

CITY OF COSMOS, MINNESOTA
AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2015

Conway, Deuth & Schmiesing, PLLP
Certified Public Accountants
Litchfield, Minnesota

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CITY OF COSMOS, MINNESOTA

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CITY OF COSMOS, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2015

		<u>Term Expires</u>
Mayor	Rich Gieser	12/31/2016
Council Member	Terry Anderson	12/31/2018
Council Member	Tom Rennecke	12/31/2018
Council Member	Jody Fruetel	12/31/2016
Council Member	Ronald Tusha	12/31/2016
City Administrator/Clerk	John Douville	Appointed

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
City of Cosmos
Cosmos, 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 Cosmos, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

Basis for Qualified Opinion on Governmental Activities

As discussed in Note 1.L. to the financial statements, management has not obtained the necessary information to properly record and disclose the effects of the net pension liability and the related deferred outflows of resources and deferred inflows of resources on the governmental activities relating to the City's Fire Relief Association. Accounting principles generally accepted in the United States of America require that those pension related amounts be recorded and disclosed, which would increase or decrease net pension liability, deferred outflows of resources, deferred inflows of resources, net position and expenses of the governmental activities. The amount by which this departure would affect these pension related amounts has not been determined.

Qualified Opinions

In our opinion, except for the effects of the matter discussed in the "Basis for Qualified Opinions on Governmental Activities" paragraph, the financial statements referred to above present fairly, in all material aspects the respective financial position of the governmental activities of the City of Cosmos, Minnesota, as of December 31, 2015, 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.

Change in Accounting Principle

As described in Note 10 to the financial statements, for the year ended December, 2015, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pension Plans - an Amendment of GASB Statement No. 27* and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Report on Partial Comparative Information

We have previously audited the City's 2014 financial statements, and we expressed unmodified audit opinions on those audited financial statements in our report dated July 21, 2015. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived. Refer to Note 14 of the Notes to the Financial Statement for additional information regarding the prior year partial comparative information.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedules of Proportionate Share of the Net Pension Liability and Employer Contributions as listed 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The statements and schedules as listed in the table of contents as supplementary information and the Elected and Appointed Officials section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the 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 supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Elected and Appointed Officials section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on the information presented.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
Certified Public Accountants
Litchfield, Minnesota

April 7, 2016

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF COSMOS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015

This section of the basic financial statements of the City of Cosmos (the City) presents a discussion and analysis of the City's financial performance during the fiscal year ended December 31, 2015. Please read it in conjunction with the City's basic financial statements following this section.

Financial Highlights

- The assets of the City exceeded liabilities by \$4.1 million. Of this amount, \$760,469 may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designations and fiscal policies.
- The City's total net position increased by \$85,071 which is comparable to prior year.
- The City's governmental funds reported combined ending fund balances of \$945,764. Of this total amount, 47% is available for spending at the City's discretion.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$217,676, or 62% of total General Fund expenditures of \$348,503.

Using This Annual Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements are presented after the Statement of Activities. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's funds. The notes to the basic financial statements provide information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. This annual report also contains other supplementary information in addition to the basic financial statements.

The City as a Whole: Statement of Net Position and Statement of Activities

Our analysis of the City of Cosmos begins with the Statement of Net Position and the Statement of Activities. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities both report information about the City as a whole and about its activities in a way that helps answer this question. The Statement of Net Position includes *all* assets and deferred outflows of resources and liabilities and deferred inflows of resources using the *accrual basis of accounting*. In the Statement of Activities, all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the City's *net position* and changes in them. You can think of the City's net position—the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources—as one way to measure the City's financial health.

Over time, increases or decreases in the City's net position are one indicator of whether the City's financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, to assess the overall health of the City of Cosmos.

CITY OF COSMOS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015

The City as a Whole: Statement of Net Position and Statement of Activities (Cont'd)

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

Governmental Activities - Most of the City's basic services are reported here, including public safety, public works, sanitation, culture and recreation and general government. Property taxes, and state and federal grants finance most of these activities.

Business-Type Activities - The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's Sewer and Water funds are reported here.

The City's Most Significant Funds: Fund Financial Statements

Our analysis of the City's major funds begins with the fund financial statements. These statements provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City Council establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds—*governmental and proprietary*-use different accounting approaches.

Governmental Funds - Most of the City's basic services are reported in governmental funds. Governmental funds focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps the reader of the statements determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and governmental *funds* in a reconciliation after the fund financial statements.

The governmental fund financial statements can be found on pages 15-21 of this report.

Proprietary Funds - When the City of Cosmos charges customers for the services it provides—whether to outside customers or to other units of the City—these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

The proprietary fund financial statements can be found on pages 22-25 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26-49 of this report.

CITY OF COSMOS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015

Statement of Net Position

The City's combined net position decreased from a year ago. Our analysis below focuses on the net position (Tables 1 and 2) and changes in net position (Tables 3 and 4) of the City's governmental and business-type activities.

Table 1 Comparative Condensed Statement of Net Position			
	Governmental Activities		Change
	2015	2014	
Current and Other Assets	\$ 1,560,352	\$ 1,458,619	\$ 101,733
Net Capital Assets	1,098,447	1,159,074	(60,627)
Total Assets	<u>2,658,799</u>	<u>2,617,693</u>	41,106
Deferred Outflows of Resources	11,866		11,866
Total Assets and Deferred Outflows of Resources	<u>\$ 2,670,665</u>	<u>\$ 2,617,693</u>	<u>\$ 52,972</u>
Current and Other Liabilities	\$ 31,918	\$ 33,150	\$ (1,232)
Long-Term Liabilities	630,050	611,581	18,469
Total Liabilities	<u>661,968</u>	<u>644,731</u>	17,237
Deferred Inflows of Resources	15,731		15,731
Net Position			
Net Investment in Capital Assets	543,447	549,074	(5,627)
Restricted	885,059	916,136	(31,077)
Unrestricted	564,460	507,752	56,708
Total Net Position	<u>1,992,966</u>	<u>1,972,962</u>	20,004
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 2,670,665</u>	<u>\$ 2,617,693</u>	<u>\$ 52,972</u>

CITY OF COSMOS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015

Statement of Net Position (Cont'd)

Table 2 Comparative Condensed Statement of Net Position			
	<u>Business-Type Activities</u>		Change
	<u>2015</u>	<u>2014</u>	
Current and Other Assets	\$ 244,275	\$ 234,708	\$ 9,567
Net Capital Assets	2,998,197	3,103,800	(105,603)
Total Assets	<u>3,242,472</u>	<u>3,338,508</u>	(96,036)
Deferred Outflows of Resources	<u>2,784</u>		2,784
Total Assets and Deferred Outflows of Resources	<u>\$ 3,245,256</u>	<u>\$ 3,338,508</u>	<u>\$ (93,252)</u>
Current and Other Liabilities	\$ 26,802	\$ 12,584	\$ 14,218
Long-Term Liabilities	1,085,807	1,162,103	(76,296)
Total Liabilities	<u>1,112,609</u>	<u>1,174,687</u>	(62,078)
Deferred Inflows of Resources	4,385		4,385
Net Position			
Net Investment in Capital Assets	1,932,253	1,941,697	(9,444)
Unrestricted	196,009	222,124	(26,115)
Total Net Position	<u>2,128,262</u>	<u>2,163,821</u>	(35,559)
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 3,245,256</u>	<u>\$ 3,338,508</u>	<u>\$ (93,252)</u>

CITY OF COSMOS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015

Governmental Activities

Net position of the City's governmental activities increased by \$20,004. Table 3 presents the key elements of the increase.

The following tables indicate the changes in net position for the City's governmental and business-type activities:

Table 3 Comparative Condensed Statement of Activities			
	<u>Governmental Activities</u>		Change
	<u>2015</u>	<u>2014</u>	
REVENUES			
Program Revenues			
Fees, Fines, and Charges for Services	\$ 155,498	\$ 175,555	\$ (20,057)
Operating Grants and Contributions	18,076	5,391	12,685
Capital Grants and Contributions	4,178	48,480	(44,302)
General Revenues			
Property Taxes	270,721	254,537	16,184
Grants and Contributions Not Restricted	143,571	141,232	2,339
Intergovernmental		17,403	(17,403)
Interest Income	2,555	2,930	(375)
Gain on Asset Disposal		11,949	(11,949)
Other	19,703	21,571	(1,868)
Total Revenues	<u>614,302</u>	<u>679,048</u>	<u>(64,746)</u>
EXPENSES			
General Government	138,229	102,703	35,526
Public Safety	155,410	140,157	15,253
Public Works	131,763	155,300	(23,537)
Sanitation	34,186	39,176	(4,990)
Culture and Recreation	30,195	64,709	(34,514)
Interest on Long-Term Debt	25,606	21,366	4,240
Total Expenses	<u>515,389</u>	<u>523,411</u>	<u>(8,022)</u>
Change in Net Position before Transfers	98,913	155,637	(56,724)
TRANSFERS		<u>(44,708)</u>	44,708
Change in Net Position	<u>98,913</u>	<u>110,929</u>	<u>(12,016)</u>
NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY STATED	1,972,962	1,862,033	110,929
PRIOR PERIOD ADJUSTMENT	<u>(78,909)</u>		<u>(78,909)</u>
NET POSITION, BEGINNING OF YEAR, AS RESTATED	<u>1,894,053</u>	<u>1,862,033</u>	<u>32,020</u>
NET POSITION, END OF YEAR	<u>\$ 1,992,966</u>	<u>\$ 1,972,962</u>	<u>\$ 20,004</u>

CITY OF COSMOS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015

Business-Type Activities

The net position of our business-type activities decreased by \$35,559. The decrease was due to the following funds change in net position: Sewer - \$(12,730), and Water - \$(22,829).

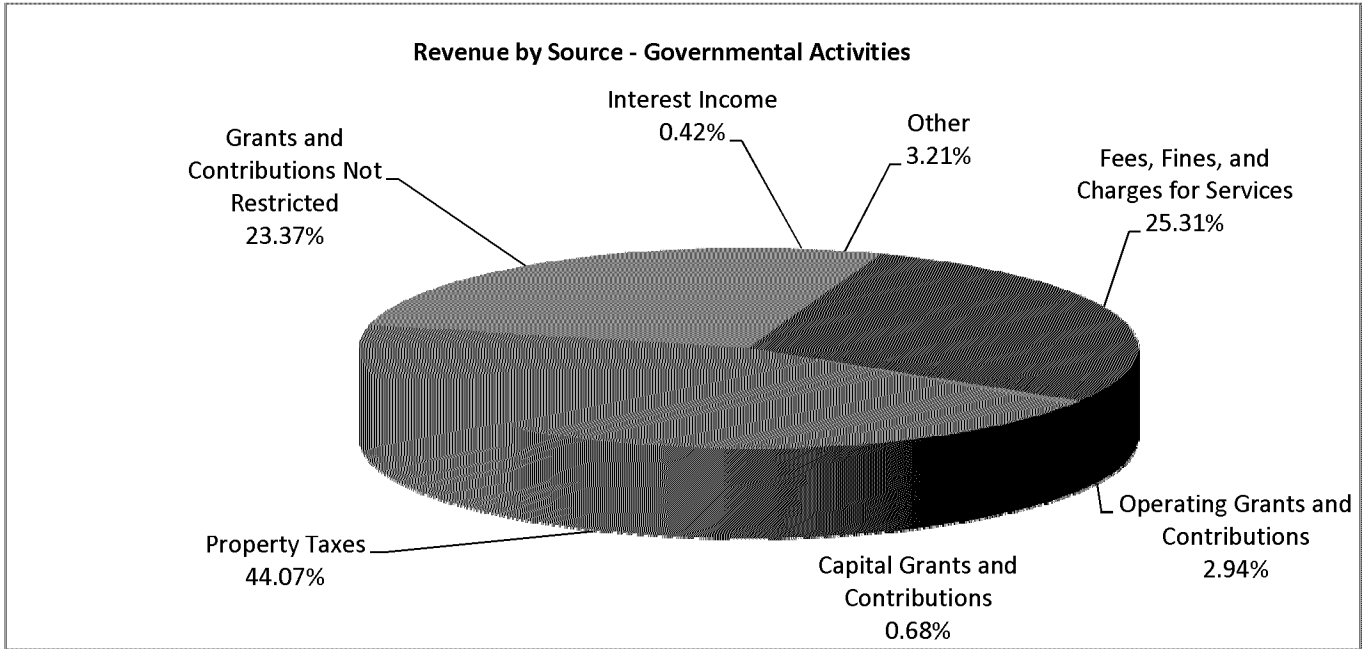
Table 4 Comparative Condensed Statement of Activities			
	<u>Business-Type Activities</u>		Change
	<u>2015</u>	<u>2014</u>	
REVENUES			
Program Revenues			
Fees, Fines, and Charges for Services	\$ 219,914	\$ 222,326	\$ (2,412)
Capital Grants and Contributions	2,124	50	2,074
General Revenues			
Interest Income	504		504
Total Revenues	<u>222,542</u>	<u>222,376</u>	<u>166</u>
EXPENSES			
Sewer	59,301	68,485	(9,184)
Water	177,083	176,677	406
Total Expenses	<u>236,384</u>	<u>245,162</u>	<u>(8,778)</u>
Change in Net Position before Transfers and Contributions	(13,842)	(22,786)	8,944
TRANSFERS			
Change in Net Position	(13,842)	44,708	(44,708)
Change in Net Position	<u>21,922</u>	<u>21,922</u>	<u>(35,764)</u>
NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY STATED	2,163,821	2,141,899	21,922
PRIOR PERIOD ADJUSTMENT	<u>(21,717)</u>		<u>(21,717)</u>
NET POSITION, BEGINNING OF YEAR, AS RESTATED	<u>2,142,104</u>	<u>2,141,899</u>	<u>205</u>
NET POSITION, END OF YEAR	<u>\$ 2,128,262</u>	<u>\$ 2,163,821</u>	<u>\$ (35,559)</u>

CITY OF COSMOS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015

Governmental Activities

Revenues - The following chart visually illustrates the City's revenue by source for its governmental activities:



Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds - The focus of the City's governmental funds is to provide information on near term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$945,764, an increase of \$185,680. Approximately 23 percent of this total (\$217,676) constitutes unassigned fund balance. The remainder of the fund balance (\$728,088) is not available for new spending because it is either 1) nonspendable (\$7,933), 2) restricted (\$338,294) or 3) assigned (\$381,861).

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$217,676. As a measure of the General Fund's liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures. Unassigned fund balance represents 62 percent of the total General Fund expenditures.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The unrestricted net position in the respective proprietary funds are Sewer - \$148,635 and Water - \$47,374.

CITY OF COSMOS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015

General Fund Budgetary Highlights

Over the course of the year, the City of Cosmos City Council did not revise the budget. The General Fund budget included sufficient revenues to cover expenditures predicting an increase in fund balance of \$7,898. Less than expected general government, public safety, and public works spending in addition to a decrease in capital outlay expenditures resulted in a increase in fund balance of \$147,637.

Capital Assets

At the end of 2015, the City of Cosmos had \$7,127,956 invested in a broad range of capital assets. Refer to Note 5 of the Notes to the Financial Statements for a schedule showing the City's capital asset activity.

Long-Term Debt

At year-end, the City of Cosmos had \$1,715,857 in long-term debt, which includes \$631 in compensated absences and \$74,419 in net pension liability for governmental activities and \$19,863 in net pension liability for business-type activities. Refer to Note 7 of the Notes to the Financial Statements for a schedule showing the City's long-term debt activity.

Economic Factors and Next Year's Budget

The City's appointed officials considered many factors when setting the fiscal year 2016 budget, rates, and fees that will be charged by the funds of the City. The major factor accounted for when adopting the General Fund budget was to hold all line items as much as possible to the 2015 final budget.

Contacting the City's Financial Management

This financial report is designed to provide our residents, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the City of Cosmos, Box 614, Cosmos, Minnesota 56228, (320) 877-7345, or cosmoscity@mchsi.com.

BASIC FINANCIAL STATEMENTS

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CITY OF COSMOS, MINNESOTA

STATEMENT OF NET POSITION
DECEMBER 31, 2015

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2014

	Governmental Activities	Business-Type Activities	Totals	
			2015	2014
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Assets				
Cash	\$ 939,322	\$ 203,738	\$ 1,143,060	\$ 928,770
Receivables				
Accounts	15,819	37,568	53,387	55,808
Interest	1,560		1,560	679
Loans				6,451
Delinquent Taxes	24,171		24,171	19,052
Special Assessments	565,638		565,638	641,620
Due from Other Governmental Units	5,909		5,909	27,777
Prepaid Items	7,933	2,969	10,902	13,170
Capital Assets				
Assets Not Being Depreciated	126,530		126,530	79,292
Other Capital Assets, Net of Depreciation	971,917	2,998,197	3,970,114	4,183,582
Total Assets	<u>2,658,799</u>	<u>3,242,472</u>	<u>5,901,271</u>	<u>5,956,201</u>
Deferred Outflows of Resources				
Related to Pensions	<u>11,866</u>	<u>2,784</u>	<u>14,650</u>	
Total Assets and Deferred Outflows of Resources	<u>\$ 2,670,665</u>	<u>\$ 3,245,256</u>	<u>\$ 5,915,921</u>	<u>\$ 5,956,201</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION				
Liabilities				
Accounts Payable	\$ 17,249	\$ 15,419	\$ 32,668	\$ 22,587
Salaries Payable	777	318	1,095	3,411
Due to Other Governmental Units	2,875		2,875	2,512
Accrued Interest Payable	7,139	5,016	12,155	7,297
Customer Deposits	3,878	6,049	9,927	9,927
Noncurrent Liabilities				
Due Within One Year	56,000	92,000	148,000	147,000
Due in More Than One Year	574,050	993,807	1,567,857	1,626,684
Total Liabilities	<u>661,968</u>	<u>1,112,609</u>	<u>1,774,577</u>	<u>1,819,418</u>
Deferred Inflows of Resources				
Related to Pensions	15,731	4,385	20,116	
Net Position				
Net Investment in Capital Assets	543,447	1,932,253	2,475,700	2,490,771
Restricted for				
Debt Service	878,668		878,668	728,223
Capital Improvements				175,071
Revolving Loan	6,391		6,391	12,842
Unrestricted	564,460	196,009	760,469	729,876
Total Net Position	<u>1,992,966</u>	<u>2,128,262</u>	<u>4,121,228</u>	<u>4,136,783</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 2,670,665</u>	<u>\$ 3,245,256</u>	<u>\$ 5,915,921</u>	<u>\$ 5,956,201</u>

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF ACTIVITIES
 YEAR ENDED DECEMBER 31, 2015
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2014

	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals	
							2015	2014
GOVERNMENTAL ACTIVITIES								
General Government	\$ 138,229	\$ 9,349	\$	\$	\$ (128,880)	\$	\$ (128,880)	\$ (98,489)
Public Safety	155,410	81,511	18,076		(55,823)		(55,823)	(70,801)
Public Works	131,763	23,507			(108,256)		(108,256)	(130,556)
Sanitation	34,186	39,329			5,143		5,143	2,737
Culture and Recreation	30,195	1,802		4,178	(24,215)		(24,215)	(10,009)
Interest on Long-Term Debt	25,606				(25,606)		(25,606)	(21,366)
Total Governmental Activities	515,389	155,498	18,076	4,178	(337,637)	0	(337,637)	(328,484)
BUSINESS-TYPE ACTIVITIES								
Sewer	59,301	54,290				(5,011)	(5,011)	(9,760)
Water	177,083	165,624		2,124		(9,335)	(9,335)	(13,026)
Total Business-Type Activities	236,384	219,914	0	2,124	0	(14,346)	(14,346)	(22,786)
Total	\$ 751,773	\$ 375,412	\$ 18,076	\$ 6,302	(337,637)	(14,346)	(351,983)	(351,270)
GENERAL REVENUES								
Property Taxes					270,721		270,721	254,537
Grants and Contributions not Restricted to Specific Programs					143,571		143,571	141,232
Interest Income					2,555	504	3,059	2,930
Gain on Asset Disposal								11,949
Other					19,703		19,703	21,471
Total General Revenues and Transfers					436,550	504	437,054	432,119
Change in Net Position					98,913	(13,842)	85,071	80,849
NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY STATED					1,972,962	2,163,821	4,136,783	4,055,934
PRIOR PERIOD ADJUSTMENT					(78,909)	(21,717)	(100,626)	
NET POSITION, BEGINNING OF YEAR, AS RESTATED					1,894,053	2,142,104	4,036,157	4,055,934
NET POSITION, END OF YEAR					\$ 1,992,966	\$ 2,128,262	\$ 4,121,228	\$ 4,136,783

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015
WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2014

	General	Trash Collection	Redevelopment Revolving Loan	2011A G.O. Improvement	2013A G.O. Improvement	Building Reserve	Totals	
							2015	2014
ASSETS								
Assets								
Cash	\$ 441,036	\$ 14,684	\$ 6,391	\$	\$ 331,788	\$ 145,423	\$ 939,322	\$ 734,419
Receivables								
Accounts	8,412	7,292			115		15,819	18,420
Interest	1,560						1,560	679
Loans								6,451
Delinquent Taxes	24,171						24,171	19,052
Special Assessments	163			11,571	553,904		565,638	641,620
Due from Other Funds								13,830
Due from Other Governmental Units	5,909						5,909	27,777
Prepaid Items	7,871	62					7,933	10,201
Total Assets	\$ 489,122	\$ 22,038	\$ 6,391	\$ 11,571	\$ 885,807	\$ 145,423	\$ 1,560,352	\$ 1,472,449
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE								
Liabilities								
Accounts Payable	\$ 10,238	\$ 3,044	\$	\$	\$	\$ 3,967	\$ 17,249	\$ 22,283
Salaries Payable	777						777	2,739
Due to Other Funds								13,830
Due to Other Governmental Units	2,875						2,875	2,512
Customer Deposits		3,878					3,878	3,878
Total Liabilities	13,890	6,922	0	0	0	3,967	24,779	45,242
Deferred Inflows of Resources								
Unavailable Revenue								
Loans								6,451
Delinquent Taxes	24,171						24,171	19,052
Special Assessments	163			11,571	553,904		565,638	641,620
Total Deferred Inflows of Resources	24,334	0	0	11,571	553,904	0	589,809	667,123
Fund Balance								
Nonspendable								
	7,871	62					7,933	10,201
Restricted								
Capital Improvements								175,071
Debt Service					331,903		331,903	110,697
Revolving Loan			6,391				6,391	6,391
Assigned								
Fund Operations		15,054				141,456	156,510	
Equipment	74,000						74,000	
Fire	151,351						151,351	
Unassigned								
	217,676						217,676	279,408
Total Fund Balance	450,898	15,116	6,391	0	331,903	141,456	945,764	760,084
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 489,122	\$ 22,038	\$ 6,391	\$ 11,571	\$ 885,807	\$ 145,423	\$ 1,560,352	\$ 1,472,449

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2015
WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2014

	<u>2015</u>	<u>2014</u>
Total Fund Balances - Governmental Funds	\$ 945,764	\$ 760,084
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 the governmental funds.		
Governmental Capital Assets	2,819,837	2,765,446
Less: Accumulated Depreciation	(1,721,390)	(1,606,372)
Certain receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.		
Loans Receivable		6,451
Delinquent Taxes	24,171	19,052
Special Assessments	565,638	641,620
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred Outflows of Resources Related to Pensions	11,866	
Deferred Inflows of Resources Related to Pensions	(15,731)	
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Bonds and Notes Payable	(555,000)	(610,000)
Compensated Absences	(631)	(1,581)
Net Pension Liability	(74,419)	
Accrued Interest Payable	(7,139)	(1,738)
Total Net Position - Governmental Activities	<u>\$ 1,992,966</u>	<u>\$ 1,972,962</u>

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 YEAR ENDED DECEMBER 31, 2015
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2014

	General	Trash Collection	Redevelopment Revolving Loan	2011A	2013A	Public Works Reserve	Building Reserve	2013	Totals	
				G.O. Improvement	G.O. Improvement			Improvement Project	2015	2014
REVENUES										
Taxes	\$ 265,602	\$	\$	\$	\$	\$	\$	\$	\$ 265,602	\$ 245,609
Special Assessments				9,914	89,575				99,489	51,605
Licenses and Permits	8,933								8,933	4,214
Intergovernmental	175,083								175,083	164,234
Charges for Services	83,313	39,329							122,642	148,179
Fines and Forfeits	416								416	217
Interest Income	1,096						1,459		2,555	2,930
Refunds and Reimbursements	9,050								9,050	13,632
Donations	3,100						4,178		7,278	48,505
Miscellaneous	568								568	7,489
Total Revenues	547,161	39,329	0	9,914	89,575	0	5,637	0	691,616	686,614
EXPENDITURES										
Current										
General Government	137,492								137,492	125,705
Public Safety	94,870								94,870	132,175
Public Works	67,320							340	67,660	90,869
Sanitation		34,186							34,186	39,176
Culture and Recreation	39,061								39,061	39,868
Debt Service										
Principal				29,000	26,000				55,000	28,000
Interest and Fiscal Charges				3,105	17,100				20,205	21,429
Capital Outlay										
General Government										2,793
Public Safety	6,000								6,000	92,259
Public Works										11,198
Culture and Recreation	3,760						47,702		51,462	31,088
Total Expenditures	348,503	34,186	0	32,105	43,100	0	47,702	340	505,936	614,560
Excess (Deficiency) of Revenues Over (Under) Expenditures	198,658	5,143	0	(22,191)	46,475	0	(42,065)	(340)	185,680	72,054
OTHER FINANCING SOURCES (USES)										
Transfers In				36,021	174,731		115,055		325,807	49,470
Transfers Out	(51,021)					(100,055)		(174,731)	(325,807)	(94,178)
Sale of Assets										11,949
Total Other Financing Sources (Uses)	(51,021)	0	0	36,021	174,731	(100,055)	115,055	(174,731)	0	(32,759)
Net Change in Fund Balances	147,637	5,143	0	13,830	221,206	(100,055)	72,990	(175,071)	185,680	39,295
FUND BALANCE, BEGINNING OF YEAR, AS ORIGINALLY STATED	303,261	9,973	6,391	(13,830)	110,697	100,055	68,466	175,071	760,084	541,790
PRIOR PERIOD ADJUSTMENT										178,999
FUND BALANCE, BEGINNING OF YEAR, AS RESTATED	303,261	9,973	6,391	(13,830)	110,697	100,055	68,466	175,071	760,084	720,789
FUND BALANCE, END OF YEAR	\$ 450,898	\$ 15,116	\$ 6,391	\$ 0	\$ 331,903	\$ 0	\$ 141,456	\$ 0	\$ 945,764	\$ 760,084

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>2015</u>	<u>2014</u>
Total Net Change in Fund Balances - Governmental Funds	\$ 185,680	\$ 39,295
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are reported in the governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.		
Capital Outlay	67,137	137,338
Depreciation Expense	(117,843)	(118,333)
Gain (Loss) on Asset Disposals	(9,921)	(7,472)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Loans Receivable	(6,451)	
Delinquent Taxes	5,119	8,928
Special Assessments	(75,982)	(28,444)
In the Statement of Activities, certain operating expenses - compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).		
Compensated Absences	950	(449)
Net Pension Liability	625	
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		
Principal Retirement of Long-Term Debt	55,000	28,000
Change in Accrued Interest Payable	<u>(5,401)</u>	<u>64</u>
Change in Net Position - Governmental Activities	<u>\$ 98,913</u>	<u>\$ 58,927</u>

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2015
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2014

	2015			Over (Under) Final Budget	2014
	Budgeted Amounts		Actual		Actual
	Original	Final			
REVENUES					
Taxes	\$ 268,977	\$ 268,977	\$ 265,602	\$ (3,375)	\$ 245,609
Special Assessments	4,500	4,500		(4,500)	
Licenses and Permits	5,750	5,750	8,933	3,183	4,214
Intergovernmental	158,665	158,665	175,083	16,418	164,234
Charges for Services	66,855	66,855	83,313	16,458	106,267
Fines and Forfeits	500	500	416	(84)	217
Interest Income	1,000	1,000	1,096	96	2,910
Refunds and Reimbursements	2,000	2,000	9,050	7,050	13,632
Donations	500	500	3,100	2,600	25
Miscellaneous	1,500	1,500	568	(932)	7,489
Total Revenues	<u>510,247</u>	<u>510,247</u>	<u>547,161</u>	<u>36,914</u>	<u>544,597</u>
EXPENDITURES					
Current					
General Government	166,338	166,338	137,492	(28,846)	125,705
Public Safety	100,331	100,331	94,870	(5,461)	132,175
Public Works	96,647	96,647	67,320	(29,327)	90,869
Culture and Recreation	36,220	36,220	39,061	2,841	39,868
Capital Outlay					
General Government	15,000	15,000		(15,000)	2,793
Public Safety	15,000	15,000	6,000	(9,000)	92,259
Public Works	20,000	20,000		(20,000)	11,198
Culture and Recreation	3,500	3,500	3,760	260	6,962
Total Expenditures	<u>453,036</u>	<u>453,036</u>	<u>348,503</u>	<u>(104,533)</u>	<u>501,829</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	57,211	57,211	198,658	141,447	42,768
OTHER FINANCING SOURCES (USES)					
Transfers Out	(49,313)	(49,313)	(51,021)	(1,708)	(94,178)
Sale of Assets					11,949
Total Other Financing Sources (Uses)	<u>(49,313)</u>	<u>(49,313)</u>	<u>(51,021)</u>	<u>(1,708)</u>	<u>(82,229)</u>
Net Change in Fund Balances	<u>\$ 7,898</u>	<u>\$ 7,898</u>	<u>147,637</u>	<u>\$ 139,739</u>	<u>(39,461)</u>
FUND BALANCE, BEGINNING OF YEAR, AS ORIGINALLY STATED					
			303,261		163,723
PRIOR PERIOD ADJUSTMENT					
					178,999
FUND BALANCE, BEGINNING OF YEAR, AS RESTATED					
			303,261		342,722
FUND BALANCE, END OF YEAR					
			<u>\$ 450,898</u>		<u>\$ 303,261</u>

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 TRASH COLLECTION SPECIAL REVENUE FUND
 YEAR ENDED DECEMBER 31, 2015
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2014

	2015			Over (Under) Final Budget	2014
	Budgeted Amounts		Actual		Actual
	Original	Final			
REVENUES					
Charges for Services	\$ 40,000	\$ 40,000	\$ 39,329	\$ (671)	\$ 41,912
Interest Income					16
Total Revenues	<u>40,000</u>	<u>40,000</u>	<u>39,329</u>	<u>(671)</u>	<u>41,928</u>
EXPENDITURES					
Current					
Sanitation	<u>39,000</u>	<u>39,000</u>	<u>34,186</u>	<u>(4,814)</u>	<u>39,176</u>
Net Change in Fund Balances	<u>\$ 1,000</u>	<u>\$ 1,000</u>	5,143	<u>\$ 4,143</u>	2,752
FUND BALANCE, BEGINNING OF YEAR			<u>9,973</u>		<u>7,221</u>
FUND BALANCE, END OF YEAR			<u>\$ 15,116</u>		<u>\$ 9,973</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 REDEVELOPMENT REVOLVING LOAN SPECIAL REVENUE FUND
 YEAR ENDED DECEMBER 31, 2015
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2014

	2015			Over (Under) Final Budget	2014
	Budgeted Amounts		Actual		Actual
	Original	Final			
REVENUES	\$	\$	\$	\$	\$
EXPENDITURES					
Net Change in Fund Balances	<u>\$ 0</u>	<u>\$ 0</u>	0	<u>\$ 0</u>	0
FUND BALANCE, BEGINNING OF YEAR			<u>6,391</u>		<u>6,391</u>
FUND BALANCE, END OF YEAR			<u>\$ 6,391</u>		<u>\$ 6,391</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 DECEMBER 31, 2015

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2014

	Business-Type Activities - Enterprise Funds			
	Sewer	Water	Totals	
			2015	2014
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Assets				
Current Assets				
Cash	\$ 150,780	\$ 52,958	\$ 203,738	\$ 194,351
Accounts Receivable	8,536	29,032	37,568	37,388
Prepaid Items	1,096	1,873	2,969	2,969
Total Current Assets	160,412	83,863	244,275	234,708
Noncurrent Assets				
Capital Assets				
Other Capital Assets, Net of Depreciation	243,855	2,754,342	2,998,197	3,103,800
Total Assets	404,267	2,838,205	3,242,472	3,338,508
Deferred Outflows of Resources				
Related to Pensions	1,044	1,740	2,784	
Total Assets and Deferred Outflows of Resources	<u>\$ 405,311</u>	<u>\$ 2,839,945</u>	<u>\$ 3,245,256</u>	<u>\$ 3,338,508</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION				
Liabilities				
Current Liabilities				
Accounts Payable	\$ 1,394	\$ 14,025	\$ 15,419	\$ 304
Salaries Payable	159	159	318	672
Accrued Interest Payable		5,016	5,016	5,559
Customer Deposits	2,175	3,874	6,049	6,049
Current Portion of Note Payable		92,000	92,000	92,000
Total Current Liabilities	3,728	115,074	118,802	104,584
Noncurrent Liabilities				
Note Payable, Net of Current Portion		973,944	973,944	1,070,103
Net Pension Liability	7,449	12,414	19,863	
Total Noncurrent Liabilities	7,449	986,358	993,807	1,070,103
Total Liabilities	11,177	1,101,432	1,112,609	1,174,687
Deferred Inflows of Resources				
Related to Pensions	1,644	2,741	4,385	
Net Position				
Net Investment in Capital Assets	243,855	1,688,398	1,932,253	1,941,697
Unrestricted	148,635	47,374	196,009	222,124
Total Net Position	392,490	1,735,772	2,128,262	2,163,821
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 405,311</u>	<u>\$ 2,839,945</u>	<u>\$ 3,245,256</u>	<u>\$ 3,338,508</u>

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

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

YEAR ENDED DECEMBER 31, 2015

WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2014

	Business-Type Activities - Enterprise Funds			
	Sewer	Water	Totals	
			2015	2014
OPERATING REVENUES				
Sewer Charges	\$ 54,290	\$	\$ 54,290	\$ 58,675
Water Charges		165,624	165,624	163,651
Total Operating Revenues	<u>54,290</u>	<u>165,624</u>	<u>219,914</u>	<u>222,326</u>
OPERATING EXPENSES				
Salaries and Benefits	11,122	15,273	26,395	28,832
Insurance	3,480	4,103	7,583	8,933
Supplies	18,684	4,509	23,193	21,550
Maintenance and Repair	4,282	11,297	15,579	26,306
Testing				1,959
Electricity	1,715	9,206	10,921	9,448
Telephone		470	470	463
Miscellaneous	1,163	3,781	4,944	7,082
Depreciation	18,855	113,116	131,971	124,248
Total Operating Expenses	<u>59,301</u>	<u>161,755</u>	<u>221,056</u>	<u>228,821</u>
Operating Income (Loss)	<u>(5,011)</u>	<u>3,869</u>	<u>(1,142)</u>	<u>(6,495)</u>
NONOPERATING REVENUES (EXPENSES)				
Interest Income	425	79	504	
Other Income		2,124	2,124	50
Interest Expense		(15,328)	(15,328)	(16,341)
Total Nonoperating				
Revenues (Expenses)	<u>425</u>	<u>(13,125)</u>	<u>(12,700)</u>	<u>(16,291)</u>
Income (Loss) Before Transfers	<u>(4,586)</u>	<u>(9,256)</u>	<u>(13,842)</u>	<u>(22,786)</u>
TRANSFERS				
Transfers In				102,701
Transfers Out				(57,993)
Total Transfers	<u>0</u>	<u>0</u>	<u>0</u>	<u>44,708</u>
Change in Net Position	<u>(4,586)</u>	<u>(9,256)</u>	<u>(13,842)</u>	<u>21,922</u>
NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY STATED				
	405,220	1,758,601	2,163,821	2,141,899
PRIOR PERIOD ADJUSTMENT				
	<u>(8,144)</u>	<u>(13,573)</u>	<u>(21,717)</u>	
NET POSITION, BEGINNING OF YEAR, AS RESTATED				
	<u>397,076</u>	<u>1,745,028</u>	<u>2,142,104</u>	<u>2,141,899</u>
NET POSITION, END OF YEAR				
	<u>\$ 392,490</u>	<u>\$ 1,735,772</u>	<u>\$ 2,128,262</u>	<u>\$ 2,163,821</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2015

WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2014

	Business-Type Activities - Enterprise Funds			
	Sewer	Water	Totals	
			2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$ 54,506	\$ 165,228	\$ 219,734	\$ 234,897
Payments to Suppliers	(21,701)	(1,956)	(23,657)	(59,144)
Payments to Other Sources	(6,358)	(17,560)	(23,918)	(28,807)
Payments to Employees	(11,327)	(15,675)	(27,002)	(28,465)
Net Cash Provided (Used) by Operating Activities	15,120	130,037	145,157	118,481
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers In (Out)				44,708
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Other Receipts		2,124	2,124	50
Proceeds from Note Payable				19,344
Principal Payments on Note Payable		(96,159)	(96,159)	(90,032)
Interest Payments on Note Payable		(15,871)	(15,871)	(16,478)
Acquisition of Capital Assets		(26,368)	(26,368)	(104,616)
Net Cash Provided (Used) by Capital and Related Financing Activities	0	(136,274)	(136,274)	(191,732)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest Income	425	79	504	
Net Increase (Decrease) in Cash and Cash Equivalents	15,545	(6,158)	9,387	(28,543)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	135,235	59,116	194,351	222,894
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 150,780</u>	<u>\$ 52,958</u>	<u>\$ 203,738</u>	<u>\$ 194,351</u>

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2015

WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2014

	Business-Type Activities - Enterprise Funds			
	Sewer	Water	Totals	
			2015	2014
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES				
Operating Income (Loss)	\$ (5,011)	\$ 3,869	\$ (1,142)	\$ (6,495)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Depreciation	18,855	113,116	131,971	124,248
Pension Related Adjustments	(95)	(158)	(253)	
(Increase) Decrease in Assets				
Accounts Receivable	216	(396)	(180)	(2,854)
Due from Other Governments				15,425
Prepaid Items				(922)
Increase (Decrease) in Liabilities				
Accounts Payable	1,265	13,850	15,115	(11,288)
Salaries Payable	(110)	(244)	(354)	367
Net Cash Provided (Used) by Operating Activities	<u>\$ 15,120</u>	<u>\$ 130,037</u>	<u>\$ 145,157</u>	<u>\$ 118,481</u>

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CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The City of Cosmos, Minnesota, is a statutory city governed by an elected mayor and four council members. The accompanying financial statements present the government entities for which the government is considered to be financially accountable.

The financial statements present the City and its component units. The City includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate from such. Component units are legally separate entities for which the City is financially accountable, or for which the exclusion of the component unit would render the financial statements of the City misleading.

The criteria used to determine if the City is financially accountable for a component unit includes whether or not 1) the City appoints the voting majority of the potential component unit's governing body and is able to impose its will on the potential component unit or is in a relationship of financial benefit or burden with the potential component unit, or 2) the potential component unit is fiscally dependent on and there is a potential for the potential component unit to provide specific financial benefits to, or impose specific financial burdens on, the City.

As a result of applying the component unit definition criteria above, one organization has been defined and is presented in this report as follows:

Blended Component Unit - Reported as if they were part of the City.

From the category above, the specific entity is identified as follows:

Blended Component Unit

The Cosmos Economic Development Authority (EDA) is a legal entity separate from the City. Although legally separate, the Cosmos EDA is reported as if it were part of the primary government because it provides services exclusively for the City. Separate financial statements are not prepared for the Cosmos EDA.

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. 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.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Cont'd)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 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.

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. 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, special assessments, intergovernmental revenue, charges for services, 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. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

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

The Trash Collection Special Revenue Fund is used to account for the user charges received and expenditures in relation to trash collection.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION
(Cont'd)

The Redevelopment Revolving Loan Special Revenue Fund is used to account for the accumulation of revenues and expenditures for redevelopment loans.

The 2011A G.O. Improvement Debt Service Fund is used to account for the accumulation of resources for, and the payment of the debt principal, interest, and related costs.

The 2013A G.O. Improvement Debt Service Fund is used to account for the accumulation of resources for, and the payment of the debt principal, interest, and related costs.

The Public Works Reserve Capital Projects Fund is used to account for the financial resources to be used for capital improvements.

The Building Reserve Capital Projects Fund is used to account for the financial resources to be used for building rehabilitation, construction, and demolition.

The 2013 Improvement Project Capital Projects Fund is used to account for the financial resources to be used for the construction of the street, watermain and sewermain project.

The City reports the following major enterprise funds:

The Sewer Fund accounts for the operations of the City's sewer utility.

The Water Fund accounts for the operations of the City's water utility.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's utility functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the 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.

It is generally the City's policy to use restricted resources first, then unrestricted resources as they are needed when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

The City's cash and cash equivalents are considered to be cash on hand, deposits and highly liquid debt instruments purchased with original maturities of three months or less from the date of acquisition.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

D. DEPOSITS AND INVESTMENTS

The City may invest in the following types of investments as authorized by Minn. Stat. §§118A.04 and 118A.05:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. §118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) time deposits that are fully insured by the Federal Deposit Insurance Corporation or bankers acceptances of United States bank;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Cash was comprised of deposits and non-negotiable certificates of deposits.

The City does not have an investment policy in place.

Custodial Credit Risk - Deposits: For deposits, this is the risk that in the event of bank failure, the City's deposits may not be returned to it. Minnesota Statutes require all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent.

Authorized collateral includes the obligations of the U.S. Treasury, agencies, and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, futures contracts, repurchase and reverse repurchase agreements, and commercial paper of the highest quality with a maturity of no longer than 270 days, as well as certain first mortgage notes, and certain other state or local government obligations. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the City treasurer or in a financial institution other than that furnishing the collateral.

The City does not have a policy that further limits its collateral choices.

Interest Rate Risk: This is the risk that market values of securities in a portfolio would decrease due to changes in market interest rates.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

D. DEPOSITS AND INVESTMENTS (Cont'd)

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. Investments should be diversified to avoid incurring unreasonable risk inherent in over investing in specific instruments, individual financial institutions or maturities.

Custodial Credit Risk - Investments: For an investment, this is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

E. 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 noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown at a gross amount since both are assessable to the property taxes and are collectible upon the sale of property.

The City levies its property tax for the subsequent year during the month of December. December 30th is the last day the City can certify a tax levy to the County Auditor for collection the following year. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. The property tax is recorded as revenue when it becomes measurable and available. Meeker County is the collecting agency for the levy and remits the collections to the City three times a year. The tax levy notice is mailed in March with the first half payment due on May 15 and the second half payment due on October 15. Taxes not collected as of December 31 each year are shown as delinquent taxes receivable.

The County Auditor prepares the tax list for all taxable property in the City, applying the applicable tax rate to the tax capacity of individual properties, to arrive at the actual tax for each property. The County Auditor also collects all special assessments, except for certain prepayments paid directly to the City.

The County Auditor submits the list of taxes and special assessments to be collected on each parcel of property to the County Treasurer in January of each year.

F. PREPAID ITEMS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

G. CAPITAL ASSETS

Capital assets, both tangible and intangible, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years.

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. 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. During the current period, the City did not have any capitalized interest.

Tangible and intangible assets are capitalized when acquired, and depreciation is provided using the straight-line method applied over their estimated useful lives of the assets. Useful lives vary from 7 to 40 years for buildings and improvements other than buildings, and 3 to 15 years for machinery and equipment.

Capital assets not being depreciated include land and construction in progress, if any.

The City does not possess any material amounts of intangible capital assets.

H. DEFERRED OUTFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represents a consumption of net position that applies to a future reporting period. During that future period, it will be recognized as an outflow of resources (expense/expenditure). The City has one item that qualifies for reporting in this category on the government-wide and proprietary fund Statement of Net Position which is related to pensions.

I. UNEARNED REVENUE

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and certain other payments received before eligibility requirements are met are also recorded as unearned revenue.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

J. COMPENSATED ABSENCES

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated compensatory time balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability for compensated absences is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are accrued when incurred in the government-wide financial statements. The government-wide Statement of Net Position reports both current and noncurrent portions of compensated absences using full accrual accounting. The current portion consists of an amount based on expected or known retirements coming in the next fiscal year. The noncurrent portion consists of the remaining amount of total compensatory time.

Full-time, permanent City employees earn vacation days based upon the number of completed years of service. The City does not compensate employees for unused vacation upon termination of employment. Accordingly, the expenditure for vacation is recognized when taken. Employees are entitled to paid sick leave at the rate of one day per month up to a total of 800 hours. Employees are not compensated for unused sick leave upon termination of employment. Sick pay is recorded as an expenditure when payment is made. The City has no severance pay plan in which the employees are vested. Employees are eligible for compensatory time. Employees are compensated for unused compensatory time upon termination of employment.

K. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Employees of the City pay health care premiums based on their age and level of coverage. Since the insurance rate is based on age, the City does not have an implicit rate subsidy factor in postemployment health care expenses. Additionally, Minnesota Statutes require the City to allow retired employees to stay on the health care plan with the retiree responsible to pay the entire premium for continuation coverage. The City's personnel policy does not provide for any contributions upon employee retirement.

L. PENSIONS

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The City has elected not to report the pension related items for the City's Fire Relief Association.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

M. 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.

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.

N. DEFERRED INFLOWS OF RESOURCES

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represents an acquisition of net position that applies to a future reporting period. During that future period, it will be recognized as an inflow of resources (revenue). The City has items that qualify for reporting in this category on both the government-wide and proprietary fund Statement of Net Position and the governmental fund financial statements related to property taxes, special assessments and pensions.

O. FUND BALANCE

In the governmental 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 governmental funds. These classifications are as follows:

Nonspendable - consists of amounts that cannot be spent because it is not in spendable form or are legally or contractually required to be maintained intact, such as inventories and prepaid items.

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

Committed - consists of amounts that are constrained for specific purposes that are internally imposed by formal action of the City Council. Those committed amounts cannot be used for any other purpose unless the Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. These constraints are established by Resolution of the City Council.

Assigned - consists of amounts intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to City Council Resolution, the City Clerk/Treasurer is authorized to establish assignments of fund balance.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

O. FUND BALANCE (Cont'd)

Unassigned - is the residual classification for the General Fund and also reflects negative residual amounts in the remaining governmental funds.

The City uses 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.

P. NET POSITION

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources in the government-wide and proprietary fund financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide and proprietary fund financial statements when there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted net position consists of all other net position that does not meet the definition of restricted or net investment in capital assets.

Q. USE OF ESTIMATES

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

R. PRIOR YEAR INFORMATION

The basic financial statements include certain prior-year partial comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended December 31, 2014, from which the partial information was derived.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

The City Council adopts an annual budget. The amounts shown in the financial statements as "budget" represent to original budgeted amounts and all the revisions made during the year. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Budget requests are submitted by all department heads to the City Clerk. The City Clerk compiles the budget requests into an overall preliminary City budget. The City Clerk presents the proposed budget to the City Council.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Cont'd)

A. BUDGETARY INFORMATION (Cont'd)

2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution after obtaining taxpayer comments. The budget resolution adopted by the City Council sets forth the budgets at the function level for the General and Special Revenue Funds.
4. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Expenditures may not legally exceed budgeted appropriations at the department level. No fund's budget can be increased without City Council approval. The City Council may authorize transfer of budgeted amounts between departments within any fund. Management may amend budgets within a department level, so long as the total department budget is not changed.
6. Annual appropriated budgets are adopted during the year for the General and Special Revenue Funds. Annual appropriated budgets are not adopted for Debt Service Funds because effective budgetary control is alternatively achieved through bond indenture provisions. Budgetary control for Capital Projects Funds is accomplished through the use of project controls and formal appropriated budgets are not adopted.
7. Budgeted amounts are as originally adopted or as amended by the City Council. Individual amendments were not material in relation to the original amounts budgeted. Budgeted expenditure appropriations lapse at year-end.

Encumbrances outstanding at year-end expire and outstanding purchase orders are canceled and not reported in the financial statements.

NOTE 3. DEPOSITS

In accordance with applicable Minnesota Statutes, the City maintains deposits at depository banks authorized by the City Council.

Custodial Credit Risk - Deposits: As of December 31, 2015, the City's bank balances were not exposed to custodial credit risk because they were fully insured through the FDIC as well as collateralized with securities held by the pledging financial institution's trust department or agent and in the City's name.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 3. DEPOSITS (Cont'd)

Cash is as follows:

	<u>Book Balance</u>
Pooled Cash in Checking Account	\$ 119,533
Pooled Cash in Savings Account	162,460
Non-Negotiable Certificates of Deposit	845,000
Special Purpose Bank Accounts	
Fire-Checking	8,833
Building Fund	7,171
Petty Cash	<u>63</u>
Total Cash	<u><u>\$ 1,143,060</u></u>

NOTE 4. RECEIVABLES

Receivables are as follows:

	<u>Total Receivables</u>	<u>Amounts not Scheduled for Collection During the Subsequent Year</u>
<u>Governmental Activities</u>		
Accounts	\$ 15,819	\$
Interest	1,560	
Delinquent Taxes	24,171	
Special Assessments	<u>565,638</u>	<u>522,786</u>
Total Governmental Activities	<u><u>\$ 607,188</u></u>	<u><u>\$ 522,786</u></u>
 <u>Business-Type Activities</u>		
Accounts	<u><u>\$ 37,568</u></u>	<u><u>\$ 0</u></u>

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year was as follows:

Governmental Activities	Beginning Balance	Increase	Decrease	Ending Balance
Capital Assets, Not Being Depreciated				
Land	\$ 55,166	\$ 22,032	\$	\$ 77,198
Construction in Progress	24,126	25,206		49,332
Total Capital Assets, Not Being Depreciated	79,292	47,238	0	126,530
Capital Assets, Being Depreciated				
Buildings	166,235			166,235
Improvements Other than Buildings	1,564,365	6,000		1,570,365
Machinery and Equipment	955,554	13,899	(12,746)	956,707
Total Capital Assets Being Depreciated	2,686,154	19,899	(12,746)	2,693,307
Less Accumulated Depreciation for				
Buildings	126,335	5,003		131,338
Improvements Other than Buildings	918,627	46,729		965,356
Machinery and Equipment	561,410	66,111	(2,825)	624,696
Total Accumulated Depreciation	1,606,372	117,843	(2,825)	1,721,390
Total Capital Assets, Being Depreciated, Net	1,079,782	(97,944)	(9,921)	971,917
Governmental Activities Net Capital Assets	<u>\$ 1,159,074</u>	<u>\$ (50,706)</u>	<u>\$ (9,921)</u>	<u>\$ 1,098,447</u>
Business-Type Activities	Beginning Balance	Increase	Decrease	Ending Balance
Capital Assets, Being Depreciated				
Buildings	\$ 1,304,852	\$	\$	\$ 1,304,852
Improvements Other than Buildings	2,888,880	26,368		2,915,248
Machinery and Equipment	88,019			88,019
Total Capital Assets, Being Depreciated	4,281,751	26,368	0	4,308,119

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 5. CAPITAL ASSETS (Cont'd)

Business-Type Activities (Cont'd)	Beginning Balance	Increase	Decrease	Ending Balance
Less Accumulated Depreciation for				
Buildings	\$ 510,151	\$ 38,309	\$	\$ 548,460
Improvements Other than Buildings	641,591	87,120		728,711
Machinery and Equipment	26,209	6,542		32,751
Total Accumulated Depreciation	1,177,951	131,971	0	1,309,922
Total Capital Assets, Being Depreciated, Net	3,103,800	(105,603)	0	2,998,197
 Business-Type Activities Net Capital Assets	 \$ 3,103,800	 \$ (105,603)	 \$ 0	 \$ 2,998,197

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
General Government	\$ 1,324
Public Safety	60,557
Public Works	54,672
Culture and Recreation	1,290
Total Depreciation Expense - Governmental Activities	\$ 117,843
Business-Type Activities	
Sewer	\$ 18,855
Water	113,116
Total Depreciation Expense - Business-Type Activities	\$ 131,971

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A. INTERFUND TRANSFERS

The composition of interfund transfers for the year is as follows:

	Transfer In			Total
	2011A G.O. Improvement	2013A G.O. Improvement	Building Reserve	
Transfer Out				
General	\$ 36,021	\$	\$ 15,000	\$ 51,021
Public Works Reserve			100,055	100,055
2013 Improvement Project		174,731		174,731
Total	<u>\$ 36,021</u>	<u>\$ 174,731</u>	<u>\$ 115,055</u>	<u>\$ 325,807</u>

The purpose of the above transfers was to cover prior costs incurred on demolition projects, help cover bond payments and to close out the 2013 Improvement Project Capital Projects Fund.

NOTE 7. LONG-TERM DEBT

A. GENERAL OBLIGATION BONDS

The City issues General Obligation (G.O.) Bonds to provide financing for street improvements and facility construction. Debt service is covered respectively by special assessments and property taxes against benefited properties with any shortfalls being paid from general taxes.

G.O. Bonds are direct obligations and pledge the full faith and credit of the City. G.O. Bonds generally are issued as 15 year Serial Bonds with equal debt service payments each year.

B. COMPONENTS OF LONG-TERM DEBT

	Interest Rates	Final Maturity Date	Balance Outstanding
<u>Governmental Activities</u>			
G.O. Improvement Note, Series 2011A	2.70%	12/01/2018	\$ 93,000
G.O. Improvement Note, Series 2013A	3.60%	02/01/2029	462,000
Compensated Absences			631
Net Pension Liability			74,419
Total Governmental Activities			<u>\$ 630,050</u>

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 7. LONG-TERM DEBT (Cont'd)

B. COMPONENTS OF LONG-TERM DEBT (Cont'd)

	Interest Rates	Final Maturity Date	Balance Outstanding
<u>Business-Type Activities</u>			
G.O. Revenue Note - Water Treatment Plant	1.720%	08/20/2024	\$ 466,706
G.O. Revenue Note - Water Tower	1.092%	08/20/2027	336,000
G.O. Revenue Note - Looping	1.00%	08/20/2029	176,000
G.O. Improvement Note, Series 2013A	*	*	87,238
Net Pension Liability			19,863
			<u>1,085,807</u>
Total Business-Type Activities			<u>\$ 1,085,807</u>

* - Final details not known until the related project is complete.

Debt service funds are used to liquidate the governmental activities outstanding notes payable. The General Fund has historically been used to liquidate the outstanding governmental activities compensated absences.

The G.O. Revenue Notes were issued to finance the construction of infrastructure for water and wastewater treatment. Revenues of the Water and Sewer Funds are pledged to cover repayment of the G.O. Revenue Notes.

C. MINIMUM DEBT PAYMENTS

Annual debt service requirements to maturity for all notes outstanding are as follows:

Year Ending December 31	Governmental Activities			
	G.O. Improvement Note, Series 2011A		G.O. Improvement Note, Series 2013A	
	Principal	Interest	Principal	Interest
2016	\$ 30,000	\$ 2,309	\$ 26,000	\$ 16,164
2017	31,000	1,498	27,000	15,210
2018	32,000	648	28,000	14,220
2019			29,000	13,194
2020			30,000	12,132
2021-2025			166,000	43,452
2026-2030			156,000	11,484
	<u>\$ 93,000</u>	<u>\$ 4,455</u>	<u>\$ 462,000</u>	<u>\$ 125,856</u>

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 7. LONG-TERM DEBT (Cont'd)

C. MINIMUM DEBT PAYMENTS (Cont'd)

Year Ending December 31	Business-Type Activities	
	G.O. Revenue Notes	
	Principal	Interest
2016	\$ 86,000	\$ 13,458
2017	88,000	12,228
2018	89,000	10,968
2019	90,000	9,694
2020	92,000	8,402
2021-2025	422,706	21,834
2026-2029	111,000	2,272
	<u>\$ 978,706</u>	<u>\$ 78,856</u>

D. CHANGES IN LONG-TERM LIABILITIES

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
G.O. Improvement Notes	\$ 122,000	\$	\$ (29,000)	\$ 93,000	\$ 30,000
G.O. Improvement Bonds	488,000		(26,000)	462,000	26,000
Compensated Absences	1,581	4,790	(5,740)	631	
Net Pension Liability **		126,288	(51,869)	74,419	
Total Governmental Activities	<u>\$ 611,581</u>	<u>\$ 131,078</u>	<u>\$ (112,609)</u>	<u>\$ 630,050</u>	<u>\$ 56,000</u>

** - Additions include a change in accounting principle of \$82,201. See Note 14 for additional information.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Business-Type Activities</u>					
G.O. Revenue Notes	\$ 1,064,706	\$	\$ (86,000)	\$ 978,706	\$ 86,000
G.O. Improvement Note	97,397		(10,159)	87,238	6,000
Net Pension Liability **		32,996	(13,133)	19,863	
Total Business-Type Activities	<u>\$ 1,162,103</u>	<u>\$ 32,996</u>	<u>\$ (109,292)</u>	<u>\$ 1,085,807</u>	<u>\$ 92,000</u>

** - Additions include a change in accounting principle of \$22,549. See Note 14 for additional information.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 8. RISK MANAGEMENT

The City purchases commercial insurance coverage through the League of Minnesota Cities Insurance Trust (LMCIT), which is a public entity risk pool currently operating as a common risk management and insurance program, with other cities in the state. The City pays an annual premium to the LMCIT for its insurance coverage. The LMCIT is self-sustaining through commercial companies for excess claims. The City is covered through the pool for any claims incurred but unreported, but retains risk for the deductible portion of its insurance policies. The amount of these deductibles is considered immaterial to the financial statements.

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for 2015 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2015, there are no other claims liabilities reported in the funds based on the requirements of accounting standards, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

NOTE 9. CITY OF COSMOS FIRE RELIEF ASSOCIATION

The City contributes to the City of Cosmos' Fireman's Relief Association, a single employer retirement system that acts as a common investment and administrator for the City's firefighters. All active members of the fire department are members of the Association.

The Association provides retirement benefits based on years of active service. The City may be required to make contributions to fund relief association pension benefits. The City may levy property taxes for the discretion of, and for the benefit of, the fire relief association. State aids allocated to the Association are passed through the City in accordance with State statutes.

NOTE 10. DEFINED BENEFIT PENSION PLANS - STATEWIDE

At December 31, 2015, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. This implementation allows the City to report its proportionate share of collective net pension liability, deferred inflows of resources and deferred outflows of resources, and pension expense and to reflect an actuarially determined liability for the present value of projected future benefits for retired and active employees less the pension plan's fiduciary net position on the financial statements.

A. PLAN DESCRIPTION

The City participates in the following cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 10. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

A. PLAN DESCRIPTION (Cont'd)

General Employees Retirement Fund (GERF):

All full-time and certain part-time employees of the City are covered by GERF. GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

Public Employees Police and Fire Fund (PEPFF):

The PEPFF, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the PEPFF also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

B. BENEFITS PROVIDED

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

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following paragraphs are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

GERF Benefits:

Benefits are based on a member's highest average salary for any five successive years of allowable service, age and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 10. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

B. BENEFITS PROVIDED (Cont'd)

PEPFF Benefits:

Benefits for the PEPFF members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for PEPFF members first hired after June 30, 2014, vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. For PEPFF who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

C. CONTRIBUTIONS

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

GERF Contributions:

Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The City's contributions to the GERF for the year ended December 31, 2015, were \$7,187. The City's contributions were equal to the required contributions for each year as set by state statute.

PEPFF Contributions:

Plan members were required to contribute 10.80% of their annual covered salary in calendar year 2015. The City was required to contribute 16.20% of pay for PEPFF members in calendar year 2015. The City's contributions to the PEPFF for the year ended December 31, 2015, were \$1,807. The City's contributions were equal to the required contributions for each year as set by state statute.

D. PENSION COSTS

GERF Pension Costs:

At December 31, 2015, the City reported a liability of \$82,920 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014 through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was 0.0016%.

For the year ended December 31, 2015, the City recognized pension expense of \$6,356 for its proportionate share of GERF's pension expense.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 10. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

D. PENSION COSTS (Cont'd)

GERF Pension Costs: (Cont'd)

At December 31, 2015, the City reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual economic experience	\$	\$ 4,181
Differences between projected and actual investment earnings	7,850	
Changes in proportion and differences between contributions made and City's proportionate share of contributions		14,092
Contributions paid to PERA subsequent to measurement date	<u>3,744</u>	
Totals	<u>\$ 11,594</u>	<u>\$ 18,273</u>

\$3,744 reported as deferred outflows of resources related to pensions resulting from City contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

<u>June 30,</u>	<u>Pension Expense Amount</u>
2016	\$ (4,129)
2017	(4,129)
2018	(4,128)
2019	1,963
2020	
Thereafter	

PEPFF Pension Cost:

At December 31, 2015, the City reported a liability of \$11,362 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was 0.001%.

At December 31, 2015, the City recognized pension expense of \$1,958 for its proportionate share of the PEPFF's pension expense. The City also recognized \$90 for the year ended December 31, 2015, of pension expense (and grant revenue) for its proportionate share of the State of Minnesota's on-behalf contributions to PEPFF. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 10. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

D. PENSION COSTS (Cont'd)

PEPFFF Pension Costs: (Cont'd)

At December 31, 2015 the City reported its proportionate share of the PEPFFF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$	\$ 1,843
Differences between projected and actual investment earnings	1,980	
Contributions paid to PERA subsequent to measurement date	<u>1,076</u>	
Totals	<u>\$ 3,056</u>	<u>\$ 1,843</u>

\$1,076 reported as deferred outflows of resources related to pensions resulting from City contributions to PEPFFF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to PEPFFF will be recognized in pension expense as follows:

<u>June 30,</u>	<u>Pension Expense Amount</u>
2016	\$ 126
2017	126
2018	127
2019	127
2020	(369)

E. ACTUARIAL ASSUMPTIONS

The total pension liability in the June 30, 2015 actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1% effective every January 1 through 2026 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015, valuations were based on the results of actuarial experience studies. The experience study in the GERP was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 10. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

E. ACTUARIAL ASSUMPTIONS (Cont'd)

The following changes in actuarial assumptions occurred in 2015:

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rates of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

F. DISCOUNT RATE

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at a rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. PENSION LIABILITY SENSITIVITY

The following presents the City's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
City's proportionate share of the GERF net pension liability	\$ 130,380	\$ 82,920	\$ 43,726
City's proportionate share of the PEPFF net pension liability	22,145	11,362	2,454

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 10. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

H. PENSION PLAN FIDUCIARY NET POSITION

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

NOTE 11. FUND BALANCE

The following is a summary of fund balance components:

	General	Trash Collection	Redevelopment Revolving Loan
Nonspendable			
Prepaid Items	\$ 7,871	\$ 62	\$
Restricted for			
Revolving Loan			6,391
Total Restricted	0	0	6,391
Assigned			
Fund Operations		15,054	
Equipment	74,000		
Fire	151,351		
Unassigned	217,676		
	<u>\$ 450,898</u>	<u>\$ 15,116</u>	<u>\$ 6,391</u>
	2013A G.O. Improvement	Building Reserve	Total
Nonspendable			
Prepaid Items	\$	\$	\$ 7,933
Restricted for			
Revolving Loan			6,391
Debt Service	331,903		331,903
Total Restricted	331,903	0	338,294
Assigned			
Fund Operations		141,456	156,510
Equipment			74,000
Fire			151,351
Unassigned			217,676
	<u>\$ 331,903</u>	<u>\$ 141,456</u>	<u>\$ 945,764</u>

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 12. CONTINGENCIES

A. FEDERAL GRANTS

The City receives state and federal aids through participation in various state and federal categorical aid programs. These programs are subject to audits by the State. The audits for these programs for the year ending December 31, 2015, have not been conducted. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

B. LITIGATION

The City is not party to any legal proceedings as of year end.

NOTE 13. RECLASSIFICATIONS

Certain immaterial prior year amounts have been reclassified to conform to the current year's presentation. There was no effect on total net position or fund balance.

NOTE 14. PRIOR PERIOD ADJUSTMENT

The beginning net position of the governmental activities, business-type activities and major proprietary fund - water and sewer funds has been decreased to reflect a change in accounting principle. As mentioned in Note 10, the City implemented GASB 68 and GASB 71 which records the City's proportionate share of collective net pension liability, deferred inflows of resources and deferred outflows of resources, and pension expense on the City's government-wide financial statements. Beginning governmental activities net position has been restated from \$1,972,962 to \$1,894,053 (a decrease of \$78,909). Beginning business-type activities and major proprietary fund - water and sewer funds net position has been restated from \$2,163,821 to \$2,142,104 (a decrease of \$21,717). Beginning business-type activities and major proprietary fund - water fund net position has been restated from \$405,220 to \$397,076 (a decrease of \$8,144). Beginning business-type activities and major proprietary fund - sewer fund net position has been restated from \$1,758,601 to \$1,745,028 (a decrease of \$13,573). Prior year partial comparative information does not reflect this change in accounting principle because the cost-sharing multiple-employer defined benefit pension plans in which the City participates have not made this information available.

The beginning fund balance of the General Fund and business-type activities has been adjusted to reflect a correction of an error. The Fire Fund was previously categorized as a proprietary fund instead of a governmental fund. Beginning General Fund fund balance for the year ended 2014 has been restated from \$163,723 to \$342,722 (an increase of \$178,999). Beginning governmental activities net position for the year ended 2014 has been restated from \$1,404,510 to \$1,583,509 (an increase of \$178,999). Beginning business-type activities net position for the year ended 2014 has been restated from \$2,651,424 to \$2,472,425 (a decrease of \$178,999).

NOTE 15. SUBSEQUENT EVENT

On July 21, 2015, the City approved the municipal building project with estimated project costs of up to \$1,200,000. These costs are to be covered by MN DEED, USDA Rural Development Loan and the Public Reserve and Building Funds of the City. The City approved a contract with a contractor for \$653,000 for the initial stage of construction.

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF COSMOS, MINNESOTA

SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND
EMPLOYER CONTRIBUTIONS
DECEMBER 31, 2015

Schedule of Proportionate Share of Net Pension Liability

Actuarial Valuation Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Employer's Covered-Employee Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<u>Pensions</u>					
<u>PERA - GERF</u> 6/30/2015	0.0016%	\$ 82,920	\$ 97,656	84.9%	78.2%
<u>PERA - PEPFF</u> 6/30/2015	0.001%	11,362	12,927	87.9%	86.6%

Schedule of Employer Contributions

Year Ended December 31,	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (b/d)
<u>Pensions</u>					
<u>PERA - GERF</u> 2015	\$ 7,187	\$ 7,187	\$	\$ 98,833	7.27%
<u>PERA - PEPFF</u> 2015	1,807	1,807		13,882	13.02%

The City implemented GASB Statement No. 68 for fiscal year ended December 31, 2015. Information for prior years is not available.

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SUPPLEMENTARY INFORMATION

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CITY OF COSMOS, MINNESOTA

BALANCE SHEET
 GENERAL FUND
 DECEMBER 31, 2015
 WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash	\$ 441,036	\$ 258,647
Receivables		
Accounts	8,412	10,020
Interest	1,560	679
Delinquent Taxes	24,171	19,052
Special Assessments	163	163
Due from Other Funds		13,830
Due from Other Governmental Units	5,909	24,871
Prepaid Items	<u>7,871</u>	<u>10,023</u>
Total Assets	<u>\$ 489,122</u>	<u>\$ 337,285</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE		
Liabilities		
Accounts Payable	\$ 10,238	\$ 9,558
Salaries Payable	777	2,739
Due to Other Governmental Units	<u>2,875</u>	<u>2,512</u>
Total Liabilities	13,890	14,809
Deferred Inflows of Resources		
Unavailable Revenue		
Delinquent Taxes	24,171	19,052
Special Assessments	163	163
Total Deferred Inflows of Resources	<u>24,334</u>	<u>19,215</u>
Fund Balance		
Nonspendable	7,871	10,023
Assigned	225,351	
Unassigned	217,676	293,238
Total Fund Balance	<u>450,898</u>	<u>303,261</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 489,122</u>	<u>\$ 337,285</u>

CITY OF COSMOS, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2015
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2014

	2015		2014	
	Final Budget	Actual	Over (Under) Final Budget	Actual
REVENUES				
Property Taxes	\$ 268,977	\$ 265,602	\$ (3,375)	\$ 245,609
Special Assessments	4,500		(4,500)	
Licenses and Permits	5,750	8,933	3,183	4,214
Intergovernmental				
Local Government Aid	142,805	142,805		141,232
Market Value Credit Aid		406	406	207
PERA Aid	360	360		360
Fire State Aid	15,500	18,076	2,576	17,403
Police State Aid				3,808
Other State Aid		13,436	13,436	1,224
Total Intergovernmental	<u>158,665</u>	<u>175,083</u>	<u>16,418</u>	<u>164,234</u>
Charges for Services				
Culture and Recreation	5,750	1,802	(3,948)	6,220
Public Safety	61,105	81,511	20,406	100,047
Total Charges for Services	<u>66,855</u>	<u>83,313</u>	<u>16,458</u>	<u>106,267</u>
Fines and Forfeits	500	416	(84)	217
Interest Income	1,000	1,096	96	2,910
Refunds and Reimbursements	2,000	9,050	7,050	13,632
Donations	500	3,100	2,600	25
Miscellaneous				
Finance Charges				7,183
Other	1,500	568	(932)	306
Total Miscellaneous	<u>1,500</u>	<u>568</u>	<u>(932)</u>	<u>7,489</u>
Total Revenues	<u>510,247</u>	<u>547,161</u>	<u>36,914</u>	<u>544,597</u>

CITY OF COSMOS, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2015
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2014

	2015		2014	
	Final Budget	Actual	Over (Under) Final Budget	Actual
EXPENDITURES				
Current				
General Government				
Mayor and Council				
Salaries and Benefits	\$ 6,782	\$ 4,662	\$ (2,120)	\$ 5,480
Legal Service	3,000	350	(2,650)	1,300
Building/Health Inspector	5,750	2,942	(2,808)	
Consulting Fees	2,500	475	(2,025)	1,428
Engineering	5,000		(5,000)	
Insurance				4,281
Advertising and Printing				874
Miscellaneous	850	20	(830)	6,279
Total Mayor and Council	23,882	8,449	(15,433)	19,642
City Hall				
Utilities	16,500	16,168	(332)	338
Repairs	10,000	5,471	(4,529)	1,001
Supplies	3,000	749	(2,251)	3,641
Insurance	15,500	11,222	(4,278)	
Miscellaneous	3,250	268	(2,982)	
Total City Hall	48,250	33,878	(14,372)	4,980
Clerk and Secretary				
Salaries	56,000	46,577	(9,423)	60,363
Benefits	7,528	7,262	(266)	8,209
Insurance	5,228	5,480	252	6,130
Auditing and Accounting	16,000	19,500	3,500	19,150
Telephone	2,000	2,906	906	3,193
Supplies	2,500	3,176	676	
Miscellaneous	1,950	2,620	670	1,210
Total Clerk and Secretary	91,206	87,521	(3,685)	98,255
Assessor				
	3,000	7,644	4,644	2,828
Total General Government	166,338	137,492	(28,846)	125,705

CITY OF COSMOS, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2015
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2014

	2015		2014	
	Final Budget	Actual	Over (Under) Final Budget	Actual
EXPENDITURES (Cont'd)				
Current (Cont'd)				
Public Safety				
Police Protection				
Salaries	\$ 16,210	\$ 17,820	\$ 1,610	\$ 16,161
Benefits	2,626	2,346	(280)	2,480
Telephone	1,200	1,791	591	2,198
Insurance		5,187	5,187	7,706
Repairs		2,675	2,675	414
Supplies	500	424	(76)	1,243
Miscellaneous	2,800	588	(2,212)	3,555
Total Police Protection	23,336	30,831	7,495	33,757
Fire Protection				
Salaries and Benefits	5,383	6,657	1,274	4,059
Insurance	6,500	2,384	(4,116)	5,764
Supplies	3,000	2,802	(198)	6,099
Telephone	1,600	1,197	(403)	1,390
Electricity	2,000		(2,000)	183
Repairs	3,000	4,511	1,511	2,765
Gas and Oil	4,900	4,809	(91)	6,803
Fireman's Relief	13,000	14,051	1,051	15,900
Building Inspection				25,614
Miscellaneous	7,500	3,396	(4,104)	5,588
Total Fire Protection	46,883	39,807	(7,076)	74,165
Ambulance				
Salaries and Benefits	8,612	11,804	3,192	6,235
Insurance	1,800	305	(1,495)	982
Supplies	6,500	4,378	(2,122)	6,459
Telephone		35	35	
Repairs	3,000	515	(2,485)	1,301
Gas and Oil	1,200	828	(372)	1,088
Miscellaneous	9,000	6,367	(2,633)	8,188
Total Ambulance	30,112	24,232	(5,880)	24,253
Total Public Safety	100,331	94,870	(5,461)	132,175

CITY OF COSMOS, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2015
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2014

	2015		2014	
	Final Budget	Actual	Over (Under) Final Budget	Actual
EXPENDITURES (Cont'd)				
Current (Cont'd)				
Public Works				
Salaries	\$ 14,604	\$ 14,374	\$ (230)	\$ 14,690
Benefits	2,212	2,279	67	2,527
Telephone	1,200	806	(394)	1,292
Street Lighting	21,500	8,253	(13,247)	15,719
Repairs	17,000	24,222	7,222	31,064
Supplies	10,513	7,819	(2,694)	3,741
Gas and Oil	3,500	1,777	(1,723)	2,922
Engineer	7,500		(7,500)	
Snow Removal	7,500	3,695	(3,805)	4,452
Insurance	7,368	3,436	(3,932)	7,244
Miscellaneous	3,750	659	(3,091)	7,218
Total Public Works	96,647	67,320	(29,327)	90,869
Culture and Recreation				
Library				
Supplies				247
Miscellaneous				450
Total Library	0	0	0	697
Parks				
Salaries	16,936	16,457	(479)	19,504
Benefits	1,934	1,596	(338)	1,692
Electricity		2,582	2,582	2,480
Insurance		1,871	1,871	3,621
Repairs	5,000	2,476	(2,524)	969
Supplies	8,000	10,878	2,878	6,492
Telephone		307	307	
Gas and Oil	1,400	930	(470)	
Miscellaneous	2,950	1,964	(986)	4,413
Total Parks	36,220	39,061	2,841	39,171
Total Culture and Recreation	36,220	39,061	2,841	39,868
Total Current	399,536	338,743	(60,793)	388,617

CITY OF COSMOS, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2015
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2014

	2015		2014	
	Final Budget	Actual	Over (Under) Final Budget	Actual
EXPENDITURES (Cont'd)				
Capital Outlay				
General Government	\$ 15,000	\$	\$ (15,000)	\$ 2,793
Public Safety	15,000	6,000	(9,000)	92,259
Public Works	20,000		(20,000)	11,198
Culture and Recreation	3,500	3,760	260	6,962
Total Capital Outlay	<u>53,500</u>	<u>9,760</u>	<u>(43,740)</u>	<u>113,212</u>
Total Expenditures	<u>453,036</u>	<u>348,503</u>	<u>(104,533)</u>	<u>501,829</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	57,211	198,658	141,447	42,768
OTHER FINANCING SOURCES (USES)				
Transfers Out	(49,313)	(51,021)	(1,708)	(94,178)
Sale of Assets				11,949
Total Other Financing Sources (Uses)	<u>(49,313)</u>	<u>(51,021)</u>	<u>(1,708)</u>	<u>(82,229)</u>
Net Change in Fund Balances	<u>\$ 7,898</u>	147,637	<u>\$ 139,739</u>	(39,461)
FUND BALANCE, BEGINNING OF YEAR, AS ORIGINALLY STATED		303,261		163,723
PRIOR PERIOD ADJUSTMENT				<u>178,999</u>
FUND BALANCE, BEGINNING OF YEAR, AS RESTATED		<u>303,261</u>		<u>342,722</u>
FUND BALANCE, END OF YEAR		<u>\$ 450,898</u>		<u>\$ 303,261</u>

CITY OF COSMOS, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 TRASH COLLECTION SPECIAL REVENUE FUND
 YEAR ENDED DECEMBER 31, 2015
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2014

	2015		Over (Under) Final Budget	2014
	Final Budget	Actual		Actual
REVENUES				
Charges for Services	\$ 40,000	\$ 39,329	\$ (671)	\$ 41,912
Interest Income				16
Total Revenues	<u>40,000</u>	<u>39,329</u>	<u>(671)</u>	<u>41,928</u>
EXPENDITURES				
Current				
Sanitation				
Insurance	500	178	(322)	532
Collection Contract	38,500	34,008	(4,492)	38,644
Total Expenditures	<u>39,000</u>	<u>34,186</u>	<u>(4,814)</u>	<u>39,176</u>
Net Change in Fund Balances	<u>\$ 1,000</u>	5,143	<u>\$ 4,143</u>	2,752
FUND BALANCE, BEGINNING OF YEAR		<u>9,973</u>		<u>7,221</u>
FUND BALANCE, END OF YEAR		<u>\$ 15,116</u>		<u>\$ 9,973</u>

CITY OF COSMOS, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 REDEVELOPMENT REVOLVING LOAN SPECIAL REVENUE FUND
 YEAR ENDED DECEMBER 31, 2015
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2014

	2015		2014	
	Final Budget	Actual	Over (Under) Final Budget	Actual
REVENUES	\$	\$	\$	\$
EXPENDITURES				
Net Change in Fund Balances	<u>\$ 0</u>	0	<u>\$ 0</u>	0
FUND BALANCE, BEGINNING OF YEAR		<u>6,391</u>		<u>6,391</u>
FUND BALANCE, END OF YEAR		<u>\$ 6,391</u>		<u>\$ 6,391</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF NET POSITION
SEWER ENTERPRISE FUND
DECEMBER 31, 2015

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2014

	<u>2015</u>	<u>2014</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Assets		
Current Assets		
Cash	\$ 150,780	\$ 135,235
Accounts Receivable	8,536	8,752
Prepaid Items	1,096	1,096
Total Current Assets	<u>160,412</u>	<u>145,083</u>
Noncurrent Assets		
Capital Assets		
Other Capital Assets, Net of Depreciation	243,855	262,710
Total Assets	<u>404,267</u>	<u>407,793</u>
Deferred Outflows of Resources		
Related to Pensions	1,044	
Total Assets and Deferred Outflows of Resources	<u>\$ 405,311</u>	<u>\$ 407,793</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Liabilities		
Current Liabilities		
Accounts Payable	\$ 1,394	\$ 129
Salaries Payable	159	269
Customer Deposits	2,175	2,175
Total Current Liabilities	<u>3,728</u>	<u>2,573</u>
Noncurrent Liabilities		
Net Pension Liability	7,449	
Total Liabilities	<u>11,177</u>	<u>2,573</u>
Deferred Inflows of Resources		
Related to Pensions	1,644	
Net Position		
Net Investment in Capital Assets	243,855	262,710
Unrestricted	148,635	142,510
Total Net Position	<u>392,490</u>	<u>405,220</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 405,311</u>	<u>\$ 407,793</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 SEWER ENTERPRISE FUND
 YEAR ENDED DECEMBER 31, 2015
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Sewer Charges	\$ 54,290	\$ 58,675
OPERATING EXPENSES		
Salaries and Benefits	11,122	11,484
Insurance	3,480	3,292
Supplies	18,684	18,593
Maintenance and Repair	4,282	15,119
Testing		1,959
Electricity	1,715	1,644
Miscellaneous	1,163	1,535
Depreciation	18,855	14,859
Total Operating Expenses	<u>59,301</u>	<u>68,485</u>
Operating Income (Loss)	(5,011)	(9,810)
NONOPERATING REVENUES (EXPENSES)		
Interest Income	425	
Other Income		50
Total Nonoperating Revenues (Expenses)	<u>425</u>	<u>50</u>
Income (Loss) Before Contributions	(4,586)	(9,760)
TRANSFERS AND OTHER ITEMS		
Transfers Out		(57,993)
Change in Net Position	(4,586)	(67,753)
NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY STATED	405,220	472,973
PRIOR PERIOD ADJUSTMENT	<u>(8,144)</u>	
NET POSITION, BEGINNING OF YEAR, AS RESTATED	<u>397,076</u>	<u>472,973</u>
NET POSITION, END OF YEAR	<u>\$ 392,490</u>	<u>\$ 405,220</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF NET POSITION
 WATER ENTERPRISE FUND
 DECEMBER 31, 2015

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2014

	<u>2015</u>	<u>2014</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Assets		
Current Assets		
Cash	\$ 52,958	\$ 59,116
Accounts Receivable	29,032	28,636
Prepaid Items	1,873	1,873
Total Current Assets	<u>83,863</u>	<u>89,625</u>
Noncurrent Assets		
Capital Assets		
Other Capital Assets, Net of Depreciation	2,754,342	2,841,090
Total Assets	<u>2,838,205</u>	<u>2,930,715</u>
Deferred Outflows of Resources		
Related to Pensions	<u>1,740</u>	
Total Assets and Deferred Outflows of Resources	<u>\$ 2,839,945</u>	<u>\$ 2,930,715</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Liabilities		
Current Liabilities		
Accounts Payable	\$ 14,025	\$ 175
Salaries Payable	159	403
Accrued Interest Payable	5,016	5,559
Customer Deposits	3,874	3,874
Current Portion of Note Payable	92,000	92,000
Total Current Liabilities	<u>115,074</u>	<u>102,011</u>
Noncurrent Liabilities		
Note Payable, Net of Current Portion	973,944	1,070,103
Net Pension Liability	12,414	
Total Noncurrent Liabilities	<u>986,358</u>	<u>1,070,103</u>
Total Liabilities	<u>1,101,432</u>	<u>1,172,114</u>
Deferred Inflows of Resources		
Related to Pensions	2,741	
Net Position		
Net Investment in Capital Assets	1,688,398	1,678,987
Unrestricted	47,374	79,614
Total Net Position	<u>1,735,772</u>	<u>1,758,601</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 2,839,945</u>	<u>\$ 2,930,715</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 WATER ENTERPRISE FUND
 YEAR ENDED DECEMBER 31, 2015
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Water Charges	\$ 165,624	\$ 163,651
OPERATING EXPENSES		
Salaries and Benefits	15,273	17,348
Insurance	4,103	5,641
Supplies	4,509	2,957
Maintenance and Repair	11,297	11,187
Electricity	9,206	7,804
Telephone	470	463
Miscellaneous	3,781	5,547
Depreciation	113,116	109,389
Total Operating Expenses	<u>161,755</u>	<u>160,336</u>
Operating Income (Loss)	3,869	3,315
NONOPERATING REVENUES (EXPENSES)		
Interest Income	79	
Other Income	2,124	
Interest Expense	<u>(15,328)</u>	<u>(16,341)</u>
Total Nonoperating Revenues (Expenses)	<u>(13,125)</u>	<u>(16,341)</u>
Income (Loss) Before Transfers	(9,256)	(13,026)
TRANSFERS		
Transfers In		<u>102,701</u>
Change in Net Position	(9,256)	89,675
NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY STATED	1,758,601	1,668,926
PRIOR PERIOD ADJUSTMENT	<u>(13,573)</u>	
NET POSITION, BEGINNING OF YEAR, AS RESTATED	<u>1,745,028</u>	<u>1,668,926</u>
NET POSITION, END OF YEAR	<u>\$ 1,735,772</u>	<u>\$ 1,758,601</u>

COMPLIANCE SECTION

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Cosmos, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, and have issued our report thereon dated April 7, 2016.

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 for tax increment financing because the City does not have any tax increment financing.

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 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.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
Certified Public Accountants
Litchfield, Minnesota

April 7, 2016

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Cosmos, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 7, 2016.

Internal Control Over Financial Reporting

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

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. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 consider the deficiencies described in the accompanying Schedule of Findings as items 2007-001 and 2007-002 to be material weaknesses.

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Compliance and Other Matters

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

City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
Certified Public Accountants
Litchfield, Minnesota

April 7, 2016

CITY OF COSMOS, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2015

II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

FINDING 2007-001 AUDITOR PREPARED FINANCIAL STATEMENTS

Condition: The City does not have an internal control system designed to provide for the preparation of the financial statements and the related notes being audited. However, based on the degree of complexity and level of detail needed to prepare the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), the City has requested the auditors to prepare them.

Criteria: The preparation of the financial statements and the related notes are the responsibility of management.

Cause: There are a limited number of office employees and resources available to allow for the adequate preparation of the financial statements and the related notes by the City.

Effect: This could result in a material misstatement to the financial statements and related notes 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 the 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.

MANAGEMENT'S RESPONSE

The City is aware of this; however, due to significant cost and a limited number of employees, it is in the City's best financial interest to contract for the preparation of the financial statements.

CITY OF COSMOS, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2015

II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS (Cont'd)

PREVIOUSLY REPORTED ITEMS NOT RESOLVED (Cont'd)

FINDING 2007-002 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: The basic premise is that no one person should have access to both physical assets and the related accounting records or to all phases of a transaction. The lack of such controls could result in the occurrence of a material error or fraud in relation to the financial statements not being detected by management.

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.

MANAGEMENT'S RESPONSE

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.