

CITY OF COSMOS, MINNESOTA
AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2016

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

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CITY OF COSMOS, MINNESOTA

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CITY OF COSMOS, MINNESOTA

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CITY OF COSMOS, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2016

<u>Elected Officials</u>	<u>Name</u>	<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
 <u>Administration</u>		
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, 2016, 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 Opinion

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, 2016, 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.

Unmodified Opinions

position of the business-type activities, and each major fund of the City of Cosmos, Minnesota, as of December 31, 2016, and, the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, the Trash Collection Special Revenue Fund, the Redevelopment Revolving Loan Special Revenue Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Partial Comparative Information

We have previously audited the City's 2015 financial statements, and we expressed a qualified audit opinion on the governmental activities and unmodified opinions on the business-type activities, and each major fund in our report dated April 7, 2016. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 Schedule of Proportionate Share of the Net Pension Liability, and the Schedule of 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 July 20, 2017, 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 & Consultants
Litchfield, Minnesota

July 20, 2017

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF COSMOS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016

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, 2016. 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 \$4.9 million. Of this amount, \$854,031 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 \$745,847.
- The City's governmental funds reported combined ending fund balances of \$714,435, a decrease of \$231,329. Of this total amount, \$263,386 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 \$263,386, or 55.23% of total General Fund expenditures of \$476,855.

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, 2016

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 26-51 of this report.

CITY OF COSMOS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016

Statement of Net Position

The City's combined net position increased 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
	2016	2015	
Current and Other Assets	\$ 1,294,417	\$ 1,560,352	\$ (265,935)
Net Capital Assets	2,205,980	1,098,447	1,107,533
Total Assets	<u>3,500,397</u>	<u>2,658,799</u>	841,598
Deferred Outflows of Resources	<u>72,381</u>	<u>11,866</u>	<u>60,515</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 3,572,778</u>	<u>\$ 2,670,665</u>	<u>\$ 902,113</u>
Current and Other Liabilities	\$ 44,599	\$ 31,918	\$ 12,681
Long-Term Liabilities	793,256	630,050	163,206
Total Liabilities	<u>837,855</u>	<u>661,968</u>	<u>175,887</u>
Deferred Inflows of Resources	20,593	15,731	4,862
Net Position			
Net Investment in Capital Assets	1,556,980	543,447	1,013,533
Restricted	564,632	885,059	(320,427)
Unrestricted	592,718	564,460	28,258
Total Net Position	<u>2,714,330</u>	<u>1,992,966</u>	<u>721,364</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 3,572,778</u>	<u>\$ 2,670,665</u>	<u>\$ 902,113</u>

CITY OF COSMOS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016

Statement of Net Position (Cont'd)

Table 2 Comparative Condensed Statement of Net Position			
	Business-Type Activities		Change
	2016	2015	
Current and Other Assets	\$ 293,868	\$ 244,275	\$ 49,593
Net Capital Assets	2,865,376	2,998,197	(132,821)
Total Assets	3,159,244	3,242,472	(83,228)
Deferred Outflows of Resources	10,657	2,784	7,873
Total Assets and Deferred Outflows of Resources	<u>\$ 3,169,901</u>	<u>\$ 3,245,256</u>	<u>\$ (75,355)</u>
Current and Other Liabilities	\$ 13,464	\$ 26,802	\$ (13,338)
Long-Term Liabilities	999,732	1,085,807	(86,075)
Total Liabilities	1,013,196	1,112,609	(99,413)
Deferred Inflows of Resources	3,960	4,385	(425)
Net Position			
Net Investment in Capital Assets	1,891,432	1,932,253	(40,821)
Unrestricted	261,313	196,009	65,304
Total Net Position	2,152,745	2,128,262	24,483
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 3,169,901</u>	<u>\$ 3,245,256</u>	<u>\$ (75,355)</u>

CITY OF COSMOS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016

Governmental Activities

Net position of the City's governmental activities increased by \$721,364. 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			
	Governmental Activities		Change
	2016	2015	
REVENUES			
Program Revenues			
Fees, Fines, and Charges for Services	\$ 140,236	\$ 155,498	\$ (15,262)
Operating Grants and Contributions	20,122	18,076	2,046
Capital Grants and Contributions	514,528	4,178	510,350
General Revenues			
Property Taxes	281,357	270,721	10,636
Special Assessments	13,135		13,135
Grants and Contributions Not Restricted	190,399	143,571	46,828
Refunds and Reimbursements	141,487		141,487
Interest Income	3,090	2,555	535
Gain on Asset Disposal	36		36
Other	1,325	19,703	(18,378)
Total Revenues	1,305,715	614,302	691,413
EXPENSES			
General Government	144,452	138,229	6,223
Public Safety	178,202	155,410	22,792
Public Works	169,044	165,949	3,095
Culture and Recreation	71,106	30,195	40,911
Interest on Long-Term Debt	21,547	25,606	(4,059)
Total Expenses	584,351	515,389	68,962
Change in Net Position	721,364	98,913	622,451
NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY STATED			
	1,992,966	1,972,962	20,004
PRIOR PERIOD ADJUSTMENT			
		(78,909)	78,909
NET POSITION, BEGINNING OF YEAR, AS RESTATED			
	1,992,966	1,894,053	98,913
NET POSITION, END OF YEAR			
	\$ 2,714,330	\$ 1,992,966	\$ 721,364

CITY OF COSMOS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016

Business-Type Activities

The net position of our business-type activities increased by \$24,483. The increase was due to the following funds change in net position: Sewer - \$886, and Water - \$23,597.

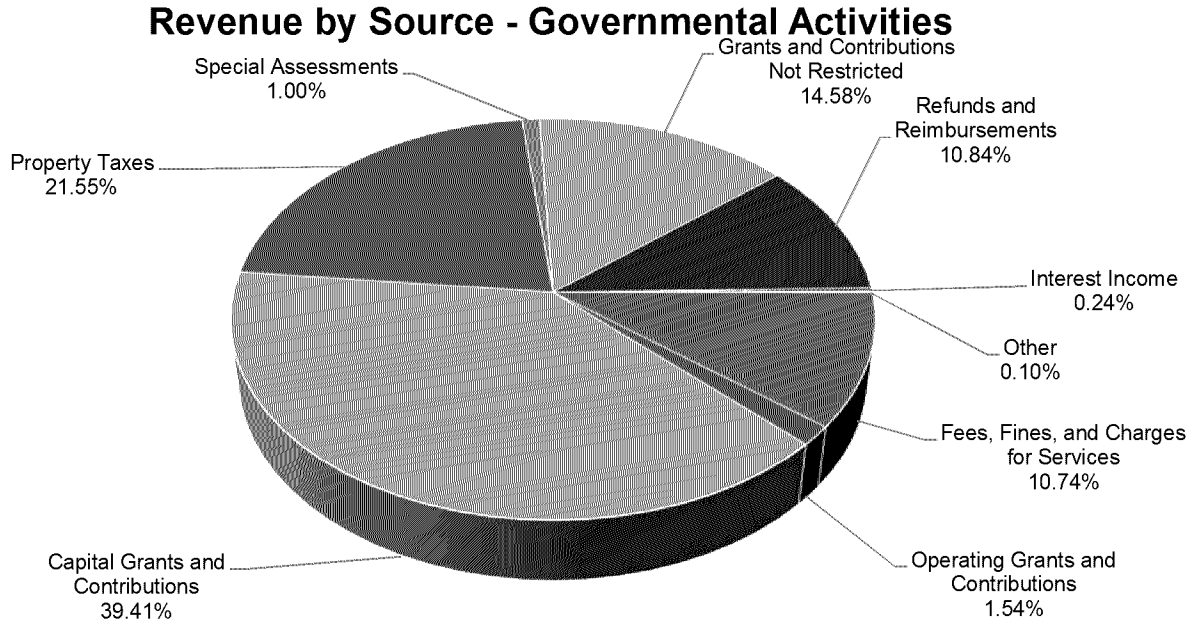
Table 4 Comparative Condensed Statement of Activities			
	<u>Business-Type Activities</u>		Change
	<u>2016</u>	<u>2015</u>	
REVENUES			
Program Revenues			
Fees, Fines, and Charges for Services	\$ 246,656	\$ 219,914	\$ 26,742
Capital Grants and Contributions	176	2,124	(1,948)
General Revenues			
Interest Income		504	(504)
Total Revenues	<u>246,832</u>	<u>222,542</u>	<u>24,290</u>
EXPENSES			
Sewer	59,068	59,301	(233)
Water	163,281	177,083	(13,802)
Total Expenses	<u>222,349</u>	<u>236,384</u>	<u>(14,035)</u>
Change in Net Position	<u>24,483</u>	<u>(13,842)</u>	<u>38,325</u>
NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY STATED	2,128,262	2,163,821	(35,559)
PRIOR PERIOD ADJUSTMENT		<u>(21,717)</u>	21,717
NET POSITION, BEGINNING OF YEAR, AS RESTATED	<u>2,128,262</u>	<u>2,142,104</u>	<u>(13,842)</u>
NET POSITION, END OF YEAR	<u>\$ 2,152,745</u>	<u>\$ 2,128,262</u>	<u>\$ 24,483</u>

CITY OF COSMOS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016

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 \$714,435, an decrease of \$231,329. Approximately 36.87% of this total (\$263,386) constitutes unassigned fund balance. The remainder of the fund balance (\$451,049) is not available for new spending because it is either 1) nonspendable (\$8,738), 2) restricted (\$53,523) or 3) assigned (\$388,788).

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 \$263,386. 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 55.23% 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 - \$168,376 and Water - \$92,937.

CITY OF COSMOS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016

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 predicted a \$10,000 increase in fund balance. The actual change in fund balance was an increase of \$66,054. This is mainly due to both refunds and reimbursements being higher and general government expenditures being lower than anticipated.

Trash Collection Special Revenue Fund Budgetary Highlights

The Trash Collection Special Revenue Fund budget predicted a \$1,000 increase in fund balance. The actual change in fund balance was an increase of \$6,515. This is mainly due to charges for services being higher than anticipated.

Capital Assets

At the end of 2016, the City of Cosmos had \$8,350,339 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 Liabilities

At year-end, the City of Cosmos had \$1,792,988 in long-term liabilities. Refer to Note 7 of the Notes to the Financial Statements for a schedule showing the City's long-term liabilities activity.

Economic Factors and Next Year's Budget

The City's appointed officials considered many factors when setting the fiscal year 2017 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 2016 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, 2016

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2015

	Governmental Activities	Business-Type Activities	Totals	
			2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Assets				
Cash	\$ 600,423	\$ 256,991	\$ 857,414	\$ 1,143,060
Receivables				
Accounts	14,946	32,333	47,279	53,387
Interest				1,560
Delinquent Taxes	29,027		29,027	24,171
Special Assessments	514,084	1,575	515,659	565,638
Due from Other Governmental Units	127,199		127,199	5,909
Prepaid Items	8,738	2,969	11,707	10,902
Capital Assets				
Assets Not Being Depreciated	83,198		83,198	126,530
Other Capital Assets, Net of Depreciation	2,122,782	2,865,376	4,988,158	3,970,114
Total Assets	<u>3,500,397</u>	<u>3,159,244</u>	<u>6,659,641</u>	<u>5,901,271</u>
Deferred Outflows of Resources				
Related to Pensions	72,381	10,657	83,038	14,650
Total Assets and Deferred Outflows of Resources	<u>\$ 3,572,778</u>	<u>\$ 3,169,901</u>	<u>\$ 6,742,679</u>	<u>\$ 5,915,921</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION				
Liabilities				
Accounts Payable	\$ 19,823	\$ 1,709	\$ 21,532	\$ 32,668
Salaries Payable	10,639	1,012	11,651	1,095
Due to Other Governmental Units	2,720		2,720	2,875
Accrued Interest Payable	7,539	4,694	12,233	12,155
Customer Deposits	3,878	6,049	9,927	9,927
Noncurrent Liabilities				
Due Within One Year	64,868	94,000	158,868	148,000
Due in More Than One Year	728,388	905,732	1,634,120	1,567,857
Total Liabilities	<u>837,855</u>	<u>1,013,196</u>	<u>1,851,051</u>	<u>1,774,577</u>
Deferred Inflows of Resources				
Related to Pensions	20,593	3,960	24,553	20,116
Net Position				
Net Investment in Capital Assets	1,556,980	1,891,432	3,448,412	2,475,700
Restricted for				
Debt Service	564,632		564,632	878,668
Revolving Loan				6,391
Unrestricted	592,718	261,313	854,031	760,469
Total Net Position	<u>2,714,330</u>	<u>2,152,745</u>	<u>4,867,075</u>	<u>4,121,228</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 3,572,778</u>	<u>\$ 3,169,901</u>	<u>\$ 6,742,679</u>	<u>\$ 5,915,921</u>

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF ACTIVITIES
 YEAR ENDED DECEMBER 31, 2016
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2015

	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	
							2016	2015
GOVERNMENTAL ACTIVITIES								
General Government	\$ 144,452	\$ 17,726	\$	\$	\$ (126,726)	\$	\$ (126,726)	\$ (128,880)
Public Safety	178,202	73,726	20,122		(84,354)		(84,354)	(55,823)
Public Works	169,044	43,999			(125,045)		(125,045)	(103,113)
Culture and Recreation	71,106	4,785		514,528	448,207		448,207	(24,215)
Interest on Long-Term Debt	21,547				(21,547)		(21,547)	(25,606)
Total Governmental Activities	584,351	140,236	20,122	514,528	90,535	0	90,535	(337,637)
BUSINESS-TYPE ACTIVITIES								
Sewer	59,068	59,954				886	886	(5,011)
Water	163,281	186,702		176		23,597	23,597	(9,335)
Total Business-Type Activities	222,349	246,656	0	176	0	24,483	24,483	(14,346)
Total	\$ 806,700	\$ 386,892	\$ 20,122	\$ 514,704	90,535	24,483	115,018	(351,983)
GENERAL REVENUES								
Taxes								
Property Taxes					281,357		281,357	270,721
Special Assessments					13,135		13,135	
Grants and Contributions not Restricted to Specific Programs					190,399		190,399	143,571
Refunds and Reimbursements					141,487		141,487	
Interest Income					3,090		3,090	3,059
Gain on Asset Disposal					36		36	
Other					1,325		1,325	19,703
Total General Revenues and Transfers					630,829	0	630,829	437,054
Change in Net Position					721,364	24,483	745,847	85,071
NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY STATED					1,992,966	2,128,262	4,121,228	4,136,783
PRIOR PERIOD ADJUSTMENT								(100,626)
NET POSITION, BEGINNING OF YEAR, AS RESTATED					1,992,966	2,128,262	4,121,228	4,036,157
NET POSITION, END OF YEAR	\$	\$	\$	\$	2,714,330	2,152,745	4,867,075	4,121,228

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2015

	General	Trash Collection	2011A G.O. Improvement	2013A G.O. Improvement	Building Reserve	Totals	
						2016	2015
ASSETS							
Assets							
Cash	\$ 515,207	\$ 22,972	\$	\$ 49,217	\$ 13,027	\$ 600,423	\$ 939,322
Receivables							
Accounts	8,687	6,259				14,946	15,819
Interest							1,560
Delinquent Taxes	24,111		4,916			29,027	24,171
Special Assessments	352		7,714	506,018		514,084	565,638
Due from Other Governmental Units	7,203		851	3,455	115,690	127,199	5,909
Prepaid Items	8,676	62				8,738	7,933
Total Assets	\$ 564,236	\$ 29,293	\$ 13,481	\$ 558,690	\$ 128,717	\$ 1,294,417	\$ 1,560,352
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE							
Liabilities							
Accounts Payable	\$ 9,651	\$ 3,784	\$	\$	\$ 6,388	\$ 19,823	\$ 17,249
Salaries Payable	10,639					10,639	777
Due to Other Governmental Units	2,720					2,720	2,875
Customer Deposits		3,878				3,878	3,878
Total Liabilities	23,010	7,662	0	0	6,388	37,060	24,779
Deferred Inflows of Resources							
Unavailable Revenue							
Delinquent Taxes	24,111		4,916			29,027	24,171
Special Assessments	163		7,714	506,018		513,895	565,638
Total Deferred Inflows of Resources	24,274	0	12,630	506,018	0	542,922	589,809
Fund Balance							
Nonspendable	8,676	62				8,738	7,933
Restricted							
Debt Service			851	52,672		53,523	331,903
Revolving Loan							6,391
Assigned							
Fund Operations		21,569			122,329	143,898	156,510
Equipment	94,000					94,000	74,000
Fire	150,890					150,890	151,351
Unassigned	263,386					263,386	217,676
Total Fund Balance	516,952	21,631	851	52,672	122,329	714,435	945,764
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 564,236	\$ 29,293	\$ 13,481	\$ 558,690	\$ 128,717	\$ 1,294,417	\$ 1,560,352

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, 2016
WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2015

	<u>2016</u>	<u>2015</u>
Total Fund Balances - Governmental Funds	\$ 714,435	\$ 945,764
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	4,042,220	2,819,837
Less: Accumulated Depreciation	(1,836,240)	(1,721,390)
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.		
Delinquent Taxes	29,027	24,171
Special Assessments	513,895	565,638
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	72,381	11,866
Deferred Inflows of Resources Related to Pensions	(20,593)	(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	(649,000)	(555,000)
Compensated Absences		(631)
Net Pension Liability	(144,256)	(74,419)
Accrued Interest Payable	(7,539)	(7,139)
Total Net Position - Governmental Activities	<u>\$ 2,714,330</u>	<u>\$ 1,992,966</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, 2016
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2015

	General	Trash Collection	Redevelopment Revolving Loan	2011A	2013A	Building Reserve	Totals	
				G.O. Improvement	G.O. Improvement		2016	2015
REVENUES								
Taxes	\$ 247,685			\$ 28,816	\$ 60,534		\$ 276,501	\$ 265,602
Special Assessments				4,344			64,878	99,489
Licenses and Permits	9,144						9,144	8,933
Intergovernmental	169,491					514,528	684,019	175,083
Charges for Services	86,478	45,046					131,524	122,642
Fines and Forfeits	203						203	416
Interest Income	3,090						3,090	2,555
Refunds and Reimbursements	16,487					125,000	141,487	9,050
Donations	3,250					37,780	41,030	7,278
Miscellaneous	690						690	568
Total Revenues	536,518	45,046	0	33,160	60,534	677,308	1,352,566	691,616
EXPENDITURES								
Current								
General Government	135,080						135,080	137,492
Public Safety	117,965						117,965	94,870
Public Works	71,964	38,531					110,495	101,846
Culture and Recreation	37,097					31,778	68,875	39,061
Debt Service								
Principal				30,000	326,000		356,000	55,000
Interest and Fiscal Charges				2,309	13,765	5,073	21,147	20,205
Capital Outlay								
General Government						1,033,886	1,033,886	
Public Safety	34,645					1,761	36,406	6,000
Public Works	69,604						69,604	
Culture and Recreation	10,500					73,937	84,437	51,462
Total Expenditures	476,855	38,531	0	32,309	339,765	1,146,435	2,033,895	505,936
Excess (Deficiency) of Revenues Over (Under) Expenditures	59,663	6,515	0	851	(279,231)	(469,127)	(681,329)	185,680
OTHER FINANCING SOURCES (USES)								
Transfers In	6,391						6,391	325,807
Transfers Out			(6,391)				(6,391)	(325,807)
Bonds Issued						450,000	450,000	
Total Other Financing Sources (Uses)	6,391	0	(6,391)	0	0	450,000	450,000	0
Net Change in Fund Balances	66,054	6,515	(6,391)	851	(279,231)	(19,127)	(231,329)	185,680
FUND BALANCE, BEGINNING OF YEAR	450,898	15,116	6,391		331,903	141,456	945,764	760,084
FUND BALANCE, END OF YEAR	\$ 516,952	\$ 21,631	\$ 0	\$ 851	\$ 52,672	\$ 122,329	\$ 714,435	\$ 945,764

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, 2016
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>2016</u>	<u>2015</u>
Total Net Change in Fund Balances - Governmental Funds	\$ (231,329)	\$ 185,680
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	1,236,282	67,137
Depreciation Expense	(116,836)	(117,843)
Asset Disposals, Net of Accumulated Depreciation	(11,913)	(9,921)
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	4,856	5,119
Special Assessments	(51,743)	(75,982)
In the Statement of Activities, certain expenses do not require the use of current resources and, therefore are not reported as expenditures in governmental funds.		
Compensated Absences	631	950
Net Pension Liability	(14,184)	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	356,000	55,000
Bonds Issued	(450,000)	
Change in Accrued Interest Payable	(400)	(5,401)
	<u>(400)</u>	<u>(5,401)</u>
Change in Net Position - Governmental Activities	<u>\$ 721,364</u>	<u>\$ 98,913</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, 2016
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2015

	2016			Over (Under) Final Budget	2015
	Budgeted Amounts		Actual		Actual
	Original	Final			
REVENUES					
Taxes	\$ 253,381	\$ 253,381	\$ 247,685	\$ (5,696)	\$ 265,602
Licenses and Permits	12,250	12,250	9,144	(3,106)	8,933
Intergovernmental	159,131	159,131	169,491	10,360	175,083
Charges for Services	77,480	77,480	86,478	8,998	83,313
Fines and Forfeits	250	250	203	(47)	416
Interest Income	1,000	1,000	3,090	2,090	1,096
Refunds and Reimbursements	2,000	2,000	16,487	14,487	9,050
Donations	500	500	3,250	2,750	3,100
Miscellaneous	1,000	1,000	690	(310)	568
Total Revenues	<u>506,992</u>	<u>506,992</u>	<u>536,518</u>	<u>29,526</u>	<u>547,161</u>
EXPENDITURES					
Current					
General Government	171,754	171,754	135,080	(36,674)	137,492
Public Safety	117,612	117,612	117,965	353	94,870
Public Works	95,948	95,948	71,964	(23,984)	67,320
Culture and Recreation	38,499	38,499	37,097	(1,402)	39,061
Capital Outlay					
General Government	25,074	25,074		(25,074)	
Public Safety	5,000	5,000	34,645	29,645	6,000
Public Works	15,000	15,000	69,604	54,604	
Culture and Recreation	3,500	3,500	10,500	7,000	3,760
Total Expenditures	<u>472,387</u>	<u>472,387</u>	<u>476,855</u>	<u>4,468</u>	<u>348,503</u>
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	34,605	34,605	59,663	25,058	198,658
OTHER FINANCING SOURCES (USES)					
Transfers In	(24,605)	(24,605)	6,391	30,996	
Transfers Out					(51,021)
Total Other Financing					
Sources (Uses)	<u>(24,605)</u>	<u>(24,605)</u>	<u>6,391</u>	<u>30,996</u>	<u>(51,021)</u>
Net Change in Fund Balances	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>66,054</u>	<u>\$ 56,054</u>	<u>147,637</u>
FUND BALANCE, BEGINNING OF YEAR			<u>450,898</u>		<u>303,261</u>
FUND BALANCE, END OF YEAR			<u>\$ 516,952</u>		<u>\$ 450,898</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, 2016
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2015

	2016			Over (Under) Final Budget	2015
	Budgeted Amounts		Actual		Actual
	Original	Final			
REVENUES					
Charges for Services	\$ 40,000	\$ 40,000	\$ 45,046	\$ 5,046	\$ 39,329
EXPENDITURES					
Current					
Public Works	39,000	39,000	38,531	(469)	34,186
Net Change in Fund Balances	<u>\$ 1,000</u>	<u>\$ 1,000</u>	6,515	<u>\$ 5,515</u>	5,143
FUND BALANCE, BEGINNING OF YEAR			15,116		9,973
FUND BALANCE, END OF YEAR			<u>\$ 21,631</u>		<u>\$ 15,116</u>

See Accompanying Notes to the Financial Statements

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, 2016
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2015

	2016			Over (Under) Final Budget	2015
	Budgeted Amounts		Actual		Actual
	Original	Final			
OTHER FINANCING SOURCES (USES)					
Transfers Out	\$	\$	\$ (6,391)	\$ 6,391	\$
Net Change in Fund Balances	\$ 0	\$ 0	(6,391)	\$ 6,391	0
FUND BALANCE, BEGINNING OF YEAR			6,391		6,391
FUND BALANCE, END OF YEAR			\$ 0		\$ 6,391

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 DECEMBER 31, 2016

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2015

	Business-Type Activities - Enterprise Funds			
	Sewer	Water	Totals	
			2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Assets				
Current Assets				
Cash	\$ 170,279	\$ 86,712	\$ 256,991	\$ 203,738
Accounts Receivable	7,568	24,765	32,333	37,568
Special Assessments				
Delinquent	526	1,049	1,575	
Prepaid Items	1,096	1,873	2,969	2,969
Total Current Assets	<u>179,469</u>	<u>114,399</u>	<u>293,868</u>	<u>244,275</u>
Noncurrent Assets				
Capital Assets, Net of Depreciation	225,000	2,640,376	2,865,376	2,998,197
Total Assets	<u>404,469</u>	<u>2,754,775</u>	<u>3,159,244</u>	<u>3,242,472</u>
Deferred Outflows of Resources				
Related to Pensions	4,263	6,394	10,657	2,784
Total Assets and Deferred Outflows of Resources	<u>\$ 408,732</u>	<u>\$ 2,761,169</u>	<u>\$ 3,169,901</u>	<u>\$ 3,245,256</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION				
Liabilities				
Current Liabilities				
Accounts Payable	\$ 845	\$ 864	\$ 1,709	\$ 15,419
Salaries Payable	437	575	1,012	318
Accrued Interest Payable		4,694	4,694	5,016
Customer Deposits	2,175	3,874	6,049	6,049
Current Portion of Note Payable		94,000	94,000	92,000
Total Current Liabilities	<u>3,457</u>	<u>104,007</u>	<u>107,464</u>	<u>118,802</u>
Noncurrent Liabilities				
Note Payable, Net of Current Portion		879,944	879,944	973,944
Net Pension Liability	10,315	15,473	25,788	19,863
Total Noncurrent Liabilities	<u>10,315</u>	<u>895,417</u>	<u>905,732</u>	<u>993,807</u>
Total Liabilities	<u>13,772</u>	<u>999,424</u>	<u>1,013,196</u>	<u>1,112,609</u>
Deferred Inflows of Resources				
Related to Pensions	1,584	2,376	3,960	4,385
Net Position				
Net Investment in Capital Assets	225,000	1,666,432	1,891,432	1,932,253
Unrestricted	168,376	92,937	261,313	196,009
Total Net Position	<u>393,376</u>	<u>1,759,369</u>	<u>2,152,745</u>	<u>2,128,262</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 408,732</u>	<u>\$ 2,761,169</u>	<u>\$ 3,169,901</u>	<u>\$ 3,245,256</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, 2016
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2015

	Business-Type Activities - Enterprise Funds			
	Sewer	Water	Totals	
			2016	2015
OPERATING REVENUES				
Sewer Charges	\$ 59,954	\$	\$ 59,954	\$ 54,290
Water Charges		186,702	186,702	165,624
Total Operating Revenues	59,954	186,702	246,656	219,914
OPERATING EXPENSES				
Salaries and Benefits	10,426	14,895	25,321	26,395
Insurance	2,014	2,021	4,035	7,583
Supplies	18,141	2,111	20,252	23,193
Maintenance and Repair	4,296	2,535	6,831	15,579
Equipment		893	893	
Electricity	1,833	9,263	11,096	10,921
Telephone		191	191	470
Miscellaneous	3,503	3,625	7,128	4,944
Depreciation	18,855	113,966	132,821	131,971
Total Operating Expenses	59,068	149,500	208,568	221,056
Operating Income (Loss)	886	37,202	38,088	(1,142)
NONOPERATING REVENUES (EXPENSES)				
Interest Income				504
Other Income		176	176	2,124
Interest Expense		(13,781)	(13,781)	(15,328)
Total Nonoperating Revenues (Expenses)	0	(13,605)	(13,605)	(12,700)
Change in Net Position	886	23,597	24,483	(13,842)
NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY STATED				
	392,490	1,735,772	2,128,262	2,163,821
PRIOR PERIOD ADJUSTMENT				
				(21,717)
NET POSITION, BEGINNING OF YEAR, AS RESTATED				
	392,490	1,735,772	2,128,262	2,142,104
NET POSITION, END OF YEAR				
	\$ 393,376	\$ 1,759,369	\$ 2,152,745	\$ 2,128,262

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2016

WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2015

	Business-Type Activities - Enterprise Funds			
	Sewer	Water	Totals	
			2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$ 60,396	\$ 189,920	\$ 250,316	\$ 219,734
Payments to Suppliers	(22,986)	(18,700)	(41,686)	(23,657)
Payments to Other Sources	(7,350)	(15,100)	(22,450)	(23,918)
Payments to Employees	(10,561)	(16,439)	(27,000)	(27,002)
Net Cash Provided (Used) by Operating Activities	19,499	139,681	159,180	145,157
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Other Receipts		176	176	2,124
Principal Payments on Note Payable		(92,000)	(92,000)	(96,159)
Interest Payments on Note Payable		(14,103)	(14,103)	(15,871)
Acquisition of Capital Assets				(26,368)
Net Cash Provided (Used) by Capital and Related Financing Activities	0	(105,927)	(105,927)	(136,274)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest Income				504
Net Increase (Decrease) in Cash and Cash Equivalents	19,499	33,754	53,253	9,387
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	150,780	52,958	203,738	194,351
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 170,279</u>	<u>\$ 86,712</u>	<u>\$ 256,991</u>	<u>\$ 203,738</u>

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2016

WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2015

	Business-Type Activities - Enterprise Funds			
	Sewer	Water	Totals	
			2016	2015
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES				
Operating Income (Loss)	\$ 886	\$ 37,202	\$ 38,088	\$ (1,142)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Depreciation	18,855	113,966	132,821	131,971
Pension Related Adjustments	(413)	(1,960)	(2,373)	(253)
(Increase) Decrease in Assets				
Accounts Receivable	968	4,267	5,235	(180)
Special Assessments	(526)	(1,049)	(1,575)	
Increase (Decrease) in Liabilities				
Accounts Payable	(549)	(13,161)	(13,710)	15,115
Salaries Payable	278	416	694	(354)
Net Cash Provided (Used) by Operating Activities	<u>\$ 19,499</u>	<u>\$ 139,681</u>	<u>\$ 159,180</u>	<u>\$ 145,157</u>

See Accompanying Notes to the Financial Statements

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CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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, 2016

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, 2016

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

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, 2016

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, 2016

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, 2016

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, 2016

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, 2016

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, 2016

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, 2015, 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, 2016

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, 2016, 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, 2016

NOTE 3. DEPOSITS (Cont'd)

Cash is as follows:

	<u>Book Balance</u>
Pooled Cash in Checking Account	\$ 603,738
Pooled Cash in Savings Account	249,851
Special Purpose Bank Accounts	
Fire-Checking	3,755
Petty Cash	<u>70</u>
Total Cash	<u>\$ 857,414</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	\$ 14,946	\$
Delinquent Taxes	29,027	
Special Assessments	<u>514,084</u>	<u>470,666</u>
Total Governmental Activities	<u>\$ 558,057</u>	<u>\$ 470,666</u>
<u>Business-Type Activities</u>		
Accounts	\$ 32,333	\$
Special Assessments	<u>1,575</u>	
Total Business-Type Activities	<u>\$ 33,908</u>	<u>\$ 0</u>

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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	\$ 77,198	\$ 6,000	\$	\$ 83,198
Construction in Progress	49,332		(49,332)	
Total Capital Assets, Not Being Depreciated	126,530	6,000	(49,332)	83,198
Capital Assets, Being Depreciated				
Buildings	166,235	1,008,922		1,175,157
Improvements Other than Buildings	1,570,365	48,118		1,618,483
Machinery and Equipment	956,707	222,574	(13,899)	1,165,382
Total Capital Assets Being Depreciated	2,693,307	1,279,614	(13,899)	3,959,022
Less Accumulated Depreciation for				
Buildings	131,338	7,061		138,399
Improvements Other than Buildings	965,356	45,953		1,011,309
Machinery and Equipment	624,696	63,822	(1,986)	686,532
Total Accumulated Depreciation	1,721,390	116,836	(1,986)	1,836,240
Total Capital Assets, Being Depreciated, Net	971,917	1,162,778	(11,913)	2,122,782
 Governmental Activities Net Capital Assets	 \$ 1,098,447	 \$ 1,168,778	 \$ (61,245)	 \$ 2,205,980

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 5. CAPITAL ASSETS (Cont'd)

Business-Type Activities	Ending Balance	Increase	Decrease	Ending Balance
Capital Assets, Being Depreciated				
Buildings	\$ 1,304,852	\$	\$	\$ 1,304,852
Improvements Other than Buildings	2,915,248			2,915,248
Machinery and Equipment	88,019			88,019
Total Capital Assets, Being Depreciated	4,308,119	0	0	4,308,119
Less Accumulated Depreciation for				
Buildings	548,460	38,309		586,769
Improvements Other than Buildings	728,711	87,971		816,682
Machinery and Equipment	32,751	6,541		39,292
Total Accumulated Depreciation	1,309,922	132,821	0	1,442,743
Total Capital Assets, Being Depreciated, Net	2,998,197	(132,821)	0	2,865,376
 Business-Type Activities Net Capital Assets	 \$ 2,998,197	 \$ (132,821)	 \$ 0	 \$ 2,865,376

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
General Government	\$ 4,831
Public Safety	53,281
Public Works	57,393
Culture and Recreation	1,331
Total Depreciation Expense - Governmental Activities	<u>\$ 116,836</u>
Business-Type Activities	
Sewer	\$ 18,855
Water	113,966
Total Depreciation Expense - Business-Type Activities	<u>\$ 132,821</u>

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A. INTERFUND TRANSFERS

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

	<u>Transfer In</u>
	<u>General</u>
Transfer Out	
Redevelopment Revolving Loan	\$ 6,391

The purpose of the above transfer to close out the Redevelopment Revolving Loan Fund.

NOTE 7. LONG-TERM LIABILITIES

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 LIABILITIES

	<u>Interest</u>	<u>Final</u>	<u>Balance</u>
	<u>Rates</u>	<u>Maturity</u>	<u>Outstanding</u>
		<u>Date</u>	
<u>Governmental Activities</u>			
G.O. Improvement Note, Series 2011A	2.70%	12/01/2018	\$ 63,000
G.O. Improvement Note, Series 2013A	3.60%	02/01/2029	136,000
USDA Rural Development Loan	2.38%	12/20/2056	450,000
Net Pension Liability			<u>144,256</u>
Total Governmental Activities			<u>\$ 793,256</u>

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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

B. COMPONENTS OF LONG-TERM LIABILITIES (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	\$ 418,706
G.O. Revenue Note - Water Tower	1.092%	08/20/2027	310,000
G.O. Revenue Note - Looping	1.00%	08/20/2029	164,000
G.O. Improvement Note, Series 2013A	*	*	81,238
Net Pension Liability			25,788
			<u>999,732</u>
Total Business-Type Activities			<u>\$ 999,732</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
2017	\$ 31,000	\$ 1,498	\$ 27,000	\$ 4,443
2018	32,000	648	28,000	3,446
2019			29,000	2,412
2020			30,000	1,342
2021			22,000	399
	<u>\$ 63,000</u>	<u>\$ 2,146</u>	<u>\$ 136,000</u>	<u>\$ 12,042</u>

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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

C. MINIMUM DEBT PAYMENTS (Cont'd)

Year Ending December 31	Governmental Activities		Business-Type Activities	
	USDA Rural Development Note		G.O. Revenue Notes	
	Principal	Interest	Principal	Interest
2017	\$ 6,868	\$ 10,687	\$ 88,000	\$ 12,228
2018	7,030	10,524	89,000	10,968
2019	7,198	10,357	90,000	9,694
2020	7,368	10,186	92,000	8,402
2021	7,544	10,011	93,000	21,834
2022-2026	40,490	47,281	371,706	2,272
2027-2031	45,534	42,239	69,000	
2032-2036	51,206	36,568		
2037-2041	57,580	30,193		
2042-2046	64,750	23,022		
2047-2051	72,814	14,958		
2052-2056	81,618	5,892		
	<u>\$ 450,000</u>	<u>\$ 251,918</u>	<u>\$ 892,706</u>	<u>\$ 65,398</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	\$ 93,000	\$	\$ (30,000)	\$ 63,000	\$ 31,000
G.O. Improvement Bonds	462,000		(326,000)	136,000	27,000
USDA Rural Development Loan		450,000		450,000	6,868
Compensated Absences	631		(631)		
Net Pension Liability	74,419	119,537	(49,700)	144,256	
Total Governmental Activities	<u>\$ 630,050</u>	<u>\$ 569,537</u>	<u>\$ (406,331)</u>	<u>\$ 793,256</u>	<u>\$ 64,868</u>

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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

D. CHANGES IN LONG-TERM LIABILITIES

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Business-Type Activities</u>					
G.O. Revenue Notes	\$ 978,706	\$	\$ (86,000)	\$ 892,706	\$ 88,000
G.O. Improvement Note	87,238		(6,000)	81,238	6,000
Net Pension Liability	19,863	18,648	(12,723)	25,788	
Total Business-Type Activities	<u>\$ 1,085,807</u>	<u>\$ 18,648</u>	<u>\$ (104,723)</u>	<u>\$ 999,732</u>	<u>\$ 94,000</u>

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 2016 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2016, 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.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 10. DEFINED BENEFIT PENSION PLANS - STATEWIDE

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.

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.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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

B. BENEFITS PROVIDED (Cont'd)

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.

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 9.1% and 6.5% of pay, respectively, in calendar year 2016. The City was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members. The City's contributions to the GERF for the plan's year ended December 31, 2016, were \$7,826. 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 2016. The City was required to contribute 16.20% of pay for PEPFF members in calendar year 2016. The City's contributions to the PEPFF for the year ended December 31, 2016, were \$1,833. The City's contributions were equal to the required contributions for each year as set by state statute.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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

D. PENSION COSTS

GERF Pension Costs:

At December 31, 2016, the City reported a liability of \$129,912 for its proportionate share of the GERF's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$1,780. The net pension liability was measured as of June 30, 2016, 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, 2015 through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was 0.0016% at the end of the measurement period and 0.0016% at the beginning of the period.

For the year ended December 31, 2016, the City recognized pension expense of \$18,006 for its proportionate share of GERF's pension expense. In addition, the City recognized an additional \$531 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At December 31, 2016, the City reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$	\$ 10,553
Changes in actuarial assumptions	25,437	
Differences between projected and actual investment earnings	24,658	
Changes in proportion and differences between contributions made and City's proportionate share of contributions		9,395
Contributions paid to PERA subsequent to measurement date	<u>3,592</u>	
Totals	<u>\$ 53,687</u>	<u>\$ 19,948</u>

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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

D. PENSION COSTS (Cont'd)

GERF Pension Costs: (Cont'd)

\$3,592 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, 2017. 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>	
2017	\$	6,454
2018		6,454
2019		12,545
2020		4,694

PEPFF Pension Cost:

At December 31, 2016, the City reported a liability of \$40,132 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015 through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was 0.0010% at the end of the measurement period and 0.0010% at the beginning of the period.

For the year ended December 31, 2016, the City recognized pension expense of \$6,824 for its proportionate share of PEPFF's pension expense. The City also recognized \$90 for the year ended December 31, 2016, of pension expense (and an offsetting reduction of net pension liability) 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, 2016

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

D. PENSION COSTS (Cont'd)

PEPFF Pension Cost: (Cont'd)

At December 31, 2016 the City reported its proportionate share of the PEPFF'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	\$	\$ 4,605
Changes in actuarial assumptions	22,086	
Differences between projected and actual investment earnings	6,124	
Contributions paid to PERA subsequent to measurement date	<u>1,141</u>	
Totals	<u>\$ 29,351</u>	<u>\$ 4,605</u>

\$1,141 reported as deferred outflows of resources related to pensions resulting from City contributions to PEPFF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to PEPFF pensions will be recognized in pension expense as follows:

<u>June 30,</u>	<u>Pension Expense Amount</u>	
2017	\$	5,078
2018		5,078
2019		5,078
2020		4,583
2021		3,788

E. ACTUARIAL ASSUMPTIONS

The total pension liability in the June 30, 2016 actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50% per year

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for the General Employees Plan and RP-2000 tables for the Police and Fire Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: one percent per year for all future years for the General Employees Plan and Police and Fire Plan.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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

E. ACTUARIAL ASSUMPTIONS (Cont'd)

Actuarial assumptions used in the June 30, 2016 valuations were based on the results of actuarial experience studies. The most recent four-year experience study in the GERP Plan was completed in 2015. The experience study for the PEPFF Plan was for the period July 1, 2004, through June 30, 2009.

The following changes in actuarial assumptions occurred in 2016:

GERF:

The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.

The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.

Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

PEPFF:

The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% thereafter to 1.0% per year for all future years.

The assumed investment return was changed from 7.9% to 7.5%. The single discount rate changed from 7.9% to 5.6%.

The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

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%

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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

F. DISCOUNT RATE

The discount rate used to measure the total pension liability in 2016 was 7.50%, a reduction from the 7.90% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the GERF was projected to be available to make all projected future benefit payments of current plan participants. 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.

In the PEPFF, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056 and June 30, 2058 respectively. Beginning in fiscal years ended June 30, 2057 for the PEPFF, when projected benefit payments exceed the funds' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60% for the PEPFF was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50% applied to all years of projected benefits through the point of asset depletion and 2.85% after.

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:

	<u>1% Decrease in Discount Rate (6.9%)</u>	<u>Discount Rate (7.9%)</u>	<u>1% Increase in Discount Rate (8.9%)</u>
GERF Discount Rate	6.50%	7.50%	8.50%
City's proportionate share of the GERF net pension liability	\$ 184,514	\$ 129,912	\$ 84,935
PEPFF Discount Rate	4.60%	5.60%	6.60%
City's proportionate share of the PEPFF net pension liability	\$ 56,179	\$ 40,132	\$ 27,020

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 report may be obtained on the Internet at www.mnpera.org.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 11. FUND BALANCE

The following is a summary of fund balance components:

	General	Trash Collection	2011A G.O. Improvement
Nonspendable			
Prepaid Items	\$ 8,676	\$ 62	\$
Restricted for			
Debt Service			851
Assigned			
Fund Operations		21,569	
Equipment	94,000		
Fire	150,890		
Total Assigned	<u>244,890</u>	<u>21,569</u>	<u>0</u>
Unassigned	<u>263,386</u>		
	<u>\$ 516,952</u>	<u>\$ 21,631</u>	<u>\$ 851</u>
	2013A G.O. Improvement	Building Reserve	Total
Nonspendable			
Prepaid Items	\$	\$	\$ 8,738
Restricted for			
Debt Service	52,672		53,523
Assigned			
Fund Operations		122,329	143,898
Equipment			94,000
Fire			150,890
Total Assigned	<u>0</u>	<u>122,329</u>	<u>388,788</u>
Unassigned			<u>263,386</u>
	<u>\$ 52,672</u>	<u>\$ 122,329</u>	<u>\$ 714,435</u>

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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, 2016, 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.

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF COSMOS, MINNESOTA

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
DECEMBER 31, 2016

Actuarial Valuation Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability (Asset) Associated with the Employer (b)	Employer's Proportionate Share of the Net Position Liability (Asset) and the State's Proportionate Share of the Net Pension Liability (Asset) Associated with the Employer (a+b)	Employer's Covered- Employee Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<u>Pensions</u>							
<u>PERA - GERP</u>							
6/30/2016	0.002%	\$ 129,912	\$ 1,780	\$ 131,692	\$ 99,801	131.95%	68.91%
6/30/2015	0.002%	82,920		82,920	97,656	84.91%	78.19%
<u>PERA - PEPFF</u>							
6/30/2016	0.001%	40,132		40,132	12,190	329.22%	63.88%
6/30/2015	0.001%	11,362		11,362	12,927	87.89%	86.61%

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

CITY OF COSMOS, MINNESOTA

SCHEDULE OF EMPLOYER CONTRIBUTIONS
DECEMBER 31, 2016

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>					
2016	\$ 7,826	\$ 7,826	\$	104,343	7.50%
2015	7,187	7,187		98,833	7.27%
<u>PERA - PEPFF</u>					
2016	1,833	1,833		11,313	16.20%
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.

SUPPLEMENTARY INFORMATION

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CITY OF COSMOS, MINNESOTA

BALANCE SHEET
 GENERAL FUND
 DECEMBER 31, 2016
 WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash	\$ 515,207	\$ 441,036
Receivables		
Accounts	8,687	8,412
Interest		1,560
Delinquent Taxes	24,111	24,171
Special Assessments	352	163
Due from Other Governmental Units	7,203	5,909
Prepaid Items	<u>8,676</u>	<u>7,871</u>
Total Assets	<u>\$ 564,236</u>	<u>\$ 489,122</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE		
Liabilities		
Accounts Payable	\$ 9,651	\$ 10,238
Salaries Payable	10,639	777
Due to Other Governmental Units	<u>2,720</u>	<u>2,875</u>
Total Liabilities	23,010	13,890
Deferred Inflows of Resources		
Unavailable Revenue		
Delinquent Taxes	24,111	24,171
Special Assessments	<u>163</u>	<u>163</u>
Total Deferred Inflows of Resources	24,274	24,334
Fund Balance		
Nonspendable	8,676	7,871
Assigned	244,890	225,351
Unassigned	<u>263,386</u>	<u>217,676</u>
Total Fund Balance	<u>516,952</u>	<u>450,898</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 564,236</u>	<u>\$ 489,122</u>

CITY OF COSMOS, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2016
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2015

	2016		2015	
	Final Budget	Actual	Over (Under) Final Budget	Actual
REVENUES				
Property Taxes	\$ 253,381	\$ 247,685	\$ (5,696)	\$ 265,602
Licenses and Permits	12,250	9,144	(3,106)	8,933
Intergovernmental				
Local Government Aid	143,271	143,271		142,805
Market Value Credit Aid		411	411	406
PERA Aid	360	360		360
Fire State Aid	15,500	20,122	4,622	18,076
Other State Aid		5,327	5,327	13,436
Total Intergovernmental	<u>159,131</u>	<u>169,491</u>	<u>10,360</u>	<u>175,083</u>
Charges for Services				
General Government		7,332	7,332	
Public Safety	75,605	74,361	(1,244)	81,511
Health & Welfare		1,155	1,155	
Culture and Recreation	1,875	3,630	1,755	1,802
Total Charges for Services	<u>77,480</u>	<u>86,478</u>	<u>8,998</u>	<u>83,313</u>
Fines and Forfeits	250	203	(47)	416
Interest Income	1,000	3,090	2,090	1,096
Refunds and Reimbursements	2,000	16,487	14,487	9,050
Donations	500	3,250	2,750	3,100
Miscellaneous	1,000	690	(310)	568
Total Revenues	<u>506,992</u>	<u>536,518</u>	<u>29,526</u>	<u>547,161</u>

CITY OF COSMOS, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2016
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2015

	2016		2015	
	Final Budget	Actual	Over (Under) Final Budget	Actual
EXPENDITURES				
Current				
General Government				
Mayor and Council				
Salaries and Benefits	\$ 5,782	\$ 4,031	\$ (1,751)	\$ 4,662
Legal Service	3,000	1,524	(1,476)	350
Building/Health Inspector	5,750	4,855	(895)	2,942
Consulting Fees	2,500	1,900	(600)	475
Miscellaneous	1,250	1,529	279	20
Total Mayor and Council	18,282	13,839	(4,443)	8,449
City Hall				
Utilities	16,500	6,308	(10,192)	16,168
Repairs	10,000	1,131	(8,869)	5,471
Supplies	3,000	846	(2,154)	749
Insurance	13,500	8,839	(4,661)	11,222
Miscellaneous	6,000	1,045	(4,955)	268
Total City Hall	49,000	18,169	(30,831)	33,878
Clerk and Secretary				
Salaries	56,880	59,980	3,100	46,577
Benefits	8,392	8,807	415	7,262
Insurance	5,300	6,393	1,093	5,480
Auditing and Accounting	18,000	16,500	(1,500)	19,500
Telephone	3,200	2,771	(429)	2,906
Supplies	3,000	2,736	(264)	3,176
Miscellaneous	4,200	2,185	(2,015)	2,620
Total Clerk and Secretary	98,972	99,372	400	87,521
Assessor				
	5,500	3,700	(1,800)	7,644
Total General Government	171,754	135,080	(36,674)	137,492

CITY OF COSMOS, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2016
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2015

	2016		2015	
	Final Budget	Actual	Over (Under) Final Budget	Actual
EXPENDITURES (Cont'd)				
Current (Cont'd)				
Public Safety				
Police Protection				
Salaries	\$ 19,500	\$ 17,786	\$ (1,714)	\$ 17,820
Benefits	3,376	1,926	(1,450)	2,346
Telephone	1,500	1,225	(275)	1,791
Insurance	750	5,300	4,550	5,187
Repairs	2,500	275	(2,225)	2,675
Supplies	500	62	(438)	424
Miscellaneous	2,800	383	(2,417)	588
Total Police Protection	<u>30,926</u>	<u>26,957</u>	<u>(3,969)</u>	<u>30,831</u>
Fire Protection				
Salaries and Benefits	7,000	6,418	(582)	6,657
Insurance	6,500	2,510	(3,990)	2,384
Supplies	3,000	4,531	1,531	2,802
Telephone	1,600	2,099	499	1,197
Electricity	2,000		(2,000)	
Repairs	4,500	5,534	1,034	4,511
Gas and Oil	5,400	4,285	(1,115)	4,809
Fireman's Relief	13,000	15,622	2,622	14,051
Miscellaneous	7,500	12,435	4,935	3,396
Total Fire Protection	<u>50,500</u>	<u>53,434</u>	<u>2,934</u>	<u>39,807</u>
Ambulance				
Salaries and Benefits	16,686	19,342	2,656	11,804
Insurance	1,800	837	(963)	305
Supplies	5,500	6,000	500	4,378
Telephone				35
Repairs	3,000	212	(2,788)	515
Gas and Oil	1,200	1,288	88	828
Miscellaneous	8,000	9,895	1,895	6,367
Total Ambulance	<u>36,186</u>	<u>37,574</u>	<u>1,388</u>	<u>24,232</u>
Total Public Safety	<u>117,612</u>	<u>117,965</u>	<u>353</u>	<u>94,870</u>

CITY OF COSMOS, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2016
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2015

	2016		2015	
	Final Budget	Actual	Over (Under) Final Budget	Actual
EXPENDITURES (Cont'd)				
Current (Cont'd)				
Public Works				
Salaries	\$ 15,228	\$ 14,230	\$ (998)	\$ 14,374
Benefits	2,307	1,934	(373)	2,279
Telephone	1,200	722	(478)	806
Street Lighting	21,500	1,515	(19,985)	8,253
Repairs	29,500	47,140	17,640	27,917
Supplies	10,513	(18,036)	(28,549)	7,819
Utilities		12,439	12,439	
Gas and Oil	3,500	1,169	(2,331)	1,777
Insurance	8,450	10,332	1,882	3,436
Miscellaneous	3,750	519	(3,231)	659
Total Public Works	95,948	71,964	(23,984)	67,320
Culture and Recreation				
Parks				
Salaries	17,352	19,187	1,835	16,457
Benefits	1,997	2,017	20	1,596
Electricity		3,300	3,300	2,582
Insurance		14	14	1,871
Repairs	5,000	1,044	(3,956)	2,476
Supplies	10,000	7,932	(2,068)	10,878
Telephone		429	429	307
Gas and Oil	1,400	967	(433)	930
Miscellaneous	2,750	2,207	(543)	1,964
Total Culture and Recreation	38,499	37,097	(1,402)	39,061
Total Current	423,813	362,106	(61,707)	338,743

CITY OF COSMOS, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2016
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2015

	2016		2015	
	Final Budget	Actual	Over (Under) Final Budget	Actual
EXPENDITURES (Cont'd)				
Capital Outlay				
General Government	\$ 25,074	\$	\$ (25,074)	\$
Public Safety	5,000	34,645	29,645	6,000
Public Works	15,000	69,604	54,604	
Culture and Recreation	3,500	10,500	7,000	3,760
Total Capital Outlay	<u>48,574</u>	<u>114,749</u>	<u>66,175</u>	<u>9,760</u>
Total Expenditures	<u>472,387</u>	<u>476,855</u>	<u>4,468</u>	<u>348,503</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	34,605	59,663	25,058	198,658
OTHER FINANCING SOURCES (USES)				
Transfers Out	(24,605)	6,391	30,996	
Transfers In				(51,021)
Total Other Financing Sources (Uses)	<u>(24,605)</u>	<u>6,391</u>	<u>30,996</u>	<u>(51,021)</u>
Net Change in Fund Balances	<u>\$ 10,000</u>	<u>66,054</u>	<u>\$ 56,054</u>	<u>147,637</u>
FUND BALANCE, BEGINNING OF YEAR		<u>450,898</u>		<u>303,261</u>
FUND BALANCE, END OF YEAR		<u>\$ 516,952</u>		<u>\$ 450,898</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, 2016
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2015

	2016		Over (Under) Final Budget	2015
	Final Budget	Actual		Actual
REVENUES				
Charges for Services	\$ 40,000	\$ 45,046	\$ 5,046	\$ 39,329
EXPENDITURES				
Current				
Public Works				
Insurance	500		(500)	178
Collection Contract	38,500	38,531	31	34,008
Total Expenditures	<u>39,000</u>	<u>38,531</u>	<u>(469)</u>	<u>34,186</u>
Net Change in Fund Balances	<u>\$ 1,000</u>	6,515	<u>\$ 5,515</u>	5,143
FUND BALANCE, BEGINNING OF YEAR		<u>15,116</u>		<u>9,973</u>
FUND BALANCE, END OF YEAR		<u>\$ 21,631</u>		<u>\$ 15,116</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, 2016
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2015

	2016		2015	
	Final Budget	Actual	Over (Under) Final Budget	Actual
OTHER FINANCING SOURCES (USES)				
Transfers Out	\$	\$ (6,391)	\$ (6,391)	\$
Net Change in Fund Balances	<u>\$ 0</u>	<u>(6,391)</u>	<u>\$ (6,391)</u>	<u>0</u>
FUND BALANCE, BEGINNING OF YEAR		<u>6,391</u>		<u>6,391</u>
FUND BALANCE, END OF YEAR		<u>\$ 0</u>		<u>\$ 6,391</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF NET POSITION
SEWER ENTERPRISE FUND
DECEMBER 31, 2016

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2015

	<u>2016</u>	<u>2015</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Assets		
Current Assets		
Cash	\$ 170,279	\$ 150,780
Accounts Receivable	7,568	8,536
Special Assessments		
Delinquent	526	
Prepaid Items	1,096	1,096
Total Current Assets	<u>179,469</u>	<u>160,412</u>
Noncurrent Assets		
Capital Assets, Net of Depreciation	225,000	243,855
Total Assets	<u>404,469</u>	<u>404,267</u>
Deferred Outflows of Resources		
Related to Pensions	4,263	1,044
Total Assets and Deferred Outflows of Resources	<u>\$ 408,732</u>	<u>\$ 405,311</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Liabilities		
Current Liabilities		
Accounts Payable	\$ 845	\$ 1,394
Salaries Payable	437	159
Customer Deposits	2,175	2,175
Total Current Liabilities	<u>3,457</u>	<u>3,728</u>
Noncurrent Liabilities		
Net Pension Liability	10,315	7,449
Total Liabilities	<u>13,772</u>	<u>11,177</u>
Deferred Inflows of Resources		
Related to Pensions	1,584	1,644
Net Position		
Net Investment in Capital Assets	225,000	243,855
Unrestricted	168,376	148,635
Total Net Position	<u>393,376</u>	<u>392,490</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 408,732</u>	<u>\$ 405,311</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 SEWER ENTERPRISE FUND
 DECEMBER 31, 2016
 WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2015

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Sewer Charges	\$ 59,954	\$ 54,290
OPERATING EXPENSES		
Salaries and Benefits	10,426	11,122
Insurance	2,014	3,480
Supplies	18,141	18,684
Maintenance and Repair	4,296	4,282
Electricity	1,833	1,715
Miscellaneous	3,503	1,163
Depreciation	18,855	18,855
Total Operating Expenses	<u>59,068</u>	<u>59,301</u>
Operating Income (Loss)	886	(5,011)
NONOPERATING REVENUES (EXPENSES)		
Interest Income		425
Change in Net Position	<u>886</u>	<u>(4,586)</u>
NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY STATED	392,490	405,220
PRIOR PERIOD ADJUSTMENT		<u>(8,144)</u>
NET POSITION, BEGINNING OF YEAR, AS RESTATED	<u>392,490</u>	<u>397,076</u>
NET POSITION, END OF YEAR	<u>\$ 393,376</u>	<u>\$ 392,490</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF NET POSITION
 WATER ENTERPRISE FUND
 DECEMBER 31, 2016

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2015

	<u>2016</u>	<u>2015</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Assets		
Current Assets		
Cash	\$ 86,712	\$ 52,958
Accounts Receivable	24,765	29,032
Special Assessments		
Delinquent	1,049	
Prepaid Items	1,873	1,873
Total Current Assets	<u>114,399</u>	<u>83,863</u>
Noncurrent Assets		
Capital Assets, Net of Depreciation	2,640,376	2,754,342
Total Assets	<u>2,754,775</u>	<u>2,838,205</u>
Deferred Outflows of Resources		
Related to Pensions	<u>6,394</u>	<u>1,740</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 2,761,169</u>	<u>\$ 2,839,945</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Liabilities		
Current Liabilities		
Accounts Payable	\$ 864	\$ 14,025
Salaries Payable	575	159
Accrued Interest Payable	4,694	5,016
Customer Deposits	3,874	3,874
Current Portion of Note Payable	94,000	92,000
Total Current Liabilities	<u>104,007</u>	<u>115,074</u>
Noncurrent Liabilities		
Note Payable, Net of Current Portion	879,944	973,944
Net Pension Liability	15,473	12,414
Total Noncurrent Liabilities	<u>895,417</u>	<u>986,358</u>
Total Liabilities	<u>999,424</u>	<u>1,101,432</u>
Deferred Inflows of Resources		
Related to Pensions	2,376	2,741
Net Position		
Net Investment in Capital Assets	1,666,432	1,688,398
Unrestricted	92,937	47,374
Total Net Position	<u>1,759,369</u>	<u>1,735,772</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 2,761,169</u>	<u>\$ 2,839,945</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 WATER ENTERPRISE FUND
 DECEMBER 31, 2016
 WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2015

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Water Charges	\$ 186,702	\$ 165,624
OPERATING EXPENSES		
Salaries and Benefits	14,895	15,273
Insurance	2,021	4,103
Supplies	2,111	4,509
Maintenance and Repair	2,535	11,297
Equipment	893	
Electricity	9,263	9,206
Telephone	191	470
Miscellaneous	3,625	3,781
Depreciation	113,966	113,116
Total Operating Expenses	<u>149,500</u>	<u>161,755</u>
Operating Income (Loss)	37,202	3,869
NONOPERATING REVENUES (EXPENSES)		
Interest Income		79
Other Income	176	2,124
Interest Expense	(13,781)	(15,328)
Total Nonoperating Revenues (Expenses)	<u>(13,605)</u>	<u>(13,125)</u>
Change in Net Position	23,597	(9,256)
NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY STATED	1,735,772	1,758,601
PRIOR PERIOD ADJUSTMENT		<u>(13,573)</u>
NET POSITION, BEGINNING OF YEAR, AS RESTATED	<u>1,735,772</u>	<u>1,745,028</u>
NET POSITION, END OF YEAR	<u>\$ 1,759,369</u>	<u>\$ 1,735,772</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, 2016, and the related notes to the financial statements, and have issued our report thereon dated July 20, 2017.

The Minnesota Legal Compliance Audit Guide for Cities, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all 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 Cities. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

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 & Consultants
Litchfield, Minnesota

July 20, 2017

Table with 5 columns: Willmar Office, Benson Office, Morris Office, Litchfield Office, St. Cloud-Sartell Office. Each column lists address, phone, and fax numbers.

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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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 20, 2017.

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 2016-001 and 2016-002 to be material weaknesses.

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 & Consultants
Litchfield, Minnesota

July 20, 2017

CITY OF COSMOS, MINNESOTA

SCHEDULE OF FINDINGS

DECEMBER 31, 2016

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

FINDING 2016-001 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.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Finding:

None

Actions Planned in Response to Finding:

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

Official Responsible for Ensuring CAP:

John Douville, City Administrator/Clerk

Planned Completion for Ensuring CAP:

December 31, 2017

Plan to Monitor Completion of CAP:

City Council

CITY OF COSMOS, MINNESOTA

SCHEDULE OF FINDINGS

DECEMBER 31, 2016

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

FINDING 2016-002 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.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Finding:
None

Actions Planned in Response to Finding:

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.

Official Responsible for Ensuring CAP:

John Douville, City Administrator/Clerk

Planned Completion for Ensuring CAP:

December 31, 2017

Plan to Monitor Completion of CAP:

John Douville, City Administrator/Clerk

CITY OF COSMOS, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2016

<u>Comment Reference</u>	<u>Comment Title</u>	<u>Status</u>	<u>Year Finding Initially Occurred</u>	<u>If Not Corrected, Provide Planned Corrective Action or Other Explanation</u>
Financial Statement Findings:				
2007-1	Auditor Prepared Financial Statements	Not Corrected	2007	See current year finding 2016-002
2007-2	Limited Segregation of Duties	Not Corrected	2007	See current year finding 2016-001

Minnesota Legal Compliance Findings:

None