SKYLINE, MINNESOTA

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CITY OF SKYLINE, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2023

ELECTED

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Paige Attarian	Mayor	December 31, 2024
Steve Romnes	Council Member	December 31, 2026
Michelle Kotila	Council Member	December 31, 2026
Eric Manske	Council Member	December 31, 2024
Shirley Piepho	Council Member	December 31, 2024

APPOINTED

<u>Name</u>	<u>Title</u>
Marnie Kortuem	Clerk
Lon Whitehead	Treasurer



Burkhardt & Burkhardt, Ltd.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Members of the City Council
Skyline, Minnesota

Report on the Audit of the Financial Statements

Opinions

We have audited the 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, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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, as of December 31, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, which raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplemental information, as listed in the table of contents under supplemental section, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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 2022 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 August 4, 2023. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Burkhardt & Burkhardt, Ltd.

Burkhardt & Burkhardt, Ltd.
Mankato, Minnesota
August 9, 2024

BASIC FINANCIAL STATEMENTS

CITY OF SKYLINE, MINNESOTA

STATEMENT OF NET POSITION
December 31, 2023

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 32,226	\$ 1,118,236	\$ 1,150,462
Receivables:			
Accounts	651	13,647	14,298
Property Taxes	1,363	0	1,363
Leases	0	228,147	228,147
Prepaid Expenses	805	607	1,412
Capital Assets Not Being Depreciated	10,021	144,725	154,746
Other Capital Assets, Net of Depreciation	<u>226,729</u>	<u>2,694,735</u>	<u>2,921,464</u>
TOTAL ASSETS	<u>\$ 271,795</u>	<u>\$ 4,200,097</u>	<u>\$ 4,471,892</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
Liabilities:			
Accrued Expenses	\$ 2,366	\$ 44,260	\$ 46,626
Current Portion of Long-term Debt	0	30,000	30,000
Long-term Debt, Less Current Portion	<u>0</u>	<u>2,045,000</u>	<u>2,045,000</u>
Total Liabilities	<u>2,366</u>	<u>2,119,260</u>	<u>2,121,626</u>
Deferred Inflows of Resources:			
Lease Deferrals	<u>0</u>	<u>209,429</u>	<u>209,429</u>
Net Position:			
Net Investment in Capital Assets	236,750	1,402,533	1,639,283
Unrestricted	<u>32,679</u>	<u>468,875</u>	<u>501,554</u>
Total Net Position	<u>269,429</u>	<u>1,871,408</u>	<u>2,140,837</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 271,795</u>	<u>\$ 4,200,097</u>	<u>\$ 4,471,892</u>

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

CITY OF SKYLINE, MINNESOTA
 STATEMENT OF ACTIVITIES
 For The Year Ended December 31, 2023

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
				Governmental Activities	Business-type Activities		
GOVERNMENTAL ACTIVITIES:							
General Government	\$ 41,920	\$ 1,370	\$ 0	\$ 0	\$ (40,550)	\$ 0	\$ (40,550)
Public Safety	32,513	0	12,515	0	(19,998)	0	(19,998)
Public Works	168,850	0	0	0	(168,850)	0	(168,850)
Parks and Recreation	9,780	0	0	0	(9,780)	0	(9,780)
Total Governmental Activities	<u>253,063</u>	<u>1,370</u>	<u>12,515</u>	<u>0</u>	<u>(239,178)</u>	<u>0</u>	<u>(239,178)</u>
BUSINESS-TYPE ACTIVITIES:							
Water	140,097	110,089	0	123,117	0	93,109	93,109
Sewer	57,446	33,207	0	1,387	0	(22,852)	(22,852)
Refuse	32,229	27,136	0	0	0	(5,093)	(5,093)
Total Business-type Activities	<u>229,772</u>	<u>170,432</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>65,164</u>	<u>65,164</u>
Total Primary Government	<u>\$ 482,835</u>	<u>\$ 171,802</u>	<u>\$ 12,515</u>	<u>\$ 0</u>	<u>(239,178)</u>	<u>65,164</u>	<u>(174,014)</u>
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes					56,700	0	56,700
Franchise Fees					3,361	0	3,361
Intergovernmental					16,282	0	16,282
Interest and Investments Earnings					0	15,913	15,913
Other Revenues					200	102,159	102,359
Transfers					<u>100,376</u>	<u>(100,376)</u>	<u>0</u>
Total General Revenues					<u>176,919</u>	<u>17,696</u>	<u>194,615</u>
Changes in Net Position					(62,259)	82,860	20,601
Net Position - January 1					<u>331,688</u>	<u>1,788,548</u>	<u>2,120,236</u>
Net Position - December 31					<u>\$ 269,429</u>	<u>\$ 1,871,408</u>	<u>\$ 2,140,837</u>

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

CITY OF SKYLINE, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2023

	<u>General</u>
ASSETS	
Cash and Cash Equivalents	\$ 32,226
Accounts Receivable	651
Property Taxes Receivable	1,363
Prepaid Expenses	<u>805</u>
TOTAL ASSETS	<u>\$ 35,045</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
Liabilities:	
Accrued Expenses	<u>\$ 2,367</u>
Deferred Inflows of Resources:	
Unavailable Revenue - Delinquent Taxes	<u>1,120</u>
Fund Balance:	
Nonspendable	805
Unassigned	<u>30,753</u>
Total Fund Balance	<u>31,558</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u>\$ 35,045</u>

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

CITY OF SKYLINE, MINNESOTA

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
December 31, 2023

Total Fund Balances - Governmental Funds \$ 31,558

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	406,577
Less: Accumulated depreciation	(169,827)

Certain receivables will be collected next year, 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>1,120</u>
---------------------------	--------------

Total Net Position - Governmental Activities \$ 269,429

CITY OF SKYLINE, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2023

	<u>General</u>
Revenues:	
Property Taxes	\$ 56,129
Franchise Fees	3,361
Intergovernmental	28,797
Charges for Services	1,370
Other Revenues	200
Total Revenues	<u>89,857</u>
Expenditures:	
General Government	32,678
Public Safety	32,513
Public Works	168,850
Parks and Recreation	8,103
Total Expenditures	<u>242,144</u>
Excess of Revenues Over (Under) Expenditures	(152,287)
Other Financing Sources (Uses):	
Transfers In	<u>100,376</u>
Change in Fund Balance	(51,911)
Fund Balance - January 1	<u>83,469</u>
Fund Balance - December 31	<u><u>\$ 31,558</u></u>

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

CITY OF SKYLINE, MINNESOTA

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, 2023

Net Change in Fund Balances - Governmental Funds	\$ (51,911)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlay 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	(10,919)
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>571</u>
Change in Net Position - Governmental Activities	<u>\$ (62,259)</u>

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

CITY OF SKYLINE, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2023

	Original and Final Budget	Actual Amount	Over (Under) Budget
Revenues:			
Property Taxes	\$ 56,820	\$ 56,129	\$ (691)
Franchise Fees	0	3,361	3,361
Intergovernmental	16,400	28,797	12,397
Charges for Services	0	1,370	1,370
Other Revenues	3,460	200	(3,260)
Interest Earnings	7,800	0	(7,800)
Total Revenues	<u>84,480</u>	<u>89,857</u>	<u>5,377</u>
Expenditures:			
General Government	48,558	32,678	(15,880)
Public Safety	36,727	32,513	(4,214)
Public Works	11,000	168,850	157,850
Parks and Recreation	7,721	8,103	382
Total Expenditures	<u>104,006</u>	<u>242,144</u>	<u>138,138</u>
Excess of Revenues Over (Under) Expenditures	(19,526)	(152,287)	(132,761)
Other Financing Sources (Uses):			
Transfers In	<u>19,526</u>	<u>100,376</u>	<u>(80,850)</u>
Change in Fund Balance	<u>\$ 0</u>	(51,911)	<u>\$ (51,911)</u>
Fund Balance - January 1		<u>83,469</u>	
Fund Balance - December 31		<u>\$ 31,558</u>	

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

CITY OF SKYLINE, MINNESOTA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2023

	Business-type Activities - Enterprise Funds			Totals
	Water Fund	Sewer Fund	Refuse Fund	
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 994,974	\$ 121,740	\$ 1,522	\$ 1,118,236
Accounts Receivable	8,565	2,905	2,177	13,647
Prepaid Expenses	607	0	0	607
Total Current Assets	<u>1,004,146</u>	<u>124,645</u>	<u>3,699</u>	<u>1,132,490</u>
Noncurrent Assets:				
Lease Receivable	228,147	0	0	228,147
Capital Assets Not Being Depreciated	144,725	0	0	144,725
Other Capital Assets, Net of Depreciation	1,614,838	1,079,897	0	2,694,735
Total Noncurrent Assets	<u>1,987,710</u>	<u>1,079,897</u>	<u>0</u>	<u>3,067,607</u>
TOTAL ASSETS	<u>\$ 2,991,856</u>	<u>\$ 1,204,542</u>	<u>\$ 3,699</u>	<u>\$ 4,200,097</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION				
Current Liabilities:				
Accounts Payable	\$ 962	\$ 1	\$ 2,996	\$ 3,959
Contracts Payable	16,855	0	0	16,855
Interest Payable	23,446	0	0	23,446
Current Portion of Long-term Debt	30,000	0	0	30,000
Total Current Liabilities	<u>71,263</u>	<u>1</u>	<u>2,996</u>	<u>74,260</u>
Noncurrent Liabilities:				
Long-term Debt, Net of Current Portion	2,045,000	0	0	2,045,000
Total Liabilities	<u>2,116,263</u>	<u>1</u>	<u>2,996</u>	<u>2,119,260</u>
Deferred Inflows of Resources:				
Lease Deferrals	<u>209,429</u>	<u>0</u>	<u>0</u>	<u>209,429</u>
Net Position:				
Net Investment in Capital Assets	322,636	1,079,897	0	1,402,533
Unrestricted	343,528	124,644	703	468,875
Total Net Position	<u>666,164</u>	<u>1,204,541</u>	<u>703</u>	<u>1,871,408</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 2,991,856</u>	<u>\$ 1,204,542</u>	<u>\$ 3,699</u>	<u>\$ 4,200,097</u>

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

CITY OF SKYLINE, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 PROPRIETARY FUNDS

For the Year Ended December 31, 2023

	Business-type Activities - Enterprise Funds			Totals
	Water Fund	Sewer Fund	Refuse Fund	
Operating Revenues:				
Charges for Services	\$ 110,089	\$ 33,207	\$ 27,136	\$ 170,432
Operating Expenses:				
Personal Services	6,748	0	0	6,748
Supplies	2,195	0	0	2,195
Other Services and Charges	3,737	35,802	32,229	71,768
Utilities	9,495	0	0	9,495
Repair and Maintenance	31,502	0	0	31,502
Other Expenses	511	0	0	511
Depreciation	15,676	21,585	0	37,261
Total Operating Expenses	69,864	57,387	32,229	159,480
Income (Loss) From Operations	40,225	(24,180)	(5,093)	10,952
Nonoperating Revenues (Expenses):				
Other Revenues	225,276	1,387	0	226,663
Gain (Loss) on Sale of Capital Assets	(5,361)	0	0	(5,361)
Interest Earnings	14,322	1,591	0	15,913
Interest Expense and Fees	(64,872)	(59)	0	(64,931)
Total Nonoperating Revenues (Expenses)	169,365	2,919	0	172,284
Income Before Transfers	209,590	(21,261)	(5,093)	183,236
Transfers In (Out)	(102,376)	0	2,000	(100,376)
Change in Net Position	107,214	(21,261)	(3,093)	82,860
Net Position - January 1	558,950	1,225,802	3,796	1,788,548
Net Position - December 31	\$ 666,164	\$ 1,204,541	\$ 703	\$ 1,871,408

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

CITY OF SKYLINE, MINNESOTA

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 For The Year Ended December 31, 2023

	Business-type Activities - Enterprise Funds			Totals
	Water Fund	Sewer Fund	Refuse Fund	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts From Customers and Users	\$ 103,713	\$ 68,906	\$ 26,182	\$ 198,801
Payments to Suppliers	(67,735)	(35,802)	(32,261)	(135,798)
Payments to Employees	(6,748)	0	0	(6,748)
Other Receipts	98,759	0	0	98,759
Net Cash from Operating Activities	<u>127,989</u>	<u>33,104</u>	<u>(6,079)</u>	<u>155,014</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers In (Out)	<u>(102,376)</u>	<u>0</u>	<u>2,000</u>	<u>(100,376)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of Capital Assets	(451,426)	0	0	(451,426)
Principal Paid on Bonds	(30,000)	(18,569)	0	(48,569)
Interest Paid on Bonds	(62,567)	(186)	0	(62,753)
Escrow Proceeds	99,117	0	0	99,117
Debt Proceeds	435,575	0	0	435,575
Special Assessments Received	0	1,387	0	1,387
Net Cash from Capital and Related Financing Activities	<u>(9,301)</u>	<u>(17,368)</u>	<u>0</u>	<u>(26,669)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest Earnings	<u>14,322</u>	<u>1,591</u>	<u>0</u>	<u>15,913</u>
Net Change in Cash and Cash Equivalents	30,634	17,327	(4,079)	43,882
Cash and Cash Equivalents - January 1	<u>964,340</u>	<u>104,413</u>	<u>5,601</u>	<u>1,074,354</u>
Cash and Cash Equivalents - December 31	<u>\$ 994,974</u>	<u>\$ 121,740</u>	<u>\$ 1,522</u>	<u>\$ 1,118,236</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities:				
Operating Income (Loss)	\$ 40,225	\$ (24,180)	\$ (5,093)	\$ 10,952
Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities:				
Other Receipts	98,759	0	0	98,759
Depreciation Expense	15,676	21,585	0	37,261
(Increase) Decrease in Accounts Receivable	(6,376)	35,699	(954)	28,369
(Increase) Decrease in Prepaid Insurance	(117)	0	0	(117)
Increase (Decrease) in Accounts Payable	(20,178)	0	(32)	(20,210)
Net Cash from Operating Activities	<u>\$ 127,989</u>	<u>\$ 33,104</u>	<u>\$ (6,079)</u>	<u>\$ 155,014</u>

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

CITY OF SKYLINE, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

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 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 separate 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 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 segment 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, 2023

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 *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 susceptible to accrual as revenue of the current period. All other revenue items are 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 an 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, entitlements, 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.

The City reports the following major governmental funds:

The *General fund* is the City's primary operating fund. It accounts for all the 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 ensures that user charges are sufficient to meet those costs.

CITY OF SKYLINE, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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

The *Refuse fund* accounts for the costs associated with the City’s refuse collection and ensures 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.

D. Assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position/fund balance

Deposits and investments

The City’s cash and cash equivalents are 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 based on 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.

CITY OF SKYLINE, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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.

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 includes the past six years' uncollected taxes. Delinquent taxes have been offset by a deferred inflow of resources for delinquent taxes not received within 60 days after year end in the fund financial statements.

Accounts receivable

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2023. 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 assessment receivables 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 they are not available for appropriation and are not expendable available financial resources.

CITY OF SKYLINE, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, 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. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the City values these capital assets at the acquisition value of the item at the date of its donation.

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.

In addition to assets, the statement of financial position and fund financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of resources that is applicable to future reporting period(s) and so will not be recognized as an outflow of resources (expense) until that time.

Unearned Revenue

Unearned revenues are those for which resources are received by the City before it has a legal claim to them. The City has reported unearned revenues from various cell phone companies for the construction of equipment on the City's property.

CITY OF SKYLINE, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. 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 withheld from the actual debt proceeds received, are reported as debt service expenditures.

Leases

Lease receivables

The City determines if an arrangement is a lease at inception. Leases are included in lease receivables and deferred inflows of resources in the statements of net position and fund financial statements.

Lease receivables represent the City's claim to receive lease payments over the lease term, as specified in the contract, in an exchange or exchange-like transaction. Lease receivables are recognized at commencement date based on the present value of expected lease payments over the lease term, reduced by any provision for estimated uncollectible amounts. Interest revenue is recognized ratably over the contract term.

Deferred inflows of resources related to leases are recognized at the commencement date based on the initial measurement of the lease receivable, plus any payments received from the lessee at or before the commencement of the lease term that relate to future periods, less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term. The deferred inflows related to leases are recognized as lease revenue in a systematic and rational manner over the lease term.

The City has elected to recognize payments received for short-term leases with a lease term of 12 months or less as revenue as the payments are received. These leases are not included as lease receivables or deferred inflows on the statements of net position and fund financial statements.

Lease liabilities

The City determines if an arrangement is a lease at inception. Leases are included in lease assets and lease liabilities in the statements of net position.

Lease assets represent the City's control of the right to use an underlying asset for the lease term, as specified in the contract, in an exchange or exchange-like transaction. Lease assets are recognized at the commencement date based on the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. Lease assets are amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

Lease liabilities represent the City's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the commencement date based on the present value of expected lease payments over the lease term, less any lease incentives. Interest expense is recognized ratably over the contract term.

The lease term may include options to extend or terminate the lease when it is reasonably certain that the Entity will exercise that option.

CITY OF SKYLINE, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

The City has elected to recognize payments for short-term leases with a lease term of 12 months or less as expenses as incurred, and these leases are not included as lease liabilities or right-to-use lease assets on the statements of net position.

Significant lease terms are disclosed in note 3.

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 - Consists of net position balances restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position balances that do not meet the definition of “restricted” or “net investment in capital assets”.

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.

CITY OF SKYLINE, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

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 30, 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, 2023, the General fund had expenditures over appropriations of \$138,138. The excess of expenditures over appropriations was funded with additional revenues and available fund balance.

C. Deficit Fund Equity

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

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;

CITY OF SKYLINE, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

- 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.

On December 31, 2023, the carrying amount of deposits was \$1,150,462 and the bank balance was \$1,284,460. Of the bank balance, \$500,000 was covered by federal depository insurance. The remaining balance was covered by collateral held by the City’s agent in the City’s name.

Investments

On December 31, 2023, the City had no investments.

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	\$ 32,226	\$ 32,908
Time deposits	-	1,085,328
Total cash and cash equivalents	<u>\$ 32,226</u>	<u>\$ 1,118,236</u>

B. Lease Receivables

The City, acting as lessor, leases certain real property under long-term, noncancelable lease agreements. The leases contain discount rates of 4.00% and expire in September 2025, March 2026, and January 2027 and provide for renewal options of five years in each agreement. During the year ended December 31, 2023, the City recognized \$87,876 and \$10,715 in lease revenue and interest revenue, respectively, pursuant to these contracts.

Total future minimum lease payments to be received under lease agreements are as follows:

Year Ending December 31	Business-type Activities	
	Principal	Interest
2024	\$ 101,755	\$ 7,099
2025	87,567	3,292
2026	36,084	831
2027	2,741	9
Total	<u>\$ 228,147</u>	<u>\$ 11,231</u>

CITY OF SKYLINE, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

C. Capital assets

Capital asset activity for the City for the year ended December 31, 2023, 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	83,093	-	-	83,093
Total capital assets being depreciated	396,556	-	-	396,556
Less accumulated depreciation for				
Buildings and Improvements	(88,957)	(8,087)	-	(97,044)
Machinery and equipment	(69,951)	(2,832)	-	(72,783)
Total accumulated depreciation	(158,908)	(10,919)	-	(169,827)
Total capital assets being depreciated, net	237,648	(10,919)	-	226,729
Governmental activities capital assets, net	<u>\$ 247,669</u>	<u>\$ (10,919)</u>	<u>\$ -</u>	<u>\$ 236,750</u>

CITY OF SKYLINE, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

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
Construction in Progress	<u>1,136,871</u>	<u>129,725</u>	<u>(1,136,871)</u>	<u>129,725</u>
Total capital assets not being depreciated	<u>1,151,871</u>	<u>129,725</u>	<u>(1,136,871)</u>	<u>144,725</u>
Capital assets being depreciated				
Buildings and improvements	-	234,111	-	234,111
Distribution system	2,071,390	1,200,862	(50,813)	3,221,439
Machinery and equipment	<u>14,480</u>	<u>-</u>	<u>-</u>	<u>14,480</u>
Total capital assets being depreciated	<u>2,085,870</u>	<u>1,434,973</u>	<u>(50,813)</u>	<u>3,470,030</u>
Less accumulated depreciation for				
Distribution system	(777,599)	(36,682)	45,452	(768,829)
Machinery and equipment	<u>(5,887)</u>	<u>(579)</u>	<u>-</u>	<u>(6,466)</u>
Total accumulated depreciation	<u>(783,486)</u>	<u>(37,261)</u>	<u>45,452</u>	<u>(775,295)</u>
Total capital assets being depreciated, net	<u>1,302,384</u>	<u>1,397,712</u>	<u>(5,361)</u>	<u>2,694,735</u>
Business-type activities capital assets, net	<u>\$ 2,454,255</u>	<u>\$ 1,527,437</u>	<u>\$ (1,142,232)</u>	<u>\$ 2,839,460</u>

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

Governmental activities:

General government	\$ 9,243
Parks and recreation	<u>1,676</u>
Total depreciation expense - governmental activities	<u>\$ 10,919</u>

Business-type activities:

Water	\$ 15,676
Sewer	<u>21,585</u>
Total depreciation expense - business-type activities	<u>\$ 37,261</u>

CITY OF SKYLINE, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

D. Long-term debt

General Obligation Revenue Bonds/Notes

The City issued general obligation revenue bonds/notes where the government pledges income derived from the acquired or constructed assets to pay debt service requirements. A portion of the revenue bonds/notes 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/notes currently outstanding are as follows:

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Revenue					
Bonds of 2022A	1,655,000	2.00 - 2.95%	4/1/22	2/1/42	1,625,000
G.O. Revenue					
Note of 2023A	450,000	4.35%	9/21/23	2/1/42	<u>450,000</u>
Total general obligation revenue bonds/notes					<u>\$ 2,075,000</u>

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

Year Ending December 31	Business-type Activities		
	Principal	Interest	Total
2024	\$ 30,000	\$ 58,689	\$ 88,689
2025	92,000	59,988	151,988
2026	93,000	57,727	150,727
2027	94,000	55,422	149,422
2028	99,000	52,945	151,945
2029-2033	525,000	221,885	746,885
2034-2038	600,000	137,163	737,163
2039-2042	542,000	36,274	578,274
Total	<u>\$ 2,075,000</u>	<u>\$ 680,093</u>	<u>\$ 2,755,093</u>

Changes in long-term liabilities

During the year ended December 31, 2023, the following changes occurred in long-term liabilities.

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Business-type activities:					
GO revenue notes/bonds	\$ 1,673,569	\$ 450,000	\$ (48,569)	\$ 2,075,000	\$ 30,000

CITY OF SKYLINE, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

Outstanding non-exchange financial guaranteed obligations

On April 1, 2022, the City issued \$1,655,000 general obligation water revenue bonds. The bonds mature annually through February 1, 2042, with semiannual interest payments. The State of Minnesota through their Public Facilities Authority (PFA) has guaranteed to make all required payments that the City is unable to make. The City is required to repay the PFA with interest for any payments the PFA makes pursuant to the guarantee. As of December 31, 2023, the City has made all required debt service payments on the guaranteed debt. On December 31, 2023, the outstanding principal amount of the guaranteed debt was \$1,625,000.

On September 21, 2023, the City issued \$450,000 general obligation water revenue note. The note is paid annually through February 1, 2042, with semiannual interest payments. The State of Minnesota through their Public Facilities Authority (PFA) has guaranteed to make all required payments that the City is unable to make. The City is required to repay the PFA with interest for any payments the PFA makes pursuant to the guarantee. As of December 31, 2023, the City has made all required debt service payments on the guaranteed debt. On December 31, 2023, the outstanding principal amount of the guaranteed debt was \$450,000.

E. Interfund receivables, payables, and transfers

Interfund transfers

Interfund transfers for the year ended December 31, 2023, consisted of the following:

<u>Transferred From</u>	<u>Transferred To</u>		
	<u>General fund</u>	<u>Refuse fund</u>	<u>Total</u>
Water fund	\$ 100,376	\$ 2,000	\$ 102,376
Total	<u>\$ 100,376</u>	<u>\$ 2,000</u>	<u>\$ 102,376</u>

The transfers from the Water fund to the General and Refuse funds was used to reallocate cash balances.

Internal Balances

On December 31, 2023, the City had no internal balances.

CITY OF SKYLINE, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

F. Net Position/Fund Balance

Governmental Activities Net Position

Governmental activities net position reported on the government-wide statement of net position on December 31, 2023, includes the following:

Net Investment in Capital Assets:	
Land	\$ 10,021
Buildings and improvements	313,463
Machinery and equipment	83,094
Less: accumulated depreciation	<u>(169,827)</u>
Total Net Investment in Capital Assets	236,750
Unrestricted	<u>32,679</u>
Total Governmental Activities Net Position	<u><u>\$ 269,429</u></u>

Business-type Activities Net Position

Business-type activities net position reported on the government-wide statement of net position on December 31, 2023, includes the following:

Net Investment in Capital Assets:	
Land	\$ 15,000
Construction in progress	129,725
Building and improvements	234,111
Distribution system	3,221,439
Machinery and equipment	14,480
Unspent bond proceeds	638,073
Less: accumulated depreciation	(775,295)
Less: related debt	<u>(2,075,000)</u>
Total Net Investment in Capital Assets	1,402,533
Unrestricted	<u>468,875</u>
Total Business-type Activities Net Position	<u><u>\$ 1,871,408</u></u>

CITY OF SKYLINE, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

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 2023 was \$16,282. This accounted for 18 percent of General fund revenues.

D. Construction commitments

As of December 31, 2023, the City had one signed contract in place for a construction project. The following summarizes this commitment:

Project	Spent to Date	Remaining Commitment
Water treatment improvements	\$ 48,462	\$ 603,196

SUPPLEMENTARY INFORMATION SECTION

CITY OF SKYLINE, MINNESOTA

BALANCE SHEET

GENERAL FUND

December 31, 2023

(With Comparative Amounts for December 31, 2022)

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash and Cash Equivalents	\$ 32,226	\$ 84,237
Accounts Receivable	651	0
Property Taxes Receivable	1,363	1,652
Prepaid Expenses	<u>805</u>	<u>672</u>
TOTAL ASSETS	<u>\$ 35,045</u>	<u>\$ 86,561</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE		
Liabilities:		
Accrued Expenses	<u>\$ 2,367</u>	<u>\$ 2,543</u>
Deferred Inflows of Resources:		
Unavailable Revenue - Delinquent Taxes	<u>1,120</u>	<u>549</u>
Fund Balance:		
Nonspendable	805	672
Restricted	0	32,785
Unassigned	<u>30,753</u>	<u>50,012</u>
Total Fund Balance	<u>31,558</u>	<u>83,469</u>
TOTAL LIABILITIES, DEFERRED INFLOWS RESOURCES AND FUND BALANCE	<u>\$ 35,045</u>	<u>\$ 86,561</u>

CITY OF SKYLINE, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
 For the Year Ended December 31, 2023
 (With Comparative Amounts for the Year Ended December 31, 2022)

	2023 Budget	2023 Actual	Over (Under) Budget	2022 Actual
Revenues:				
Taxes:				
Property Taxes	\$ 56,820	\$ 56,129	\$ (691)	\$ 51,750
Franchise Fees	0	3,361	3,361	2,771
Total Taxes	<u>56,820</u>	<u>59,490</u>	<u>2,670</u>	<u>54,521</u>
Intergovernmental:				
Local Governmental Aid	16,400	16,282	(118)	18,517
American Rescue Plan Act	0	0	0	16,392
Public Safety Aid	0	12,515	12,515	0
Total Intergovernmental	<u>16,400</u>	<u>28,797</u>	<u>12,397</u>	<u>34,909</u>
Charges for Services:				
City Hall Rent	0	1,370	1,370	660
Total Charges for Services	<u>0</u>	<u>1,370</u>	<u>1,370</u>	<u>660</u>
Other Revenues:				
Permits and Fees	0	200	200	120
Miscellaneous Revenues	3,460	0	(3,460)	1,309
Donations	0	0	0	2,834
Interest Earnings	<u>7,800</u>	<u>0</u>	<u>(7,800)</u>	<u>4,111</u>
Total Revenues	<u>84,480</u>	<u>89,857</u>	<u>5,377</u>	<u>98,464</u>
Expenditures:				
General Government:				
Wages	48,558	9,890	(38,668)	9,890
Payroll Taxes	0	757	757	757
Insurance	0	308	308	0
Clerk and Treasurer's Bond	0	225	225	225
Office Supplies	0	448	448	146
Supplies	0	2,077	2,077	309
Repair and Maintenance	0	5,190	5,190	3,175
Professional Fees	0	2,183	2,183	8,353
Telephone	0	1,185	1,185	1,436
Liability Insurance	0	2,394	2,394	2,232
Utilities	0	5,328	5,328	4,206
Miscellaneous Expenditures	0	1,668	1,668	1,034
Bank Service Charges	0	52	52	551
Dues	0	973	973	0
Total General Government	<u>48,558</u>	<u>32,678</u>	<u>(15,880)</u>	<u>32,314</u>

CITY OF SKYLINE, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
 For the Year Ended December 31, 2023
 (With Comparative Amounts for the Year Ended December 31, 2022)

	2023 Budget	2023 Actual	Over (Under) Budget	2022 Actual
Expenditures: (Continued)				
Public Safety:				
Supplies	\$ 0	\$ 0	\$ 0	\$ 250
Fire Protection Services	36,727	31,823	(4,904)	36,477
Capital Outlay	0	690	690	0
Total Public Safety	<u>36,727</u>	<u>32,513</u>	<u>(4,214)</u>	<u>36,727</u>
Streets:				
Supplies	0	0	0	220
Street Repairs	0	165,040	165,040	856
Snow Removal	11,000	3,810	(7,190)	5,238
Total Streets	<u>11,000</u>	<u>168,850</u>	<u>157,850</u>	<u>6,314</u>
Parks and Recreation:				
Supplies	7,721	1,464	(6,257)	801
Repairs and Maintenance	0	1,789	1,789	3,386
Lawn Mowing	0	4,850	4,850	5,162
Weed Spraying	0	0	0	350
Total Parks and Recreation	<u>7,721</u>	<u>8,103</u>	<u>382</u>	<u>9,699</u>
Total Expenditures	<u>104,006</u>	<u>242,144</u>	<u>138,138</u>	<u>85,054</u>
Excess of Revenues Over (Under) Expenditures	(19,526)	(152,287)	(132,761)	13,410
Other Financing Sources (Uses):				
Transfers In (Out)	<u>19,526</u>	<u>100,376</u>	<u>80,850</u>	<u>(30,000)</u>
Change in Fund Balance	<u>\$ 0</u>	(51,911)	<u>\$ (51,911)</u>	(16,590)
Fund Balance - January 1		<u>83,469</u>		<u>100,059</u>
Fund Balance - December 31		<u>\$ 31,558</u>		<u>\$ 83,469</u>

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CITY OF SKYLINE, MINNESOTA

SCHEDULE OF NET POSITION
WATER FUND

December 31, 2023

(With Comparative Amounts for December 31, 2022)

	<u>2023</u>	<u>2022</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 994,974	\$ 964,340
Accounts Receivable	8,565	2,188
Prepaid Expenses	607	490
Total Current Assets	<u>1,004,146</u>	<u>967,018</u>
Noncurrent Assets:		
Lease Receivable	228,147	315,881
Land	15,000	15,000
Distribution Systems	1,985,165	601,005
Construction in Progress	129,725	1,136,871
Accumulated Depreciation	(370,327)	(400,103)
Total Noncurrent Assets	<u>1,987,710</u>	<u>1,668,654</u>
TOTAL ASSETS	<u>\$ 2,991,856</u>	<u>\$ 2,635,672</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Current Liabilities:		
Accounts Payable	\$ 962	\$ 21,138
Contracts Payable	16,855	46,346
Interest Payable	23,446	29,675
Unearned Revenue	0	24,000
Current Portion of Long-term Debt	30,000	30,000
Total Current Liabilities	<u>71,263</u>	<u>151,159</u>
Long-term Liabilities:		
Long-term Debt, Net of Current Portion	<u>2,045,000</u>	<u>1,625,000</u>
Deferred Inflows of Resources:		
Lease Deferrals	<u>209,429</u>	<u>300,563</u>
Net Position:		
Net Investment in Capital Assets	322,636	(302,227)
Restricted	0	480,254
Unrestricted	343,528	380,923
Total Net Position	<u>666,164</u>	<u>558,950</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 2,991,856</u>	<u>\$ 2,635,672</u>

CITY OF SKYLINE, MINNESOTA

SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION - BUDGET AND ACTUAL
WATER FUND

For the Year Ended December 31, 2023

(With Comparative Amounts for the Year Ended December 31, 2022)

	2023 Budget	2023 Actual	Over (Under) Budget	2022 Actual
Operating Revenues:				
Charges for Services	\$ 0	\$ 110,089	\$ 110,089	\$ 44,641
Operating Expenses:				
Personal Service	0	6,748	6,748	6,545
Supplies	0	2,195	2,195	3,497
Other Services and Charges	0	3,737	3,737	12,274
Utilities	0	9,495	9,495	9,777
Repair and Maintenance	0	31,502	31,502	20,462
Other Expenses	0	511	511	3,002
Depreciation	0	15,676	15,676	15,676
Total Operating Expenses	<u>0</u>	<u>69,864</u>	<u>69,864</u>	<u>71,233</u>
Income (Loss) from Operations	0	40,225	40,225	(26,592)
Nonoperating Revenues (Expenses):				
Other Revenue	0	225,276	225,276	104,386
Gain (Loss) on Sale of Capital Assets	0	(5,361)	(5,361)	0
Interest Earnings	0	14,322	14,322	8,069
Interest Expense and Fees	0	(64,872)	(64,872)	(77,617)
Nonoperating Revenues (Expenses)	<u>0</u>	<u>169,365</u>	<u>169,365</u>	<u>34,838</u>
Income Before Transfers	0	209,590	209,590	8,246
Transfers Out	<u>0</u>	<u>(102,376)</u>	<u>(102,376)</u>	<u>0</u>
Change in Net Position	<u>\$ 0</u>	107,214	<u>\$ 107,214</u>	8,246
Net Position - January 1		<u>558,950</u>		<u>550,704</u>
Net Position - December 31		<u>\$ 666,164</u>		<u>\$ 558,950</u>

CITY OF SKYLINE, MINNESOTA

SCHEDULE OF NET POSITION
SEWER FUND

December 31, 2023

(With Comparative Amounts for December 31, 2022)

	<u>2023</u>	<u>2022</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 121,740	\$ 104,413
Accounts Receivable	2,905	38,603
Total Current Assets	<u>124,645</u>	<u>143,016</u>
Noncurrent Assets:		
Distribution Systems	1,484,865	1,484,865
Accumulated Depreciation	(404,968)	(383,383)
Total Noncurrent Assets	<u>1,079,897</u>	<u>1,101,482</u>
TOTAL ASSETS	<u>\$ 1,204,542</u>	<u>\$ 1,244,498</u>
LIABILITIES AND NET POSITION		
Current Liabilities:		
Accounts Payable	\$ 1	\$ 0
Interest Payable	0	127
Current Portion of Long-term Debt	0	18,569
Total Current Liabilities	<u>1</u>	<u>18,696</u>
Long-term Liabilities:		
Net Position:		
Net Investment in Capital Assets	1,079,897	1,082,913
Restricted	0	18,569
Unrestricted	124,644	124,320
Total Net Position	<u>1,204,541</u>	<u>1,225,802</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,204,542</u>	<u>\$ 1,244,498</u>

CITY OF SKYLINE, MINNESOTA

SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION - BUDGET AND ACTUAL
SEWER FUND

For the Year Ended December 31, 2023

(With Comparative Amounts for the Year Ended December 31, 2022)

	<u>2023</u> <u>Budget</u>	<u>2023</u> <u>Actual</u>	<u>Over</u> <u>(Under)</u> <u>Budget</u>	<u>2022</u> <u>Actual</u>
Operating Revenues:				
Charges for Services	\$ 0	\$ 33,207	\$ 33,207	\$ 35,644
Operating Expenses:				
Other Services and Charges	0	35,802	35,802	26,920
Depreciation	<u>0</u>	<u>21,585</u>	<u>21,585</u>	<u>21,585</u>
Total Operating Expenses	<u>0</u>	<u>57,387</u>	<u>57,387</u>	<u>48,505</u>
Income (Loss) from Operations	0	(24,180)	(24,180)	(12,861)
Nonoperating Revenues (Expenses):				
Other Revenue	0	1,387	1,387	3,091
Interest Earnings	0	1,591	1,591	0
Interest Expense and Fees	<u>0</u>	<u>(59)</u>	<u>(59)</u>	<u>(547)</u>
Nonoperating Revenues (Expenses)	<u>0</u>	<u>2,919</u>	<u>2,919</u>	<u>2,544</u>
Change in Net Position	<u>\$ 0</u>	(21,261)	<u>\$ (21,261)</u>	(10,317)
Net Position - January 1		<u>1,225,802</u>		<u>1,236,119</u>
Net Position - December 31		<u>\$ 1,204,541</u>		<u>\$ 1,225,802</u>

CITY OF SKYLINE, MINNESOTA

SCHEDULE OF NET POSITION

REFUSE FUND

December 31, 2023

(With Comparative Amounts for December 31, 2022)

	<u>2023</u>	<u>2022</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 1,522	\$ 5,601
Account Receivable	<u>2,177</u>	<u>1,224</u>
TOTAL ASSETS	<u>\$ 3,699</u>	<u>\$ 6,825</u>
LIABILITIES AND NET POSITION		
Current Liabilities:		
Accounts Payable	\$ 2,996	\$ 3,029
Net Position:		
Unrestricted	<u>703</u>	<u>3,796</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 3,699</u>	<u>\$ 6,825</u>

CITY OF SKYLINE, MINNESOTA

SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION - BUDGET AND ACTUAL
REFUSE FUND

For the Year Ended December 31, 2023
(With Comparative Amounts for the Year Ended December 31, 2022)

	2023 Budget	2023 Actual	Over (Under) Budget	2022 Actual
Operating Revenues:				
Charges for Services	\$ 0	\$ 27,136	\$ 27,136	\$ 21,982
Operating Expenses:				
Other Services and Charges	0	32,229	32,229	27,557
Total Operating Expenses	<u>0</u>	<u>32,229</u>	<u>32,229</u>	<u>27,557</u>
Income (Loss) from Operations	0	(5,093)	(5,093)	(5,575)
Nonoperating Revenues (Expenses):				
Other Revenue	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Income Before Transfers	0	(5,093)	(5,093)	(5,575)
Transfers In	<u>0</u>	<u>2,000</u>	<u>2,000</u>	<u>30,000</u>
Change in Net Position	<u>\$ 0</u>	(3,093)	<u>\$ (3,093)</u>	24,425
Net Position - January 1		<u>3,796</u>		<u>(20,629)</u>
Net Position - December 31		<u>\$ 703</u>		<u>\$ 3,796</u>

OTHER REPORTS



Burkhardt & Burkhardt, Ltd.

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MINNESOTA LEGAL COMPLIANCE

Independent Auditor's Report

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, Minnesota (the City), as of and for the year ended December 31, 2023, and the related notes to the financial statements, and have issued our report thereon dated August 9, 2024.

The *Minnesota Legal Compliance Audit Guide for Cities*, 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 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 failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. 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 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.
Mankato, Minnesota
August 9, 2024



Burkhardt & Burkhardt, Ltd.

Certified Public Accountants

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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, Minnesota (the City) as of and for the year ended December 31, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered the City'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 a deficiency in internal control that we consider to be a material weakness and other deficiencies 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 City's financial statements will not be prevented, or detected and corrected, on a timely basis. As described in the accompanying schedule of findings and responses, we did identify a deficiency in internal control that we consider to be a material weakness as item 2023-001.

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. As described in the accompanying schedule of findings and responses, we consider the following deficiencies in internal control to be significant deficiencies as items 2023-002 and 2023-003.

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

Burkhardt & Burkhardt, Ltd.

Burkhardt & Burkhardt, Ltd.
Mankato, Minnesota
August 9, 2024

CITY OF SKYLINE, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES ON
LEGAL COMPLIANCE AND INTERNAL CONTROL
December 31, 2023

CURRENT YEAR FINANCIAL STATEMENT FINDINGS

Material Weaknesses

Finding 2023-001. Material Audit Adjustments

Condition:	The audit firm proposed, and the City approved corrections of certain misstatements.
Criteria	The City should have controls in place to prevent and detect a material misstatement in the financial statements in a timely manner. Management is responsible for the accuracy and completeness of all financial records and related information. Their responsibility includes adjusting the financial statements to correct material misstatements.
Cause:	The City has not established controls to ensure that all accounts are adjusted to their appropriate year-end balances in accordance with GAAP.
Effect:	The design of internal control over completeness and accuracy of financial records could adversely affect the City's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.
Recommendation:	The City should continue to evaluate its internal controls processes to determine if additional internal control procedures should be implemented to ensure that accounts are adjusted to their appropriate year end balances in accordance with GAAP.

Corrective Action Plan (CAP)

Explanation of Disagreement with Audit Finding:

None

Actions Planned in Response to Finding:

The City will continue to review and approve adjusting journal entries as proposed by the auditor, as well as taking responsibility for the audited financial statements.

Official Responsible for Ensuring CAP:

Lon Whitehead, City Treasurer

Planned Completion Date for CAP:

December 31, 2024

Plan to Monitor Completion of CAP:

City Council

CITY OF SKYLINE, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES ON
LEGAL COMPLIANCE AND INTERNAL CONTROL
December 31, 2023

Significant Deficiencies

Finding 2023-002. Auditor Prepared Financial Statements and Related Footnotes

Condition:	The City does have an internal control in place for the review of the drafted financial statements, however, the City does not have an internal control system designed to provide for the preparation of the related notes being audited. Based on the degree of complexity and level of detail needed to prepare the financial statement disclosures in accordance with accounting principles generally accepted in the United States of America (GAAP), the City has requested the auditors prepare them.
Criteria	The preparation of the financial statements and the related notes are the responsibility of management.
Cause:	The City has informed us they do not have the expertise to prepare the annual financial statement disclosures, although the City has reviewed and approved the annual financial statements as prepared by the audit firm.
Effect:	This could result in a material omission of a disclosure that would not be prevented or detected and corrected as a result of the City's current internal control.
Recommendation:	The City should continue to request assistance to draft the financial statements and related notes and thoroughly review these financial statements after they have been prepared so the City can take responsibility for them.

Corrective Action Plan (CAP)

Explanation of Disagreement with Audit Finding:

None

Actions Planned in Response to Finding:

The City is aware of the lack of expertise to ensure all disclosures required by GAAP are included in the financial statements, however, the City will review the notes for accuracy and compare balances in the financial report to the general ledger and other City reports prior to issuance of the financial statements.

Official Responsible for Ensuring CAP:

Lon Whitehead, City Treasurer

Planned Completion Date for CAP:

December 31, 2024

Plan to Monitor Completion of CAP:

City Council

CITY OF SKYLINE, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES ON
LEGAL COMPLIANCE AND INTERNAL CONTROL
December 31, 2023

Finding 2023-003. Limited Segregation of Duties

Condition:	There is an absence of appropriate segregation of duties consistent with appropriate control objectives due to a limited number of employees.
Criteria	There are four general categories of duties: authorization, custody, record keeping, and reconciliation. No one person should have control over more than two of these four responsibilities.
Cause:	The City has assigned duties to staff based on a cost-benefit relationship to the City and the practicality of the level of staffing the City maintains.
Effect:	The lack of adequate segregation of duties could adversely affect the City's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.
Recommendation:	The City should continue to monitor and evaluate the job responsibilities assigned to staff to determine whether there is an unacceptable risk.

Corrective Action Plan (CAP)

Explanation of Disagreement with Audit Finding:

None

Actions Planned in Response to Finding:

The City is aware of the limited segregation of duties and will continue to review internal controls and make changes when they can be made.

Official Responsible for Ensuring CAP:

Lon Whitehead, City Treasurer

Planned Completion Date for CAP:

December 31, 2024

Plan to Monitor Completion of CAP:

City Council

CURRENT YEAR MINNESOTA LEGAL COMPLIANCE FINDINGS

None

CITY OF SKYLINE, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

December 31, 2023

<u>Finding Reference</u>	<u>Finding Title</u>	<u>Status</u>	<u>Year Finding Initially Occurred</u>	<u>If Not Corrected, Provide Planned Corrective Action or Other Explanation</u>
Financial Statement Findings:				
2022-001	Auditor Preparation of Financial Statements	Not Corrected	2009	See Current Year Finding 2023-002
2022-002	Limited Segregation of Duties	Not Corrected	2009	See Current Year Finding 2023-003
2022-003	Adjusting Journal Entries	Not Corrected	2009	See Current Year Finding 2023-001

Minnesota Legal Compliance Findings:

None