

CITY OF COSMOS
COSMOS, MINNESOTA

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2017

CITY OF COSMOS, MINNESOTA
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SECTION I

INTRODUCTORY SECTION

CITY OF COSMOS
COSMOS, MINNESOTA
GENERAL INFORMATION

ELECTED AND APPOINTED OFFICIALS

2017

MAYOR	Emily Schmeling
COUNCIL MEMBER	Terry Anderson
COUNCIL MEMBER	Tom Rennecke
COUNCIL MEMBER	Angelica Hopp
COUNCIL MEMBER	Jody Fruetel
CITY ADMINISTRATOR	John Douville

2018

MAYOR	Emily Schmeling
COUNCIL MEMBER	Terry Anderson
COUNCIL MEMBER	Tom McCarthy
COUNCIL MEMBER	Angelica Hopp
COUNCIL MEMBER	Jody Fruetel
CITY ADMINISTRATOR	John Douville

SECTION II

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information, of City of Cosmos, Minnesota, as of and for the year ended December 31, 2017, 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Cosmos, Minnesota as of December 31, 2017, and the respective changes in financial position, and, where applicable cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension reporting schedules on pages 5 through 12 and 46 through 52 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.

Other Information

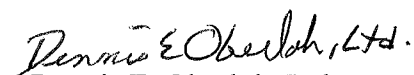
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Cosmos, Minnesota's basic financial statements. The introductory section, combining, individual nonmajor fund financial statements and summary financial report are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and summary financial report are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2018 on our consideration of City of Cosmos, Minnesota'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 City of Cosmos, Minnesota's internal control over financial reporting and compliance.


Dennis E. Oberloh, Ltd.

April 19, 2018

CITY OF COSMOS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017

FINANCIAL HIGHLIGHTS

As Management of the City of Cosmos (hereinafter referred to as “the City”) we offer readers of the City’s financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2017.

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$5,196,437 (net position). Of this amount \$1,692,599 (unrestricted net position) may be used to meet the City's on going obligations to citizens and creditors.
- The City's total net position increased by \$215,010, compared to an increase of \$745,847 in the previous year. The governmental activities net position increased during 2017 by \$221,005 and the business-type activities net position decreased by \$5,995.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$990,069, an increase of \$275,634 in comparison with the prior year. Approximately 86.8 percent of this total amount, \$859,921, is available for spending at the City's discretion, although \$489,591 has been assigned for specific purposes.

USING THIS ANNUAL REPORT

This management discussion and analysis is intended to serve as an introduction to the City’s basic financial statements. The City’s basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains additional components: (1) required supplementary information, and (2) other supplementary information, in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City’s finances, in a manner similar to a private-sector business.

The Statement of Net Position (on page 13) provides information on all the City’s assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between them presented as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities (on page 14) provides information showing how the City’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, culture and recreation, and sanitation. The business-type activities of the City include water utility and sewer utility.

CITY OF COSMOS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017

USING THIS ANNUAL REPORT (Cont.)

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds: Governmental funds are used to account for essentially the same function reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of nonspendable and spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact by the government's near-term financing decisions. Both the governmental fund balance sheet (on page 15) and the governmental fund statement of revenues, expenditures and changes in fund balances (on page 17) provide a reconciliation (on pages 16 and 18) to facilitate this comparison between governmental funds and governmental activities.

The City maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund and 2013A G.O. Improvement Fund; both of which are considered to be major funds. Data from the other nonmajor governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund. The budgetary comparison schedule has been provided for this fund to demonstrate compliance with the budget.

Proprietary Funds: The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water utility and sewer utility.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statement provides separate information for the Water Fund and Sewer Fund; which are considered to be major funds of the City. The basic proprietary fund financial statements can be found on pages 19 through 21 of this report.

Notes to the Financial Statements

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements. The notes to the financial statements can be found beginning on page 22 through 45 of this report.

CITY OF COSMOS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017

USING THIS ANNUAL REPORT (Cont.)

Required Supplementary Information

This Management's Discussion and Analysis and the General Fund Budgetary Comparison, and Pension Schedules (on pages 46 - 52) represent financial information required by GASB to be presented. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes, referred to as the basic financial statements.

Other Supplementary Information

This part of the annual report (starting on page 53) includes optional financial information such as combining nonmajor governmental fund statements (which are added together and shown in the fund financial statements in a single column) and the summary financial report - governmental funds. This other supplemental financial information is provided to address certain specific needs of various users of the City's annual report.

THE CITY AS A WHOLE

Looking at the net position and net expenses of the governmental and business-type activities separately, different stories emerge. Our analysis below focuses on the net position and changes in net position of the City's governmental and business-type activities.

Net Position

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current Assets	\$ 1,678,405	\$ 1,294,417	\$ 318,636	\$ 293,868	\$ 1,997,041	\$ 1,588,285
Capital Assets	<u>2,089,277</u>	<u>2,205,980</u>	<u>2,735,307</u>	<u>2,865,376</u>	<u>4,824,584</u>	<u>5,071,356</u>
Total Assets	<u>3,767,682</u>	<u>3,500,397</u>	<u>3,053,943</u>	<u>3,159,244</u>	<u>6,821,625</u>	<u>6,659,641</u>
Deferred Outflows of						
Resources	<u>39,017</u>	<u>72,381</u>	<u>9,585</u>	<u>10,657</u>	<u>48,602</u>	<u>83,038</u>
Current Liabilities	171,754	44,599	99,290	13,464	271,044	58,063
Long-term Liabilities	<u>523,339</u>	<u>793,256</u>	<u>809,046</u>	<u>999,732</u>	<u>1,332,385</u>	<u>1,792,988</u>
Total Liabilities	<u>695,093</u>	<u>837,855</u>	<u>908,336</u>	<u>1,013,196</u>	<u>1,603,429</u>	<u>1,851,051</u>
Deferred Inflows of						
Resources	<u>61,919</u>	<u>20,593</u>	<u>8,442</u>	<u>3,960</u>	<u>70,361</u>	<u>24,553</u>
Net Position						
Net Investment in						
Capital Assets	1,511,656	1,556,980	1,855,543	1,891,432	3,367,199	3,448,412
Restricted	122,026	564,632	-	-	122,026	564,632
Unrestricted	<u>1,401,392</u>	<u>592,718</u>	<u>291,207</u>	<u>261,313</u>	<u>1,692,599</u>	<u>854,031</u>
Total Net Position	<u>\$ 3,035,074</u>	<u>\$ 2,714,330</u>	<u>\$ 2,146,750</u>	<u>\$ 2,152,745</u>	<u>\$ 5,181,824</u>	<u>\$ 4,867,075</u>

A large portion of the City's net position (65.0 percent) reflects its net investment in capital assets (e.g., land, buildings and improvements, systems and infrastructure, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF COSMOS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017

THE CITY AS A WHOLE (Cont.)

Net Position (Cont.)

An additional portion of the City's net position (2.3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (32.7 percent) may be used to meet the City's ongoing obligations to citizens and creditors. At the end of the current fiscal year, the City is able to report positive balances in all categories of net position for both governmental and business-type activities.

Changes in Net Position

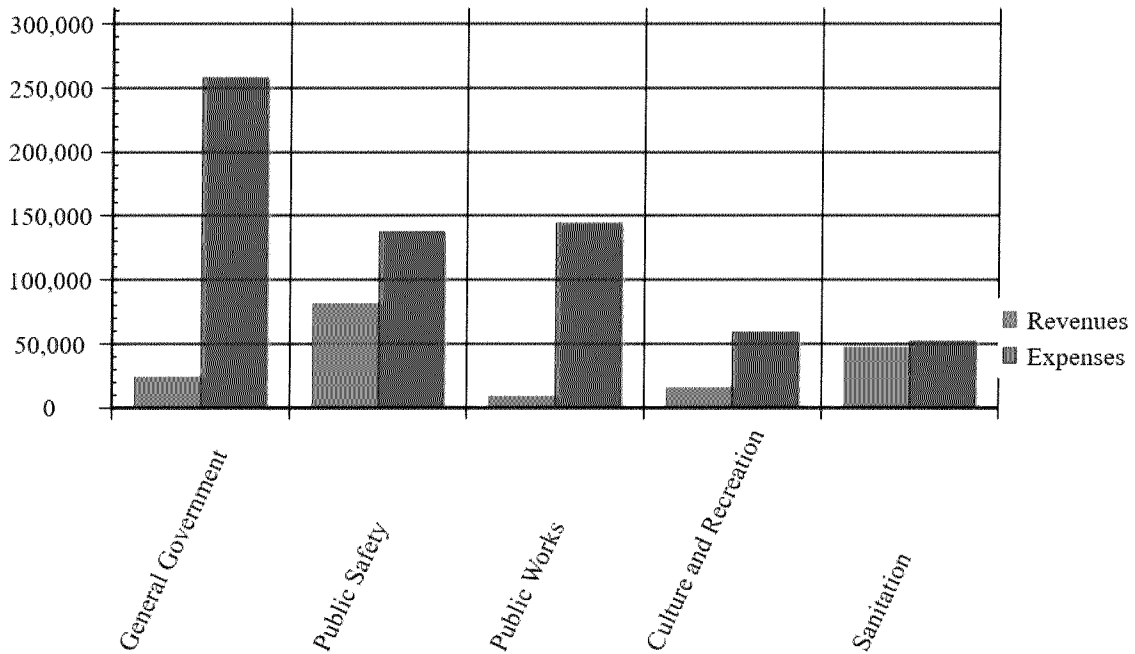
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<u>Revenues</u>						
Program Revenues:						
Fees, Fines, and Charges for Services	\$ 146,951	\$ 140,236	\$ 252,116	\$ 246,656	\$ 399,067	\$ 386,892
Operating Grants and Contributions	29,136	20,122	-	-	29,136	20,122
Capital Grants and Contributions	-	514,528	-	176	-	514,704
General Revenues:						
Taxes and Assessments	328,114	294,492	-	-	328,114	294,492
Intergovernmental Revenue	209,600	190,399	-	-	209,600	190,399
Interest Income	11,736	3,090	4,381	-	16,117	3,090
Other Income	-	-	6,351	-	6,351	-
Miscellaneous Income	<u>139,558</u>	<u>142,848</u>	<u>-</u>	<u>-</u>	<u>139,558</u>	<u>142,848</u>
Total Revenues	<u>865,095</u>	<u>1,305,715</u>	<u>262,848</u>	<u>246,832</u>	<u>1,127,943</u>	<u>1,552,547</u>
<u>Expenses</u>						
General Government	257,918	144,452	-	-	257,918	144,452
Public Safety	137,754	178,202	-	-	137,754	178,202
Public Works	144,043	169,044	-	-	144,043	169,044
Culture and Recreation	59,089	71,106	-	-	59,089	71,106
Sanitation	51,786	21,547	-	-	51,786	21,547
Sewer Utility	-	-	83,144	59,068	83,144	59,068
Water Utility	-	-	<u>179,199</u>	<u>163,281</u>	<u>179,199</u>	<u>163,281</u>
Total Expenses	<u>650,590</u>	<u>584,351</u>	<u>262,343</u>	<u>222,349</u>	<u>912,933</u>	<u>806,700</u>
Transfers	<u>6,500</u>	<u>-</u>	<u>(6,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Position	<u>221,005</u>	<u>721,364</u>	<u>(5,995)</u>	<u>24,483</u>	<u>215,010</u>	<u>745,847</u>
Net Position Beginning						
Originally Stated	2,714,330	1,992,966	2,152,745	2,128,262	4,867,075	4,121,228
Prior Period Adjustment	<u>114,352</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>114,352</u>	<u>-</u>
As Restated	<u>2,828,682</u>	<u>1,992,966</u>	<u>2,152,745</u>	<u>2,128,262</u>	<u>4,981,427</u>	<u>4,121,228</u>
Net Position Ending	<u>\$ 3,049,687</u>	<u>\$ 2,714,330</u>	<u>\$ 2,146,750</u>	<u>\$ 2,152,745</u>	<u>\$ 5,196,437</u>	<u>\$ 4,867,075</u>

CITY OF COSMOS, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 DECEMBER 31, 2017

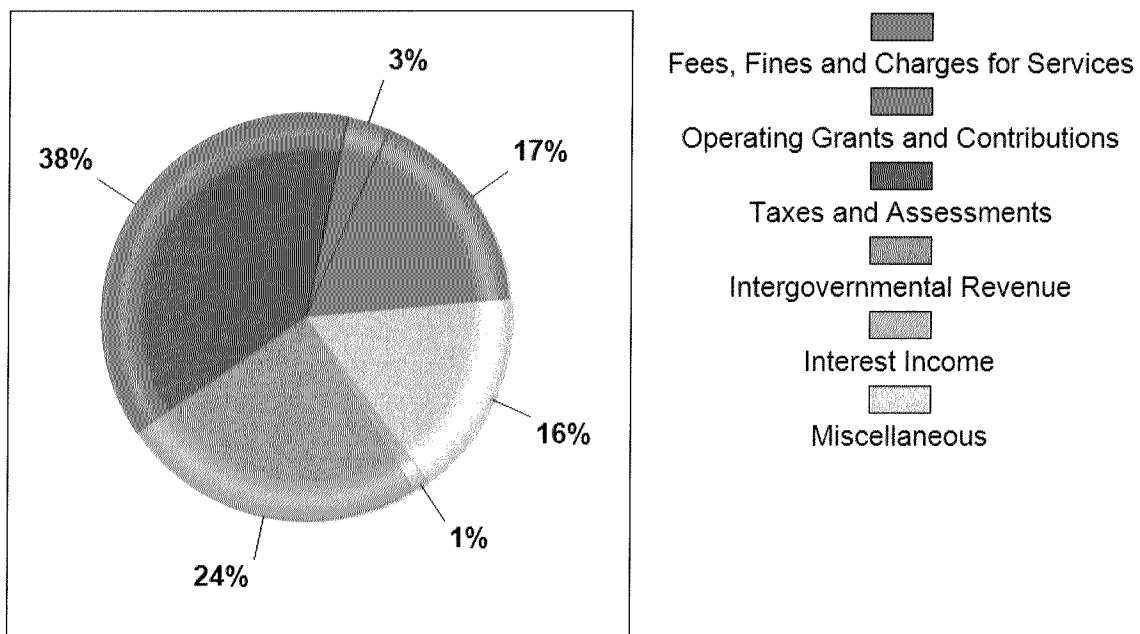
THE CITY AS A WHOLE (Cont.)
Governmental Activities

The following graphs depict various governmental activities and show the revenue and expenses directly related to those activities.

**Expenses and Program Revenues -
 Governmental Activities**



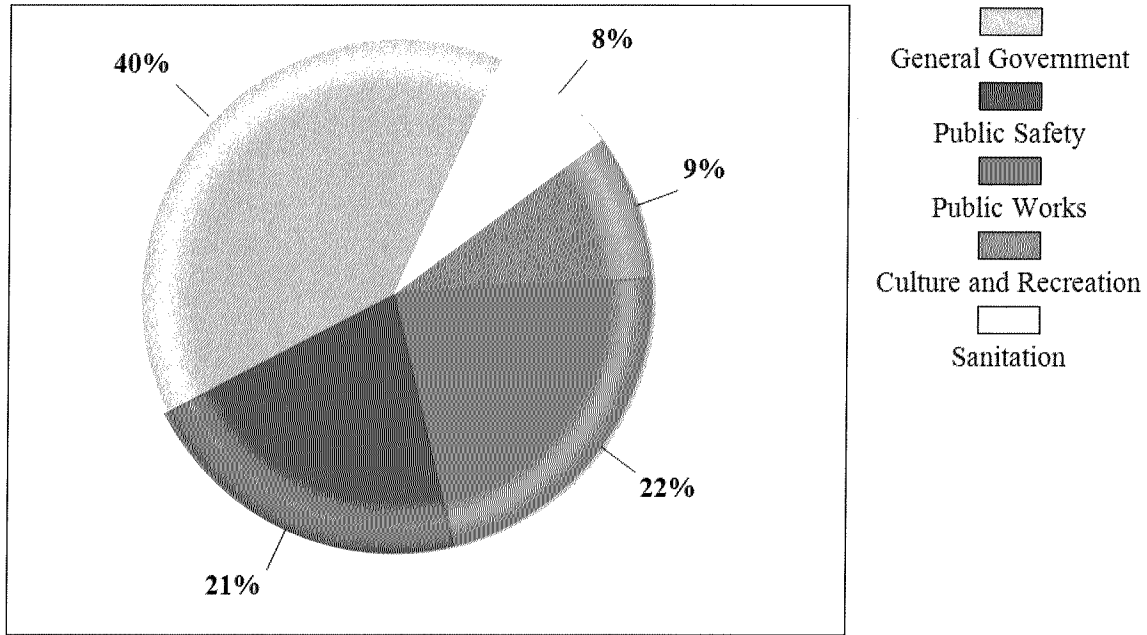
Sources of Funds in Governmental Activities



CITY OF COSMOS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017

THE CITY AS A WHOLE (Cont.)
Governmental Activities (Cont.)

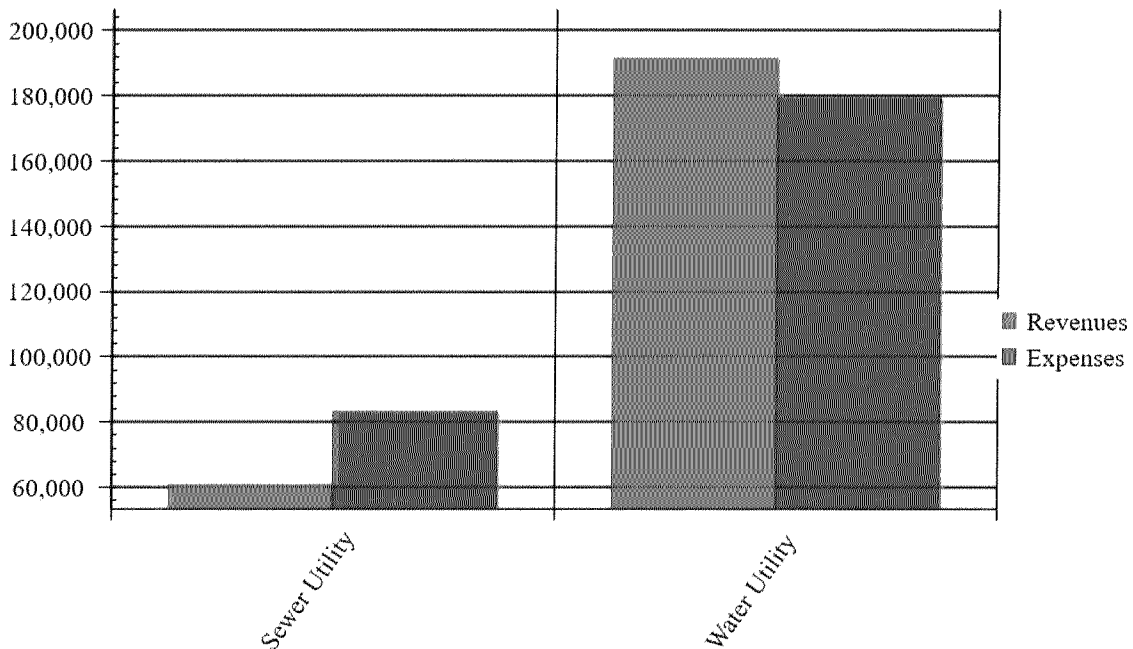
Uses of Funds in Governmental Activities



Business-Type Activities

The following graphs depict various business-type activities and show the revenue and expenses directly related to those activities.

**Expenses and Program Revenues -
Business-Type Activities**



CITY OF COSMOS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017

A 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. The City of Cosmos currently has seven different funds that will be accounted for in the 2017 audit. Those funds include the General Fund, 2013A G.O. Improvement Fund, 2011A G.O. Improvement Fund, Garbage Fund, Building Fund, Water Fund, and Sewer Fund.

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 unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the fund balance of the General Fund was \$851,016, of which \$472,564 was assigned for specific purposes and \$8,122 was nonspendable to offset prepaid expenses. As a measure of the General Funds liquidity, it may be useful to compare fund balance to fund expenditures. The total unassigned fund balance of \$370,330 represents 77.8 percent of fund expenditures. The fund balance of the City's General Fund increased \$334,064 compared to the prior year.

The 2013A G.O. Improvement Bond Fund has a fund balance of \$120,978, which has been restricted for future debt service payments. The net increase in fund balance during the current year was \$68,306.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the business-type activities in the government-wide financial statements, but in more detail. Unrestricted net position of the enterprise funds at the end of the year amounted to \$291,207. The total decrease in net position of the funds was \$5,995. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City's General Fund budget was not amended during the year. The budget called for revenues in excess of expenditures in the amount of \$31,543 during 2017. Revenues were over expectations by \$123,815 and expenditures came in over budget by \$2,724 during 2017. In addition, the City had an unbudgeted transfer in from other funds during 2017 in the amount of \$166,825.

CITY OF COSMOS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2017, amounts to \$4,824,585 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges. The total decrease in the City's investment in capital assets for the current fiscal year was 4.8 percent (a 5.2 percent decrease for governmental activities and a 4.5 percent decrease for business-type activities). The decrease was due to depreciation exceeding capital outlay.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Land	\$ 83,198	\$ 83,198	\$ -	\$ -	\$ 83,198	\$ 83,198
Buildings	1,164,610	1,175,157	1,304,853	1,304,852	2,469,463	2,480,009
Improvements other than Building	1,646,334	1,618,483	2,915,249	2,915,248	4,561,583	4,533,731
Machinery and Equipment	<u>1,175,554</u>	<u>1,165,382</u>	<u>88,018</u>	<u>88,019</u>	<u>1,263,572</u>	<u>1,253,401</u>
Subtotal	4,069,696	4,042,220	4,308,120	4,308,119	8,377,816	8,350,339
Less: Accumulated Depreciation	<u>1,980,419</u>	<u>1,836,240</u>	<u>1,572,812</u>	<u>1,442,743</u>	<u>3,553,231</u>	<u>3,278,983</u>
Total	<u>\$ 2,089,277</u>	<u>\$ 2,205,980</u>	<u>\$ 2,735,308</u>	<u>\$ 2,865,376</u>	<u>\$ 4,824,585</u>	<u>\$ 5,071,356</u>

The City's major addition in the governmental activities included improvements at the fire hall, and landscaping and improvements at the City Hall building.

Debt

At the end of the current fiscal year, the City had total Long-term debt outstanding of \$1,463,867.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
G.O. Improvement Bonds	\$ 141,000	\$ 199,000	\$ -	\$ 81,238	\$ 141,000	\$ 280,238
G.O. Revenue Notes	-	-	879,764	973,944	879,764	973,944
USDA Promissory Note	<u>443,103</u>	<u>450,000</u>	<u>-</u>	<u>-</u>	<u>443,103</u>	<u>450,000</u>
Total	<u>\$ 584,103</u>	<u>\$ 649,000</u>	<u>\$ 879,764</u>	<u>\$ 1,055,182</u>	<u>\$ 1,463,867</u>	<u>\$ 1,704,182</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2018 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 2017 final budget.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens and other interested individuals with a general overview of the City's finances and to show the accountability for the monies it receives through property taxes, user fees, and local government aid. If you have any questions about this report or need additional financial information, contact the City Clerk's Office at City of Cosmos, PO Box 614, 220 Milky Way St S, Cosmos, MN 56228, phone 320-877-7345.

CITY OF COSMOS, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 948,035	\$ 275,229	\$ 1,223,264
Receivables:			
Accounts Receivable	18,485	37,361	55,846
Property Taxes Receivable	34,750	-	34,750
Special Assessments Receivable	483,067	3,676	486,743
Interest Receivable	557	-	557
Due from Other Governments	37,227	-	37,227
Prepaid Expense	8,122	2,369	10,491
Capital assets not being depreciated:			
Land	83,198	-	83,198
Other capital assets:			
Buildings	1,164,610	1,304,853	2,469,463
Improvements other than Building	1,646,334	2,915,249	4,561,583
Machinery and Equipment	1,175,554	88,018	1,263,572
Accumulated Depreciation	(1,980,419)	(1,572,812)	(3,553,231)
Net Pension Asset	148,162	-	148,162
TOTAL ASSETS	<u>3,767,682</u>	<u>3,053,943</u>	<u>6,821,625</u>
DEFERRED OUTFLOWS OF RESOURCES			
Related to Pensions	39,017	9,585	48,602
LIABILITIES			
Accounts Payable	17,174	1,540	18,714
Taxes Payable	1,498	-	1,498
Accrued Interest	1,198	4,410	5,608
Salaries Payable	3,875	1,340	5,215
Noncurrent liabilities:			
Due within one year	148,009	92,000	240,009
Net Pension Liability	87,245	21,282	108,527
Due in more than one year	436,094	787,764	1,223,858
TOTAL LIABILITIES	<u>695,093</u>	<u>908,336</u>	<u>1,603,429</u>
DEFERRED INFLOWS OF RESOURCES			
Related to Pensions	61,919	8,442	70,361
NET POSITION			
Net Investment in Capital Assets	1,526,269	1,855,543	3,381,812
Restricted for:			
Debt Service	122,026	-	122,026
Unrestricted	1,401,392	291,207	1,692,599
TOTAL NET POSITION	<u>\$ 3,049,687</u>	<u>\$ 2,146,750</u>	<u>\$ 5,196,437</u>

The Notes to the Financial Statements are an integral part of this statement.

CITY OF COSMOS, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017

	General Fund	2013A G.O. Improvement	Nonmajor Governmental Funds	Total
ASSETS:				
Cash and Cash Equivalents	\$ 816,491	\$ 117,577	\$ 13,967	\$ 948,035
Accounts Receivable	11,540	-	6,945	18,485
Due from Other Governments	33,021	3,400	806	37,227
Property Taxes Receivable	30,062	-	4,688	34,750
Special Assessments Receivable	352	478,858	3,857	483,067
Interest Receivable	557	-	-	557
Prepaid Expense	8,122	-	-	8,122
Total Assets	\$ 900,145	\$ 599,835	\$ 30,263	\$ 1,530,243
LIABILITIES:				
Accounts Payable	\$ 13,531	\$ -	\$ 3,643	\$ 17,174
Taxes Payable	1,498	-	-	1,498
Salaries Payable	3,875	-	-	3,875
Total Liabilities	18,904	-	3,643	22,547
DEFERRED INFLOWS OF RESOURCES:				
Unavailable Revenue	30,225	478,857	8,545	517,627
Total Deferred Inflows of Resources	30,225	478,857	8,545	517,627
FUND BALANCES:				
Nonspendable	8,122	-	-	8,122
Restricted	-	120,978	1,048	122,026
Assigned	472,564	-	17,027	489,591
Unassigned	370,330	-	-	370,330
Total Fund Balances	851,016	120,978	18,075	990,069
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 900,145	\$ 599,835	\$ 30,263	\$ 1,530,243

The Notes to the Financial Statements are an integral part of this statement.

CITY OF COSMOS, MINNESOTA
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2017

Total Governmental Fund Balances	\$ 990,069
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>	
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,089,277
Part of taxes and special assessments receivable are not available to pay for current period expenditures and therefore are deferred in the funds.	517,627
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and therefore are not reported in the funds.	(585,301)
Net Pension Liability, Net Pension Asset, Deferred Inflows of Resources Related to Pensions and Deferred Outflows of Resources Related to Pensions in the governmental activities are not current financial resources and therefore not reported in the governmental funds.	<u>38,015</u>
Net Position of Governmental Activities	<u>\$ 3,049,687</u>

CITY OF COSMOS, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	General Fund	2013A G.O. Improvement	Nonmajor Governmental Funds	Total
REVENUES				
Taxes	\$ 261,321	\$ 69,392	\$ 22,696	\$ 353,409
Licenses and Permits	3,136	-	-	3,136
Intergovernmental Revenue	173,402	-	65,303	238,705
Charges for Services	96,532	-	47,000	143,532
Fines and Forfeits	283	-	-	283
Interest Income	11,232	1	503	11,736
Miscellaneous	<u>107,181</u>	<u>30,323</u>	<u>5,295</u>	<u>142,799</u>
Total Revenues	<u>653,087</u>	<u>99,716</u>	<u>140,797</u>	<u>893,600</u>
EXPENDITURES				
Current Operations:				
General Government	218,136	-	-	218,136
Public Safety	104,791	-	-	104,791
Public Works	79,014	-	-	79,014
Culture and Recreation	45,187	-	6,065	51,252
Sanitation	-	-	51,786	51,786
Debt Service:				
Principal Payments	6,897	27,000	31,000	64,897
Interest Payments	10,658	4,410	1,499	16,567
Capital Outlay	<u>11,165</u>	<u>-</u>	<u>26,858</u>	<u>38,023</u>
Total Expenditures	<u>475,848</u>	<u>31,410</u>	<u>117,208</u>	<u>624,466</u>
EXCESS REVENUES OVER EXPENDITURES	<u>177,239</u>	<u>68,306</u>	<u>23,589</u>	<u>269,134</u>
OTHER FINANCING SOURCES (USES)				
Transfer In	166,825	-	10,000	176,825
Transfer Out	<u>(10,000)</u>	<u>-</u>	<u>(160,325)</u>	<u>(170,325)</u>
EXCESS REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	334,064	68,306	(126,736)	275,634
FUND BALANCES - January 1	<u>516,952</u>	<u>52,672</u>	<u>144,811</u>	<u>714,435</u>
FUND BALANCES - December 31	<u>\$ 851,016</u>	<u>\$ 120,978</u>	<u>\$ 18,075</u>	<u>\$ 990,069</u>

The Notes to the Financial Statements are an integral part of this statement.

CITY OF COSMOS, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
DECEMBER 31, 2017

Net Change in Fund Balances - Total Governmental Funds \$ 275,634

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	38,023
Depreciation Expense	(151,485)
Gain (Loss) on Disposal of Capital Assets	(3,241)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. (25,295)

Interest on long-term liabilities is expensed as paid in the funds, but accrued in the period due in the Statement of Activities. 6,341

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Principal Repayments	64,897
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Pension expense related to the Net Pension Liability reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. 16,131

Change in Net Position of Governmental Activities \$ 221,005

CITY OF COSMOS, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2017

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 164,088	\$ 111,141	\$ 275,229
Accounts Receivable	9,338	28,023	37,361
Special Assessments Receivable	1,838	1,838	3,676
Prepaid Expense	796	1,573	2,369
Total Current Assets	<u>176,060</u>	<u>142,575</u>	<u>318,635</u>
NONCURRENT ASSETS			
Capital Assets:			
Buildings	390,000	914,853	1,304,853
Improvements other than Building	134,148	2,781,101	2,915,249
Machinery and Equipment	66,070	21,948	88,018
Total Capital Assets	590,218	3,717,902	4,308,120
Less: Accumulated Depreciation	<u>383,025</u>	<u>1,189,787</u>	<u>1,572,812</u>
Net Capital Assets	<u>207,193</u>	<u>2,528,115</u>	<u>2,735,308</u>
TOTAL ASSETS	<u>383,253</u>	<u>2,670,690</u>	<u>3,053,943</u>
DEFERRED OUTFLOWS OF RESOURCES			
Related to Pensions	<u>3,827</u>	<u>5,758</u>	<u>9,585</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 387,080</u>	<u>\$ 2,676,448</u>	<u>\$ 3,063,528</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	\$ 706	\$ 834	\$ 1,540
Accrued Interest	-	4,410	4,410
Salaries Payable	536	804	1,340
Current Amount of Long-Term Debt	-	92,000	92,000
Total Current Liabilities	<u>1,242</u>	<u>98,048</u>	<u>99,290</u>
LONG-TERM LIABILITIES			
Net Pension Liability	8,484	12,798	21,282
Bonds and Notes Payable	-	787,764	787,764
Total Long-Term Liabilities	<u>8,484</u>	<u>800,562</u>	<u>809,046</u>
TOTAL LIABILITIES	<u>9,726</u>	<u>898,610</u>	<u>908,336</u>
DEFERRED INFLOWS OF RESOURCES			
Related to Pensions	<u>3,482</u>	<u>4,960</u>	<u>8,442</u>
NET POSITION			
Net Investment in Capital Assets	207,193	1,648,350	1,855,543
Unrestricted	<u>166,679</u>	<u>124,528</u>	<u>291,207</u>
Total Net Position	<u>373,872</u>	<u>1,772,878</u>	<u>2,146,750</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES AND EQUITY	<u>\$ 387,080</u>	<u>\$ 2,676,448</u>	<u>\$ 3,063,528</u>

The Notes to the Financial Statements are an integral part of this statement.

CITY OF COSMOS, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Sewer Fund	Water Fund	Total
OPERATING REVENUES			
Charges for Services	\$ 60,685	\$ 191,431	\$ 252,116
Total Operating Revenues	60,685	191,431	252,116
OPERATING EXPENSES			
Personnel Services	11,323	17,510	28,833
Depreciation	17,807	112,262	130,069
Equipment	-	165	165
Insurance	2,701	2,350	5,051
Permits, Testing and Fees	6,350	-	6,350
Repairs and Maintenance	8,211	14,305	22,516
Supplies	34,550	7,285	41,835
Telephone	-	780	780
Utilities	1,407	8,455	9,862
Miscellaneous	795	3,048	3,843
Total Operating Expenses	83,144	166,160	249,304
NET OPERATING INCOME (LOSS)	(22,459)	25,271	2,812
NON OPERATING INCOME AND EXPENSE:			
Interest Income	2,777	1,604	4,381
Other Income	2,178	4,173	6,351
Interest Expense	-	(13,039)	(13,039)
Net Non Operating Income and Expense	4,955	(7,262)	(2,307)
INCOME (LOSS) BEFORE TRANSFERS	(17,504)	18,009	505
Transfer Out	(2,000)	(4,500)	(6,500)
CHANGE IN NET POSITION	(19,504)	13,509	(5,995)
NET POSITION - January 1	393,376	1,759,369	2,152,745
NET POSITION - December 31	\$ 373,872	\$1,772,878	\$ 2,146,750

The Notes to the Financial Statements are an integral part of this statement.

CITY OF COSMOS, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Enterprise Funds</u>		<u>Total</u>
	<u>Sewer Fund</u>	<u>Water Fund</u>	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from Customers	\$ 55,428	\$ 183,509	\$ 238,937
Payments to Vendors	(53,853)	(36,118)	(89,971)
Payments to Employees	(10,721)	(16,736)	(27,457)
Other Receipts and Payments	<u>2,178</u>	<u>4,173</u>	<u>6,351</u>
Net Cash Provided (Used) By Operating Activities	<u>(6,968)</u>	<u>134,828</u>	<u>127,860</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfer from Other Funds	<u>(2,000)</u>	<u>(4,500)</u>	<u>(6,500)</u>
Net Cash Used By Noncapital Financing Activities	<u>(2,000)</u>	<u>(4,500)</u>	<u>(6,500)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal Paid on Capital Debt	-	(94,180)	(94,180)
Interest Paid on Capital Debt	<u>-</u>	<u>(13,323)</u>	<u>(13,323)</u>
Net Cash Used By Capital and Related Financing Activities	<u>-</u>	<u>(107,503)</u>	<u>(107,503)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest Received	<u>2,777</u>	<u>1,604</u>	<u>4,381</u>
Net Cash Provided By Investing Activities	<u>2,777</u>	<u>1,604</u>	<u>4,381</u>
NET INCREASE (DECREASE) IN CASH	(6,191)	24,429	18,238
CASH AND CASH EQUIVALENTS - January 1	<u>170,279</u>	<u>86,712</u>	<u>256,991</u>
CASH AND CASH EQUIVALENTS - December 31	<u>\$ 164,088</u>	<u>\$ 111,141</u>	<u>\$ 275,229</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities			
Operating Income (Loss)	\$ (22,459)	\$ 25,271	\$ 2,812
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities			
Depreciation	17,807	112,262	130,069
Noncash Pension Expense	503	545	1,048
Changes in Assets and Liabilities			
Accounts Receivable	(1,770)	(3,259)	(5,029)
Special Assessments	(1,312)	(789)	(2,101)
Prepaid Items	300	300	600
Accounts Payable	(139)	(30)	(169)
Accrued Salaries	99	229	328
Customer Deposits	(2,175)	(3,874)	(6,049)
Other Revenues and Expenses	<u>2,178</u>	<u>4,173</u>	<u>6,351</u>
Net Cash Provided (Used) By Operating Activities	<u>\$ (6,968)</u>	<u>\$ 134,828</u>	<u>\$ 127,860</u>

The Notes to the Financial Statements are an integral part of this statement.

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Cosmos (the City) was established under the laws of the State of Minnesota. The City is governed by an elected Mayor and four-member Council. The Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City provides the following: general government, public safety, public works, public health and welfare, culture, recreation, garbage services, waterworks, and sanitary sewer.

The financial statements of the City of Cosmos, Minnesota are prepared in accordance with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant of these accounting policies are described below.

A. Reporting Entity

The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. Blended component units, although legally separate entities are, in substance, part of the City's operations and so data from these units are combined with data of the primary government.

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 the non fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these financial statements. Governmental Activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 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) sales. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to identify the relationship between the government-wide statements and the statements for governmental funds. The primary effect of internal activity has been eliminated from the government-wide financial statements.

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, franchise taxes, licenses, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, includes property taxes, grants, entitlement and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year which the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Cont.)

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue in the fund financial statements.

The City reports the following major governmental funds:

- General Fund - This fund is the City's primary operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.
- 2013A G.O. Improvement Bond Fund - This fund is used to account for the revenues and expenditures related to the 2013A GO Improvement bond.

The City reports the following major proprietary funds:

- Water Fund - This fund is used to account for the water treatment and distribution to the residential and commercial users of the City.
- Sewer Fund - This fund is used to account for the sewer treatment and distribution from the residential and commercial users of the City.

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

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided and 2) sales. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Use of Estimates

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

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

E. Restricted Assets

Certain funds of the City are classified as restricted assets on the statement of net position because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

F. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City.

G. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

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

The City provides temporary advances to funds that have insufficient cash balances by means of an advance from another fund shown as interfund receivables in the advancing fund, and an interfund payable in the fund with the deficit, until adequate resources are received. These interfund balances are eliminated on the government-wide financial statements.

H. Property Taxes

The Council annually adopts a tax levy and certifies it to the County in December of each year for collection in the following year. The County is responsible for billing and collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Treasurer and tax settlements are made to the City during January, June and November each year.

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by an unavailable revenue liability for delinquent taxes not received within 60 days after year end in the fund financial statements.

I. Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2017. Since the City is generally able to certify delinquent amounts to the County for collection as special assessments, no allowance for uncollectible accounts has been provided on current receivables.

J. Special Assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue when they are annually certified to the County or received in cash during the year or within 60 days after year end. All governmental special assessments receivable are offset by an unearned revenue liability in the fund financial statements.

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

K. 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.

L. Capital Assets

Capital Assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements.

As the City constructs or acquires assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the City values these capital assets at the estimated fair value of the item at the date of its donation. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The City has elected not to retroactively capitalize the infrastructure of its governmental activities acquired prior to January 1, 2004 as allowed by GASB Statement No. 34.

For financial statement purposes only, capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of three years.

Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives: 7 to 40 years for buildings and improvements other than building, and 3 to 15 years for machinery and equipment.

M. Compensated Absences

Compensated Absences are immaterial and not accounted for in these financial statements. The City has no post retirement benefits available to employees.

N. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond discounts and premiums are recorded as assets and liabilities, respectively and amortized over the life of the bonds using the straight-line method. Bond issuance costs are expensed in the year incurred.

In the fund financial statements, governmental fund types recognized 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.

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

O. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to or 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.

P. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Q. Fund Balance

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable - Consists of amounts that are not in spendable form, such as 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 internally imposed constraints. These constraints are established by Resolution of the City Council.

Assigned - Consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the City's intended use. These constraints are established by the City Council and/or management.

Unassigned - The residual classification for the general fund and also reflects negative residual amounts in other funds

When both restricted and unrestricted resources are available for use, it is the City's policy to first use restricted resources, and then use unrestricted resources as they are needed.

When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order; 1) committed 2) assigned and 3) unassigned.

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

R. Net Position

Net position represent the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is displayed in three components:

- (a) Net investment in capital assets – Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- (b) Restricted net position – Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- (c) Unrestricted net position – All other net position that does not meet the definition of “restricted” or “net investment in capital assets”.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting generally accepted in the United States of America for the General fund. All annual appropriations lapse at fiscal year end. The City does not use encumbrance accounting.

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

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

B. Expenditures Over Appropriations

The following sub-functions of the general fund had expenditures in excess of appropriations for the year ended December 31, 2017.

<u>Function Area</u>	Budget	Actual	Variance
General Government	\$ 192,421	\$ 218,136	\$ (25,715)
Culture and Recreation	\$ 39,954	\$ 45,187	\$ (5,233)
Debt Service	\$ -	\$ 17,555	\$ (17,555)

3. DEPOSITS AND INVESTMENTS

A. Cash and Cash Investments

Custodial Credit Risk - Custodial Credit Risk for deposits and investments is the risk that in the event of a bank failure the City’s deposits and investments may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes, the City maintains deposits at the depository banks, which are authorized by the City Council and are members of the Federal Reserve System.

Minnesota Statutes require that all City deposits be 110% secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (140% in the case of mortgage notes pledged).

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

3. DEPOSITS AND INVESTMENTS (Cont.)

A. Cash and Cash Investments (Cont.)

Authorized collateral includes the legal investments described by state statutes, as well as certain first mortgage notes, and certain other state and local government obligations. Minnesota statutes require that securities pledged as collateral be held in safekeeping by the City or in a financial institution other than that furnishing the collateral.

At year end, the City's carrying amount of deposits was \$179,284 and the bank balance was \$1,254,367 including certificates of deposits of \$1,143,980. All of the bank balance was covered by federal depository insurance.

B. Investments

The City maintains no investment accounts other than certificates of deposit reported above.

4. UNAVAILABLE/UNEARNED REVENUE

Governmental funds report unavailable and unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Enterprise Funds defer revenue recognition in connection with resources that have been assessed, but not yet earned. At the end of the current fiscal year, the various components of unavailable revenue and unearned revenue reported in the governmental and enterprise funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
General Fund		
Delinquent Taxes Receivable	\$ 30,225	\$ -
2013A G.O. Improvement		
Special Assessments Receivable	478,857	-
Nonmajor Governmental Funds		
Delinquent Taxes Receivable	4,688	-
Special Assessments Receivable	<u>3,857</u>	<u>-</u>
Total	<u>\$ 517,627</u>	<u>\$ -</u>

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

5. TRANSFERS

Transfers to and from other funds at December 31, 2017, follows:

	Transfers to <u>Other Funds</u>	Transfers from <u>Other Funds</u>
General Fund	\$ 10,000	\$ 166,825
Nonmajor Governmental Funds	160,325	10,000
Sewer Fund	2,000	-
Water Fund	4,500	-
	<u>\$ 176,825</u>	<u>\$ 176,825</u>

- The General Fund transferred \$10,000 to the 2011A G.O. Improvement Fund to offset debt service payment requirements.
- The Building Fund transferred \$160,325 to the General Fund to close the building fund after completion of the City Hall building.
- The Sewer Fund transferred \$2,000 and the Water Fund transferred \$4,500 to the General Fund for operating purposes.

6. CHANGES IN CAPITAL ASSETS

Governmental Activities - Capital asset activity for the year ended December 31, 2017 was as follows:

	<u>Balance January 1</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance December 31</u>
Not Being Depreciated:				
Land	\$ 83,198	\$ -	\$ -	\$ 83,198
Subtotal	<u>83,198</u>	<u>-</u>	<u>-</u>	<u>83,198</u>
Other Capital Assets:				
Buildings	1,175,157	-	(10,547)	1,164,610
Improvements other than Building	1,618,482	27,852	-	1,646,334
Machinery and Equipment	<u>1,165,383</u>	<u>10,171</u>	<u>-</u>	<u>1,175,554</u>
Subtotal	<u>3,959,022</u>	<u>38,023</u>	<u>(10,547)</u>	<u>3,986,498</u>
Less: Accumulated Depreciation				
Buildings	138,399	30,062	(7,306)	161,155
Improvements other than Building	1,011,309	46,397	-	1,057,706
Machinery and Equipment	<u>686,532</u>	<u>75,026</u>	<u>-</u>	<u>761,558</u>
Subtotal	<u>1,836,240</u>	<u>151,485</u>	<u>(7,306)</u>	<u>1,980,419</u>
Net Other Capital Assets	<u>2,122,782</u>	<u>(113,462)</u>	<u>(3,241)</u>	<u>2,006,079</u>
Net Capital Assets	<u>\$ 2,205,980</u>	<u>\$ (113,462)</u>	<u>\$ (3,241)</u>	<u>\$ 2,089,277</u>

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

6. CHANGES IN CAPITAL ASSETS (Cont.)

Business-Type Activities - The following is a summary of business-type activities capital assets at December 31, 2017.

	<u>Balance</u> <u>January 1</u>	<u>Additions</u>	<u>Transfers/</u> <u>Retirements</u>	<u>Balance</u> <u>December 31</u>
Other Capital Assets:				
Buildings	\$ 1,304,853	\$ -	\$ -	\$ 1,304,853
Improvements other than Building	2,915,249	-	-	2,915,249
Machinery and Equipment	<u>88,018</u>	<u>-</u>	<u>-</u>	<u>88,018</u>
Subtotal	<u>4,308,120</u>	<u>-</u>	<u>-</u>	<u>4,308,120</u>
Less: Accumulated Depreciation				
Buildings	586,769	38,309	-	625,078
Improvements other than Building	816,682	85,371	-	902,053
Machinery and Equipment	<u>39,292</u>	<u>6,389</u>	<u>-</u>	<u>45,681</u>
Subtotal	<u>1,442,743</u>	<u>130,069</u>	<u>-</u>	<u>1,572,812</u>
Net Capital Assets	<u>\$ 2,865,377</u>	<u>\$ (130,069)</u>	<u>\$ -</u>	<u>\$ 2,735,308</u>

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

Governmental Activities:	
General Government	\$ 33,715
Public Safety	53,020
Public Works	57,454
Culture and Recreation	<u>7,296</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 151,485</u>
Business-Type Activities:	
Sewer Utility	\$ 17,807
Water Utility	<u>112,262</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 130,069</u>

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

7. FUND BALANCE

A. Classifications

	<u>General Fund</u>	<u>2013A G.O. Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Nonspendable:				
Prepaid Items	\$ 8,122	\$ -	\$ -	\$ 8,122
Total Nonspendable	<u>8,122</u>	<u>-</u>	<u>-</u>	<u>8,122</u>
Restricted for:				
Debt Service	<u>-</u>	120,978	1,048	122,026
Total Restricted	<u>-</u>	<u>120,978</u>	<u>1,048</u>	<u>122,026</u>
Assigned to:				
Equipment Purchases	322,395	-	-	322,395
USDA Building	17,555	-	-	17,555
Fire Equipment	132,614	-	-	132,614
Garbage Operations	<u>-</u>	<u>-</u>	17,027	17,027
Total Assigned	<u>472,564</u>	<u>-</u>	<u>17,027</u>	<u>489,591</u>
Unassigned	370,330	-	-	370,330
Total	<u>\$ 851,016</u>	<u>\$ 120,978</u>	<u>\$ 18,075</u>	<u>\$ 990,069</u>

B. Minimum Unassigned Fund Balance Policy

The City Council has formally adopted a policy regarding the minimum unassigned fund balance for the General Fund. The most significant revenue source of the General Fund is property taxes. This revenue source is received in two installments during the year - June and December. As such, it is the City's goal to begin each fiscal year with sufficient working capital to fund operations between each semi-annual receipt of property taxes.

The policy establishes a year-end targeted unassigned fund balance amount for cash-flow timing needs in the range of 35-50% of the subsequent year's budgeted expenditures. At December 31, 2017, the unassigned fund balance of the General Fund was a 69.9 percent of the subsequent years budgeted expenditures.

8. CHANGES IN LONG-TERM DEBT

The following is a summary of long-term debt transactions of the City for the year ended December 31, 2017.

	<u>Balance January 1</u>	<u>Debt Issued</u>	<u>Debt Retired</u>	<u>Balance December 31</u>	<u>Current Amount</u>
G.O. Improvement Bonds	\$ 199,000	\$ -	\$ 58,000	\$ 141,000	\$ 141,000
G.O. Revenue Notes	973,944	-	94,180	879,764	92,000
USDA Promissory Note	450,000	-	6,897	443,103	7,009
Totals	<u>\$ 1,622,944</u>	<u>\$ -</u>	<u>\$ 159,077</u>	<u>\$ 1,463,867</u>	<u>\$ 240,009</u>

General Obligation Improvement Bonds issued by the governmental activities are liquidated by the related debt service funds. USDA Promissory Note issued by the governmental activities are liquidated by the General Fund. General Obligation Revenue Notes issued by the business-type activities are liquidated by the related Water and Sewer Funds.

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

8. CHANGES IN LONG-TERM DEBT (Cont.)

Bonds outstanding at December 31, 2017 are comprised of the following issues:

Governmental Activities

\$203,800 General Obligation Improvement Bond of 2011A, due in semi-annual installments of \$11,800 to \$16,000 through 2018, plus interest at 2.7% due in semi-annual installments. \$ 32,000

\$488,000 General Obligation Improvement Bond of 2013A, due in annual installments of \$26,000 to \$41,000, through 2019, plus interest at 3.60% due in semi-annual installments. 109,000

\$402,000 USDA Promissory Note, due in annual installments of \$17,555 through December 2057, including interest at 2.38%. 443,103

Total Governmental Activities 584,103

Business-Type Activities

\$912,706 General Obligation Revenue Note of 2005, due in annual installments of \$42,000 to \$55,706 through August 2024, plus interest due in semi-annual installments at 1.72% 369,706

\$515,815 General Obligation Revenue Note of 2008, due in annual installments of \$25,000 to \$30,000 through August 2027, plus interest due in semi-annual installments at 1.092% 283,000

\$242,741 General Obligation Revenue Note of 2010, due in annual installments of \$8,200 to \$13,000 through August 2029, plus interest due in semi-annual installments at 1.0% 152,000

\$102,428 General Obligation Revenue Note of 2013, due in annual installments of \$3,000 to \$4,000 through August 2042, plus interest due in semi-annual installments at 1.0% 75,058

Total Business-Type Activities 879,764

Total Long-Term Debt \$ 1,463,867

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

8. CHANGES IN LONG-TERM DEBT (Cont.)

The annual requirements to maturity for long-term liabilities are as follows:

	G.O. Improvement Bonds			G.O. Revenue Notes		
	Governmental Activities			Business-Type Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 141,000	\$ 1,458	\$ 142,458	\$ 92,000	\$ 11,718	\$ 103,718
2019	-	-	-	93,000	10,414	103,414
2020	-	-	-	95,000	9,092	104,092
2021	-	-	-	96,000	7,742	103,742
2022	-	-	-	98,000	5,525	103,525
2023-2027	-	-	-	334,706	13,588	348,294
2028-2032	-	-	-	41,000	2,340	43,340
2033-2037	-	-	-	15,000	1,200	16,200
2038-2042	-	-	-	15,058	391	15,449
2043-2047	-	-	-	-	-	-
2048-2052	-	-	-	-	-	-
2053-2057	-	-	-	-	-	-
Total	<u>\$ 141,000</u>	<u>\$ 1,458</u>	<u>\$ 142,458</u>	<u>\$ 879,764</u>	<u>\$ 62,010</u>	<u>\$ 941,774</u>

	USDA Promissory Note		
	Governmental Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 7,009	\$ 10,546	\$ 17,555
2019	7,176	10,379	17,555
2020	7,347	10,208	17,555
2021	7,522	10,033	17,555
2022	7,701	9,854	17,555
2023-2027	41,342	46,433	87,775
2028-2032	46,500	41,274	87,774
2033-2037	52,306	35,470	87,776
2038-2042	58,831	28,944	87,775
2043-2047	66,173	21,602	87,775
2048-2052	74,431	13,344	87,775
2053-2057	<u>66,765</u>	<u>4,040</u>	<u>70,805</u>
Total	<u>\$ 443,103</u>	<u>\$ 242,127</u>	<u>\$ 685,230</u>

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

Governmental Activities:	
General Government	\$ 3,436
Public Works	<u>6,790</u>
Total Interest Expense - Governmental Activities	<u>\$ 10,226</u>
Business-Type Activities:	
Water Utility	<u>\$ 13,039</u>
Total Interest Expense - Business-Type Activities	<u>\$ 13,039</u>

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

9. DEFINED BENEFIT PENSION PLANS – STATEWIDE

A. Plan Description

The City of Cosmos, Minnesota participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (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.

1. General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))

All full-time and certain part-time employees of the City of Cosmos, Minnesota are covered by the General Employees Plan. General Employees Plan 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.

2. Public Employees Police and Fire Plan (Police and Fire Fund (accounted for in the Police and Fire Fund))

The Police and Fire Plan, 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 Police and Fire Plan 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 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given one percent increases.

The benefit provisions stated in the following paragraphs of this section 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 FINANCIAL STATEMENTS

9. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Cont.)

B. Benefits Provided (Cont.)

1. General Employees Plan Benefits

General Employees Plan 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 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent 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.

2. Police and Fire Plan Benefits

Benefits for Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service. For Police and Fire Plan members 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 that state Legislature.

1. General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.50%, respectively, of their annual covered salary in calendar year 2017. The City of Cosmos, Minnesota was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2017. The City of Cosmos, Minnesota contributions to the General Employees Fund for the year ended December 31, 2017, were \$8,030. The City of Cosmos, Minnesota contributions were equal to the required contributions as set by state statute.

2. Police and Fire Fund Contributions

Plan members were required to contribute 10.80% of their annual covered salary in calendar year 2017. The City of Cosmos, Minnesota was required to contribute 16.20% of pay for Police and Fire Fund members in calendar year 2017. The City of Cosmos, Minnesota contributions to the Police and Fire Fund for the year ended December 31, 2017, were \$361. The City of Cosmos, Minnesota contributions were equal to the required contributions as set by state statute.

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

9. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Cont.)

D. Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2017, the City of Cosmos, Minnesota reported a liability of \$108,527 for its proportionate share of the General Employees Fund's net pension liability. The City of Cosmos, Minnesota's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. 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 of Cosmos, Minnesota totaled \$1,362. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Cosmos, Minnesota proportion of the net pension liability was based on the City of Cosmos, Minnesota contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016 through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City of Cosmos, Minnesota proportionate share was 0.0017% which was an increase of 0.0001% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the City of Cosmos, Minnesota recognized pension expense of \$6,481 for its proportionate share of the General Employees Plan's pension expense. In addition, the City of Cosmos, Minnesota recognized an additional \$39 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, 2017, the City of Cosmos, Minnesota reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual economic experience	\$ 3,576	\$ 7,217
Changes in actuarial assumptions	16,958	10,880
Difference between projected and actual investment earnings	18,002	18,427
Changes in proportion	6,090	4,698
Contributions paid to PERA subsequent to the measurement date	<u>3,976</u>	<u>-</u>
Total	<u>\$ 48,602</u>	<u>\$ 41,222</u>

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

9. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Cont.)

D. Pension Costs (Cont.)

\$3,976 reported as deferred outflows of resources related to pensions resulting from City of Cosmos, Minnesota contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30:</u>	<u>Pension Expense Amount</u>
2018	\$ 1,792
2019	\$ 7,881
2020	\$ (2,557)
2021	\$ (3,711)
2022	\$ -
Thereafter	\$ -

2. Police and Fire Fund Pension Costs

At December 31, 2017, the City of Cosmos, Minnesota reported its proportionate share of the Police and Fire Fund'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>
Changes in proportion	\$ -	\$ 11,539
Total	<u>\$ -</u>	<u>\$ 11,539</u>

Other amount reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30:</u>	<u>Pension Expense Amount</u>
2018	\$ (3,847)
2019	\$ (3,847)
2020	\$ (3,845)
2021	\$ -
2022	\$ -
Thereafter	\$ -

E. Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions:

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

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

9. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Cont.)

E. Actuarial Assumptions (Cont.)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilities were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be one percent per year for the General Employees Plan through 2044 and Police and Fire Plan through 2064 and then 2.5 percent thereafter for both plans.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The most recent five-year experience study for the Police and Fire Plan was completed in 2016.

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

Police and Fire Fund

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

9. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Cont.)

E. Actuarial Assumptions (Cont.)

Police and Fire Fund (Cont.)

- Assumed percentage of married female members was decreased from 65 percent to 60 percent.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	<u>2%</u>	0.50%
Total	100%	

F. Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rates set in Minnesota Statutes. Based on these assumption, the fiduciary net position of the General Employees Fund and the Police and Fire Fund was projected to be available to make all projected future benefit payments of current plan members. 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.

CITY OF COSMOS, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS

9. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Cont.)

G. Pension Liability Sensitivity

The following presents the City of Cosmos, Minnesota 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 of Cosmos, Minnesota proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
General Employees Fund:	\$ 168,333	\$ 108,527	\$ 59,564

H. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

10. DEFINED BENEFIT PENSION PLANS – STATEWIDE

A. Plan Description

The City of Cosmos, Minnesota participates in the Statewide Volunteer Firefighter Retirement Plan (Volunteer Firefighter Plan accounted for in the Volunteer Firefighter Fund), an agent multiple-employer lump-sum defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The Volunteer Firefighter Plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2017, the plan covered 16 active firefighters and 8 vested terminated firefighters whose pension benefits are deferred. The plan is established and administered in accordance with *Minnesota Statutes*, Chapter 353 G.

B. Benefits Provided

The Volunteer Firefighter Plan provides retirement, death, and supplemental benefits to covered firefighters and survivors. Benefits are paid based on the number of years of service multiplied by a benefit level approved by the City of Cosmos, Minnesota. Members are eligible for a lump-sum retirement benefit at 50 years of age with five years of service. Plan provisions include a pro-rated vesting schedule that increases from 5 years at 40 percent through 20 years at 100 percent.

C. Contributions

The Volunteer Firefighter Plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in *Minnesota Statutes*, and voluntary City of Cosmos, Minnesota contributions. The State of Minnesota contributed \$13,606 in fire state aid to the fund for the year ended December 31, 2017. Required employer contributions are calculated annually based on statutory provisions. The City of Cosmos, Minnesota did not have a statutorily required contributions to the Volunteer Firefighter Fund for the year ended December 31, 2017. The City of Cosmos, Minnesota contributions were equal to the required contributions as set by state statute, if applicable. In addition, the City of Cosmos, Minnesota made voluntary contributions of \$1,500 to the plan.

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

9. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Cont.)

D. Pension Costs

At December 31, 2017, the City of Cosmos, Minnesota reported a net pension asset of \$148,162 for the Volunteer Firefighter Fund. The net pension liability was measured as of December 31, 2017. The total pension liability used to calculate the net pension liability in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the fire department. The following table presents the changes in net pension liability during the year.

	Total Pension <u>Liability</u>	Plan Fiduciary <u>Net Position</u>	Net Pension Liability <u>(Asset)</u>
Beginning Balance 12/31/16	\$ 158,245	\$ 272,597	\$ (114,352)
Changes for the Year			
Service Cost	7,412	-	7,412
TPL Interest	9,940	-	9,940
Actuarial Experience (Gains)/Losses	(2,119)	-	(2,119)
Projected Investment Earnings	-	16,356	(16,356)
Contributions (ER/State)	-	15,223	(15,223)
Difference between Projected and Actual Investment Earnings	-	19,881	(19,881)
PERA Administrative Fee	-	(2,416)	2,416
Net Changes	<u>15,233</u>	<u>49,044</u>	<u>(33,811)</u>
Balance End of Year 12/31/2017	<u>\$ 173,478</u>	<u>\$ 321,641</u>	<u>\$ (148,163)</u>

For the year ended December 31, 2017 the City of Cosmos, Minnesota recognized pension expense of \$15,106.

At December 31, 2017 the City of Cosmos, Minnesota reported deferred inflows of resources related to pensions from the following:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 1,695
Difference between projected and actual investment earnings	-	15,905
Total	<u>\$ -</u>	<u>\$ 17,600</u>

<u>Year Ended December 31:</u>	<u>Pension Expense Amount</u>
2018	\$ (4,400)
2019	\$ (4,400)
2020	\$ (4,400)
2021	\$ (4,400)
Thereafter	\$ -

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

9. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Cont.)

E. Actuarial Assumptions

The total pension liability in the December 31, 2017, was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

- Retirement eligibility at the later of age 50 or 20 years of service
- Investment rate of return of 6.0 percent
- Inflation rate of 3.0 percent

F. Discount Rate

The discount rate used to measure the total pension liability was 6.0 percent. The projection of cash flows used determine the discount rate assumed that contributions to the Volunteer Firefighter Fund will be made as specified in statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net pension was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

The following presents the City of Cosmos, Minnesota net pension liability for the Volunteer Firefighter Fund, calculated using the assumed discount rate as well as what the City of Cosmos, Minnesota net pension liability would be if it were calculated using a discount rate one percent lower or one percent high than the current discount rate:

	1% Decrease in Discount <u>Rate (5.0%)</u>	Discount <u>Rate (6.0%)</u>	1% Increase in Discount <u>Rate (7.0%)</u>
Net Pension Liability (Asset)	\$ (142,556)	\$ (148,162)	\$ (153,669)

H. Plan Investments Policy

The Minnesota State Board of Investment (SBI) is established by Article XI of the Minnesota Constitution to invest all state funds. Its membership as specified in the Constitution is comprised of the governor (who is designated as chair of the board), state auditor, secretary of state and state attorney general.

All investments undertaken by the SBI are governed by the prudent person rule and other standards codified in *Minnesota Statutes*, Chapter 11A and Chapter 353G.

Within the requirements defined by state law, the SBI, with assistance of the SBI staff and the Investment Advisory Council, establishes investment policy for all funds under its control. These investments policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure and specific performance standards. Studies guide the on-going management of the funds and are updated periodically.

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

9. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Cont.)

I. Asset Allocation

To match the long-term nature of the pension obligations, the SBI maintains a strategic asset allocation for the Volunteer Firefighter Plan that includes allocations to domestic equity, international equity, bonds and cash equivalents. The long-term target asset allocation and long-term expected real rate of return is the following:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	35%	5.10%
International Stocks	15%	5.30%
Bonds	45%	0.75%
Cash	5%	0.00%

The six percent long-term expected rate of return on pension plan investments was determined using a building-block method. Best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using both long-term historical returns and long-term capital market expectations from a number of investment management and consulting organizations. The asset class estimates and that target allocations were then combined to produce a geometric, long-term expected real rate of return for the portfolio. Inflation expectations were applied to derive the nominal rate of return for the portfolio.

Description of significant investment policy changes during the year: The SBI made no significant changes to their investment policy during Fiscal Year 2017 for the Volunteer Firefighter Fund.

J. Pension Plan Fiduciary Net Position

Detailed information about the Volunteer Firefighter Fund's fiduciary net position as of June 30, 2017, is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained at www.mnpera.org.

11. OTHER POST EMPLOYMENT BENEFITS

Any contingent liability for other post employment benefits is considered immaterial and not recognized in the financial statements.

12. RELATED PARTY TRANSACTIONS

There were no material related party transactions during the year 2017.

13. COMMITMENTS AND CONTINGENCIES

A. Risk Management

The city is exposed to various risk of loss related to torts, thefts of, damage to or destruction of assets, business interruption, errors and omissions, employee injuries and illness, and natural disasters for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT) which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City's coverage in any of the past three fiscal years.

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

13. COMMITMENTS AND CONTINGENCIES (Cont.)

A. Risk Management (Cont.)

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The City's management is not aware of any incurred but not reported claims.

B. Claims and Judgments

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

14. PRIOR PERIOD ADJUSTMENT

The following prior period adjustments have been made to the financial statements to adjust December 31, 2016 net position and fund balances.

<u>Fund</u>	Fund Equity 12/31/2016 as		Fund Equity
	Previously <u>Reported</u>	Prior Period <u>Restatement (1)</u>	1/1/2017 as <u>Restated</u>
Governmental Activities	\$ <u>2,714,330</u>	\$ <u>114,352</u>	\$ <u>2,828,682</u>
	\$ <u>2,714,330</u>	\$ <u>114,352</u>	\$ <u>2,828,682</u>

(1) Record beginning Net Pension Asset for Fire Fund which was moved to PERA in 2017.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF COSMOS, MINNESOTA
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL (BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES:				
TAXES:				
General Property Taxes	\$ 264,513	\$ 264,513	\$ 261,164	\$ (3,349)
Special Assessments	-	-	157	157
Total Taxes	264,513	264,513	261,321	(3,192)
LICENSES AND PERMITS:				
Licenses and Permits	3,400	3,400	3,136	(264)
INTERGOVERNMENTAL REVENUE:				
Local Government Aid	143,494	143,494	143,494	-
Market Value Credit	-	-	412	412
PERA Rate Increase Aid	360	360	360	-
State Fire Aid	2,000	2,000	20,496	18,496
Small Cities Street Aid	-	-	8,640	8,640
Total Intergovernmental Revenue	145,854	145,854	173,402	27,548
CHARGES FOR SERVICES:				
General Government	16,000	16,000	16,886	886
Public Safety	69,605	69,605	60,615	(8,990)
Culture and Recreation	4,500	4,500	2,975	(1,525)
Health and Welfare	15,000	15,000	12,267	(2,733)
Other Charges for Services	-	-	3,789	3,789
Total Charges for Services	105,105	105,105	96,532	(8,573)
FINES AND FORFEITS	400	400	283	(117)
INTEREST INCOME	1,000	1,000	11,232	10,232
MISCELLANEOUS:				
Refunds and Reimbursements	6,000	6,000	79,166	73,166
Donations	2,000	2,000	4,175	2,175
Miscellaneous Income	1,000	1,000	1,492	492
Sale of Property	-	-	22,348	22,348
Total Miscellaneous	9,000	9,000	107,181	98,181
TOTAL REVENUES	529,272	529,272	653,087	123,815

CITY OF COSMOS, MINNESOTA
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BLANCES - BUDGET AND ACTUAL (BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget
OTHER FINANCING SOURCES				
Transfer In	\$ -	\$ -	\$ 166,825	\$ 166,825
 TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>529,272</u>	<u>529,272</u>	<u>819,912</u>	<u>290,640</u>
 EXPENDITURES:				
GENERAL GOVERNMENT:				
Mayor and Council:				
Salaries	5,782	5,782	3,960	1,822
Consulting Fees	7,000	7,000	-	7,000
Other Current Expenditures	1,250	1,250	2,467	(1,217)
Administrative and Finance:				
Salaries	66,663	66,663	64,214	2,449
Payroll Taxes and Benefits	14,626	14,626	14,875	(249)
Supplies	3,500	3,500	2,063	1,437
Telephone	2,200	2,200	2,501	(301)
Other Current Expenditures	3,450	3,450	269	3,181
Capital Outlay	1,000	1,000	-	1,000
City Hall:				
Insurance	13,500	13,500	10,553	2,947
Repairs	10,000	10,000	83,424	(73,424)
Supplies	3,000	3,000	1,290	1,710
Utilities	20,000	20,000	9,309	10,691
Other Current Expenditures	7,950	7,950	1,936	6,014
Capital Outlay	15,000	15,000	-	15,000
Assessor Fees				
Current Expenditures	-	-	3,885	(3,885)
Independent Auditing				
Current Expenditures	16,000	16,000	16,000	-
Legal				
Current Expenditures	1,500	1,500	1,390	110
Total General Government	<u>192,421</u>	<u>192,421</u>	<u>218,136</u>	<u>(25,715)</u>

CITY OF COSMOS, MINNESOTA
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BLANCES - BUDGET AND ACTUAL (BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget
EXPENDITURES:				
PUBLIC SAFETY:				
Police Protection:				
Salaries	\$ 19,500	\$ 19,500	\$ 8,464	\$ 11,036
Payroll Taxes and Benefits	3,376	3,376	930	2,446
Insurance	750	750	750	-
Repairs and Maintenance	2,500	2,500	180	2,320
Supplies	500	500	1,408	(908)
Telephone	1,500	1,500	1,715	(215)
Other Current Expenditures	2,800	2,800	832	1,968
Capital Outlay	5,000	5,000	-	5,000
Ambulance:				
Personnel Services	19,377	19,377	16,903	2,474
Insurance	1,800	1,800	1,500	300
Supplies	6,000	6,000	7,487	(1,487)
Repairs	3,000	3,000	1,704	1,296
Gas and Oil	1,200	1,200	830	370
Current Expenditures	8,000	8,000	4,159	3,841
Capital Outlay	-	-	-	-
Fire Protection:				
Personnel Services	7,000	7,000	7,265	(265)
State Fire Aid	-	-	15,106	(15,106)
Insurance	9,000	9,000	2,500	6,500
Gas and Oil	5,400	5,400	4,762	638
Repairs	4,500	4,500	7,361	(2,861)
Supplies	3,000	3,000	3,540	(540)
Telephone	1,600	1,600	5,039	(3,439)
Utilities	2,000	2,000	-	2,000
Other Current Expenditures	7,500	7,500	10,794	(3,294)
Capital Outlay	-	-	8,800	(8,800)
Building Inspection				
Current Expenditures	3,250	3,250	1,562	1,688
Total Public Safety	118,553	118,553	113,591	4,962

CITY OF COSMOS, MINNESOTA
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BLANCES - BUDGET AND ACTUAL (BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget
EXPENDITURES:				
PUBLIC WORKS:				
Highways and Streets:				
Salaries	\$ 15,540	\$ 15,540	\$ 13,870	\$ 1,670
Payroll Taxes and Benefits	5,393	5,393	7,603	(2,210)
Equipment Repairs and Supplies	26,500	26,500	3,330	23,170
Insurance	5,800	5,800	2,100	3,700
Gas and Oil	3,500	3,500	1,924	1,576
Supplies	18,013	18,013	7,657	10,356
Street Maintenance	30,000	30,000	28,545	1,455
Telephone	1,200	1,200	815	385
Utilities	-	-	11,684	(11,684)
Other Current Expenditures	1,250	1,250	1,486	(236)
Capital Outlay	<u>15,000</u>	<u>15,000</u>	<u>2,365</u>	<u>12,635</u>
Total Public Works	<u>122,196</u>	<u>122,196</u>	<u>81,379</u>	<u>40,817</u>
CULTURE AND RECREATION:				
Parks:				
Salaries	17,560	17,560	19,748	(2,188)
Payroll Taxes and Benefits	3,244	3,244	2,318	926
Gas and Oil	1,400	1,400	674	726
Repairs	5,000	5,000	10,276	(5,276)
Supplies	10,000	10,000	6,694	3,306
Utilities	750	750	2,963	(2,213)
Current Expenditures	2,000	2,000	2,514	(514)
Capital Outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Culture and Recreation	<u>39,954</u>	<u>39,954</u>	<u>45,187</u>	<u>(5,233)</u>
DEBT SERVICE:				
Principal Payments	-	-	6,897	(6,897)
Interest Payments	<u>-</u>	<u>-</u>	<u>10,658</u>	<u>(10,658)</u>
Total Debt Service	<u>-</u>	<u>-</u>	<u>17,555</u>	<u>(17,555)</u>
TOTAL EXPENDITURES	<u>473,124</u>	<u>473,124</u>	<u>475,848</u>	<u>(2,724)</u>

CITY OF COSMOS, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BLANCES - BUDGET AND ACTUAL (BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
EXCESS REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	\$ <u>56,148</u>	\$ <u>56,148</u>	\$ <u>344,064</u>	\$ <u>287,916</u>
OTHER FINANCING USES: Transfer to Capital Projects Fund	<u>(24,605)</u>	<u>(24,605)</u>	<u>(10,000)</u>	<u>14,605</u>
EXCESS REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	31,543	31,543	334,064	302,521
FUND BALANCE - January 1	<u>516,952</u>	<u>516,952</u>	<u>516,952</u>	<u>-</u>
FUND BALANCE - December 31	<u>\$ 548,495</u>	<u>\$ 548,495</u>	<u>\$ 851,016</u>	<u>\$ 302,521</u>

CITY OF COSMOS, MINNESOTA
SCHEDULE OF PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2017

Fiscal Year Ending	Proportion (Percentage) of the Net Pension Liability (Asset)	Proportionate Share (Amount) of the Net Pension Liability (Asset)	Covered- Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2017	0.0017 %	108,527	108,520	100.01 %	75.90 %
June 30, 2016	0.0016 %	129,912	99,801	130.17 %	68.90 %
June 30, 2015	0.0016 %	82,920	97,656	84.91 %	78.19 %

CITY OF COSMOS, MINNESOTA
SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2017

Fiscal Year Ended	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contributions Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
December 31, 2017	\$ 8,030	\$ 8,030	-	\$ 107,067	7.50 %
December 31, 2016	\$ 7,829	\$ 7,829	-	\$ 104,343	7.50 %
December 31, 2015	\$ 7,187	\$ 7,187	-	\$ 98,833	7.27 %

SECTION III

SUPPLEMENTAL SECTION

CITY OF COSMOS, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2017

	<u>Special Revenue Fund Garbage Fund</u>	<u>Debt Service Fund 2011A G.O. Improvement</u>	<u>Capital Project Fund Building Fund</u>	<u>Total</u>
ASSETS:				
Cash and Cash Equivalents	\$ 13,725	\$ 242	\$ -	\$ 13,967
Accounts Receivable	6,945	-	-	6,945
Due from Other Governments	-	806	-	806
Property Taxes Receivable	-	4,688	-	4,688
Special Assessments Receivable	<u>-</u>	<u>3,857</u>	<u>-</u>	<u>3,857</u>
TOTAL ASSETS	<u>\$ 20,670</u>	<u>\$ 9,593</u>	<u>\$ -</u>	<u>\$ 30,263</u>
LIABILITIES:				
Accounts Payable	<u>\$ 3,643</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,643</u>
Total Liabilities	<u>3,643</u>	<u>-</u>	<u>-</u>	<u>3,643</u>
DEFERRED INFLOWS OF RESOURCES:				
Unavailable Revenue	<u>-</u>	<u>8,545</u>	<u>-</u>	<u>8,545</u>
Total Deferred Inflows of Resources	<u>-</u>	<u>8,545</u>	<u>-</u>	<u>8,545</u>
FUND BALANCES:				
Restricted	-	1,048	-	1,048
Assigned	<u>17,027</u>	<u>-</u>	<u>-</u>	<u>17,027</u>
Total Fund Balances	<u>17,027</u>	<u>1,048</u>	<u>-</u>	<u>18,075</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 20,670</u>	<u>\$ 9,593</u>	<u>\$ -</u>	<u>\$ 30,263</u>

CITY OF COSMOS, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2017

	Special Revenue <u>Fund</u> Garbage <u>Fund</u>	Debt Service <u>Fund</u> 2011A G.O. Improvement	Capital Project <u>Fund</u> Building <u>Fund</u>	<u>Total</u>
REVENUES				
Taxes	\$ -	\$ 22,696	\$ -	\$ 22,696
Intergovernmental Revenue	-	-	65,303	65,303
Charges for Services	47,000	-	-	47,000
Interest Income	304	-	199	503
Miscellaneous	<u>3,878</u>	<u>-</u>	<u>1,417</u>	<u>5,295</u>
Total Revenues	<u>51,182</u>	<u>22,696</u>	<u>66,919</u>	<u>140,797</u>
EXPENDITURES				
Culture and Recreation	-	-	6,065	6,065
Sanitation	51,786	-	-	51,786
Principal Payments	-	31,000	-	31,000
Interest Payments	-	1,499	-	1,499
Capital Outlay	<u>-</u>	<u>-</u>	<u>26,858</u>	<u>26,858</u>
Total Expenditures	<u>51,786</u>	<u>32,499</u>	<u>32,923</u>	<u>117,208</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(604)	(9,803)	33,996	23,589
OTHER FINANCING SOURCES (USES)				
Transfer In	-	10,000	-	10,000
Transfer Out	<u>(4,000)</u>	<u>-</u>	<u>(156,325)</u>	<u>(160,325)</u>
EXCESS REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(4,604)	197	(122,329)	(126,736)
FUND BALANCES - January 1	<u>21,631</u>	<u>851</u>	<u>122,329</u>	<u>144,811</u>
FUND BALANCES - December 31	<u>\$ 17,027</u>	<u>\$ 1,048</u>	<u>\$ -</u>	<u>\$ 18,075</u>

CITY OF COSMOS, MINNESOTA
SUMMARY FINANCIAL REPORT

REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS
GOVERNMENTAL FUNDS
DECEMBER 31, 2017

The purpose of this report is to provide a summary of financial information concerning the City of Cosmos to interested citizens. The complete financial statements may be examined at the City Hall, PO Box 614 Cosmos, MN Questions about this report should be directed to John Douville, City Administrator, at 320-877-7345

	<u>Total</u> <u>2017</u>	<u>Total</u> <u>2016</u>	Percent Increase <u>(Decrease)</u>
REVENUES:			
Taxes and Assessments	\$ 353,409	\$ 341,379	3.52 %
Licenses and Permits	3,136	9,144	(65.70)%
Intergovernmental	238,705	684,019	(65.10)%
Charges for Services	143,532	131,524	9.13 %
Fines	283	203	39.41 %
Investment Earnings	11,736	3,090	279.81 %
Miscellaneous	142,799	183,207	(22.06)%
Transfer In	<u>176,825</u>	<u>6,391</u>	<u>2,666.78 %</u>
Total Revenues	\$ <u>1,070,425</u>	\$ <u>1,358,957</u>	<u>(21.23)%</u>
Per Capita	<u>2,353</u>	<u>2,987</u>	
EXPENDITURES:			
Current			
General Government	\$ 218,136	\$ 135,080	61.49 %
Public Safety	104,791	117,965	(11.17)%
Public Works	79,014	110,495	(28.49)%
Culture and Recreation	51,252	68,875	(25.59)%
Sanitation	51,786	-	100.00 %
Debt Service:			
Principal Payments	64,897	356,000	(81.77)%
Interest Payments	16,567	21,147	(21.66)%
Capital Outlay	38,023	1,224,333	(96.89)%
Transfer Out	<u>170,325</u>	<u>6,391</u>	<u>2,565.08 %</u>
Total Expenditures	\$ <u>794,791</u>	\$ <u>2,040,286</u>	<u>(61.05)%</u>
Per Capita	<u>1,747</u>	<u>4,484</u>	
Governmental Long-term Indebtedness	\$ <u>584,103</u>	\$ <u>649,000</u>	<u>(10.00)%</u>
Per Capita	<u>1,284</u>	<u>1,426</u>	
General Fund Unassigned Fund Balance - December 31	\$ <u>413,068</u>	\$ <u>263,388</u>	<u>56.83 %</u>
Per Capita	<u>908</u>	<u>579</u>	

SECTION IV

ADDITIONAL INFORMATION

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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 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, business-type activities, each major fund, and the aggregate remaining fund information of City of Cosmos, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise City of Cosmos, Minnesota's basic financial statements, and have issued our report thereon dated April 19, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Cosmos, Minnesota'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 of Cosmos, Minnesota's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Cosmos, Minnesota's internal control.

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 in a timely basis. A *material weakness* is a deficiency, or 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. Items 2017-001 and 2017-002.

Compliance and Other Matters

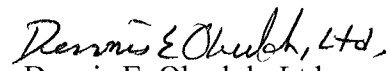
As part of obtaining reasonable assurance about whether City of Cosmos, Minnesota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and 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 that are required to be reported under *Government Auditing Standards*.

City of Cosmos, Minnesota's Response to Findings

City of Cosmos, Minnesota's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Cosmos, Minnesota's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Dennis E. Oberloh, Ltd.

April 19, 2018

CITY OF COSMOS
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2017

INTERNAL CONTROL FINDINGS

Audit Finding 2017-001

Criteria: The City does not have the internal resources to identify all journal entries required to maintain a general ledger and to prepare the full-disclosure financial statements in conformity with generally accepted accounting principles.

Condition: The City's personnel prepare periodic financial information for internal use that meets the needs of management and the City Council. However, the City does not have internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements required by generally accepted accounting principles for external reporting. The City is aware of this significant deficiency, and obtains our assistance in the preparation of the City's annual financial statements.

Cause: The City does not have the internal expertise needed to handle all aspects of the external financial reporting.

Effect: The City's management is aware of the deficiency and addresses it by reviewing and approving the adjusting journal entries and completed statements prior to distribution to the end users.

Recommendations: For entities of the City's size, it generally is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting.

Managements Response: Management agrees with the recommendation that it is not cost effective for the City to prepare the financial statements and maintain a working knowledge of the required disclosures.

Audit Finding 2017-002

Criteria: Internal control that supports the City's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties.

Condition: The City does not have adequate segregation of accounting duties.

Cause: There are a limited number of office employees.

Effect: The lack of adequate segregation of accounting 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.

Recommendations: For entities of the City's size, it generally is not practical to obtain the internal control that supports the adequate segregation of duties.

Managements Response: Management agrees with the recommendation that it is not cost effective for the City to maintain proper segregation of duties.

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AUDITOR'S REPORT ON LEGAL COMPLIANCE


Honorable Mayor and Members of the 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 basic financial statements of governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Cosmos, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, and have issued our report thereon dated April 19, 2018.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* promulgated by the State Auditor pursuant to Minn. Stat. § 6.65 contains seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit included all of the listed categories.

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


Dennis E. Oberloh, Ltd.

April 19, 2018