

CITY OF COSMOS  
COSMOS, MINNESOTA

ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2018

CITY OF COSMOS, MINNESOTA  
CONTENTS

PAGE

SECTION I  
INTRODUCTORY SECTION

Elected and Appointed Officials	1
---------------------------------	---

SECTION II  
FINANCIAL SECTION

Independent Auditors' Report	2 - 4
Management's Discussion and Analysis	5 - 13
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements	
Governmental Funds	
Balance Sheet	16
Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balances	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	19
Proprietary Funds	
Statement of Net Position	20
Statement of Revenues, Expenses and Changes in Fund Net Position	21
Statement of Cash Flows	22
Notes to the Basic Financial Statements	23 - 44
Required Supplemental Information Section	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis)	
General Fund	45 - 49
Schedule of Proportionate Share of the Net Pension Liability	50
Schedule of Contributions	51
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios	52
Schedule of Changes in Net Pension Liability (Asset) as a Percent of Payroll	53

SECTION III  
SUPPLEMENTAL SECTION

Combining Fund Statements	
Nonmajor Governmental Funds	
Combining Balance Sheet	54
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	55
Summary Financial Report	
Revenues and Expenditures for General Operations - Governmental Funds	56

CITY OF COSMOS, MINNESOTA  
CONTENTS

PAGE

SECTION IV  
OTHER REQUIRED REPORTS

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	57 - 58
Schedule of Findings and Responses	59
Auditors' Report on Minnesota Legal Compliance	60

SECTION I

INTRODUCTORY SECTION

CITY OF COSMOS  
COSMOS, MINNESOTA  
GENERAL INFORMATION

ELECTED AND APPOINTED OFFICIALS

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

SECTION II

FINANCIAL SECTION

Dennis E. Oberloh, CPA  
Sara J. Oberloh, CPA



P.O. Box 186  
530 West Park Road  
Redwood Falls, MN 56283  
507-644-6400  
[www.oberlohcpa.com](http://www.oberlohcpa.com)

## INDEPENDENT AUDITORS' 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 the City of Cosmos, Minnesota, as of and for the year ended December 31, 2018, 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.

### **Auditors' 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 auditors' 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 on the preceding page 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, 2018, 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 13 and 45 through 53 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 and individual nonmajor fund financial statements 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 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 May 9, 2019 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.

*Oberloh & Oberloh, Ltd.*  
Oberloh & Oberloh, Ltd.

May 9, 2019

CITY OF COSMOS, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2018

### 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, 2018.

- 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 \$5,265,347 (net position). Of this amount \$1,580,005 (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 \$68,910, compared to an increase of \$215,010 in the previous year. The governmental activities net position increased during 2018 by \$50,809 and the business-type activities net position increased by \$18,101.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$770,619, a decrease of \$219,450 in comparison with the prior year. Approximately 91.1 percent of this total amount, \$701,772, is available for spending at the City's discretion, although \$277,615 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 14) 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 15) 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, 2018

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 16) and the governmental fund statement of revenues, expenditures and changes in fund balances (on page 18) provide a reconciliation (on pages 17 and 19) 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 20 through 22 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 23 through 44 of this report.

CITY OF COSMOS, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2018

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 45 - 53) 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 54) 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>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Current Assets	\$ 1,421,275	\$ 1,678,405	\$ 367,744	\$ 318,636	\$ 1,789,019	\$ 1,997,041
Capital Assets	<u>2,286,848</u>	<u>2,089,277</u>	<u>2,616,956</u>	<u>2,735,307</u>	<u>4,903,804</u>	<u>4,824,584</u>
Total Assets	<u>3,708,123</u>	<u>3,767,682</u>	<u>2,984,700</u>	<u>3,053,943</u>	<u>6,692,823</u>	<u>6,821,625</u>
Deferred Outflows of						
Resources	<u>50,134</u>	<u>39,017</u>	<u>6,473</u>	<u>9,585</u>	<u>56,607</u>	<u>48,602</u>
Current Liabilities	<u>55,349</u>	<u>171,754</u>	<u>105,102</u>	<u>99,290</u>	<u>160,451</u>	<u>271,044</u>
Long-term Liabilities	<u>548,348</u>	<u>523,339</u>	<u>713,621</u>	<u>809,046</u>	<u>1,261,969</u>	<u>1,332,385</u>
Total Liabilities	<u>603,697</u>	<u>695,093</u>	<u>818,723</u>	<u>908,336</u>	<u>1,422,420</u>	<u>1,603,429</u>
Deferred Inflows of						
Resources	<u>54,064</u>	<u>61,919</u>	<u>7,599</u>	<u>8,442</u>	<u>61,663</u>	<u>70,361</u>
Net Position						
Net Investment in						
Capital Assets	1,795,776	1,511,656	1,829,192	1,855,543	3,624,968	3,367,199
Restricted	60,374	122,026	-	-	60,374	122,026
Unrestricted	<u>1,244,346</u>	<u>1,401,392</u>	<u>335,659</u>	<u>291,207</u>	<u>1,580,005</u>	<u>1,692,599</u>
Total Net Position	<u>\$ 3,100,496</u>	<u>\$ 3,035,074</u>	<u>\$ 2,164,851</u>	<u>\$ 2,146,750</u>	<u>\$ 5,265,347</u>	<u>\$ 5,181,824</u>

A large portion of the City's net position (68.8 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, 2018

THE CITY AS A WHOLE (Cont.)

Net Position (Cont.)

An additional portion of the City's net position (1.1 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (30.1 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

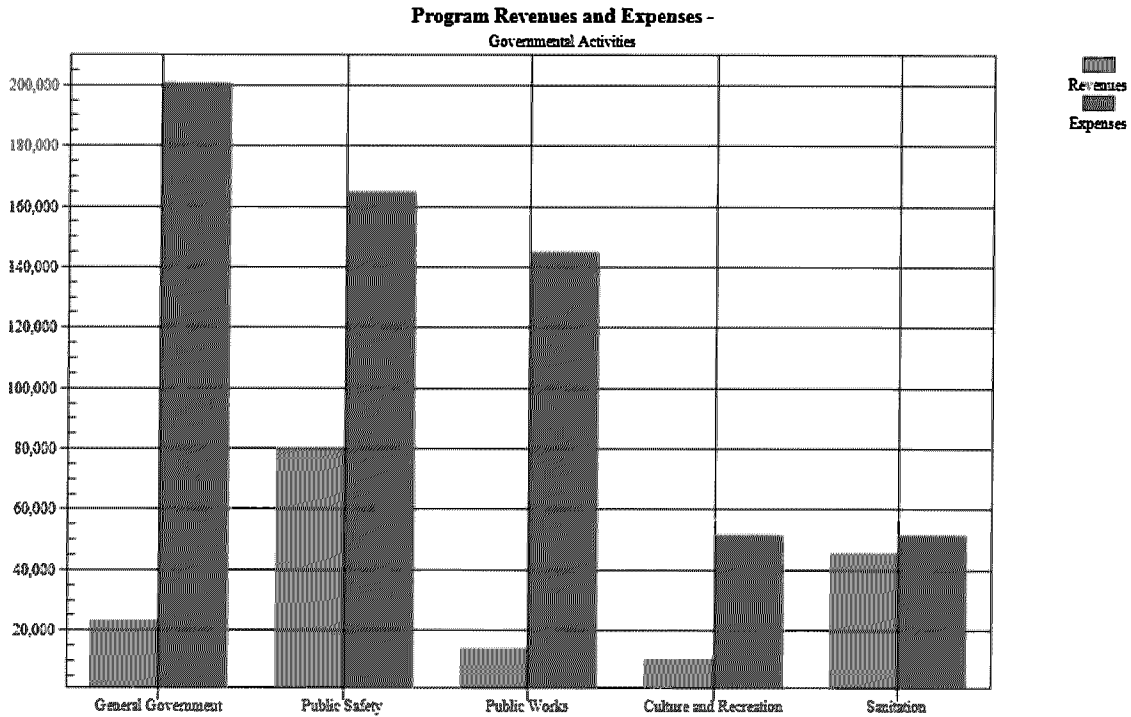
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
<u>Revenues</u>						
Program Revenues:						
Fees, Fines, and Charges for Services	\$ 149,382	\$ 146,951	\$ 227,555	\$ 252,116	\$ 376,937	\$ 399,067
Operating Grants and Contributions	25,365	29,136	-	-	25,365	29,136
General Revenues:						
Taxes and Assessments	310,084	328,114	342	-	310,426	328,114
Intergovernmental Revenue	149,943	209,600	-	-	149,943	209,600
Interest Income	18,560	11,736	11,849	4,381	30,409	16,117
Other Income	-	-	599	6,351	599	6,351
Miscellaneous Income	11,411	139,558	-	-	11,411	139,558
Total Revenues	<u>664,745</u>	<u>865,095</u>	<u>240,345</u>	<u>262,848</u>	<u>905,090</u>	<u>1,127,943</u>
<u>Expenses</u>						
General Government	200,727	257,918	-	-	200,727	257,918
Public Safety	164,695	137,754	-	-	164,695	137,754
Public Works	145,049	144,043	-	-	145,049	144,043
Culture and Recreation	51,752	59,089	-	-	51,752	59,089
Sanitation	51,713	51,786	-	-	51,713	51,786
Sewer Utility	-	-	56,584	83,144	56,584	83,144
Water Utility	-	-	165,660	179,199	165,660	179,199
Total Expenses	<u>613,936</u>	<u>650,590</u>	<u>222,244</u>	<u>262,343</u>	<u>836,180</u>	<u>912,933</u>
Transfers	-	6,500	-	(6,500)	-	-
Change in Net Position	<u>50,809</u>	<u>221,005</u>	<u>18,101</u>	<u>(5,995)</u>	<u>68,910</u>	<u>215,010</u>
Net Position Beginning						
Originally Stated	3,049,687	2,714,330	2,146,750	2,152,745	5,196,437	4,867,075
Prior Period Adjustment	-	114,352	-	-	-	114,352
As Restated	<u>3,049,687</u>	<u>2,828,682</u>	<u>2,146,750</u>	<u>2,152,745</u>	<u>5,196,437</u>	<u>4,981,427</u>
Net Position Ending	<u>\$ 3,100,496</u>	<u>\$ 3,049,687</u>	<u>\$ 2,164,851</u>	<u>\$ 2,146,750</u>	<u>\$ 5,265,347</u>	<u>\$ 5,196,437</u>

CITY OF COSMOS, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2018

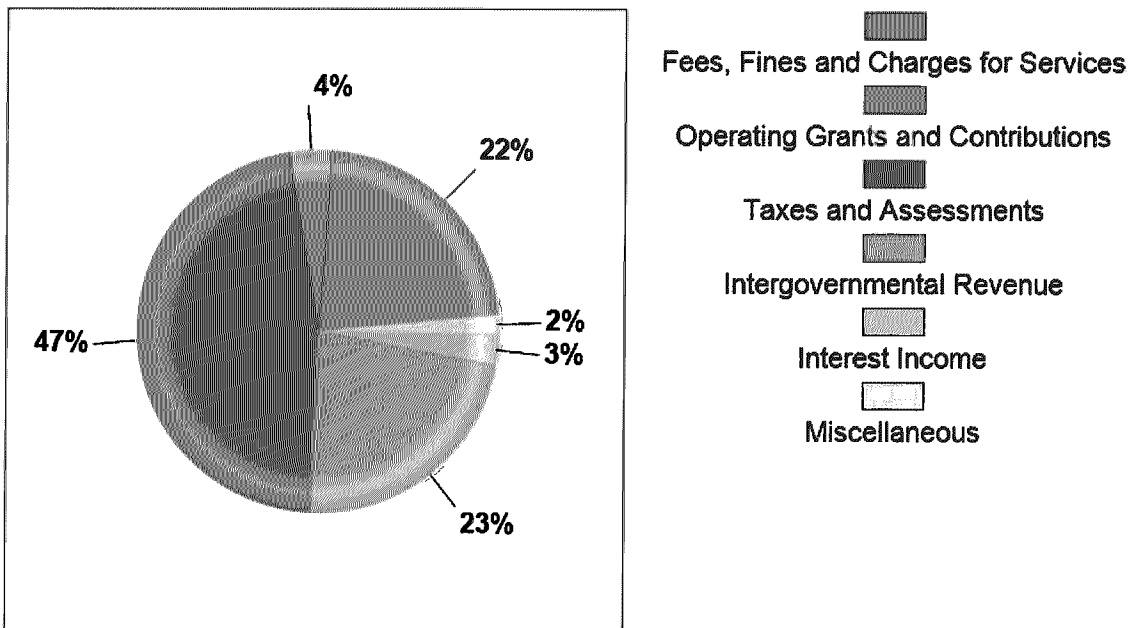
THE CITY AS A WHOLE (Cont.)

Governmental Activities

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



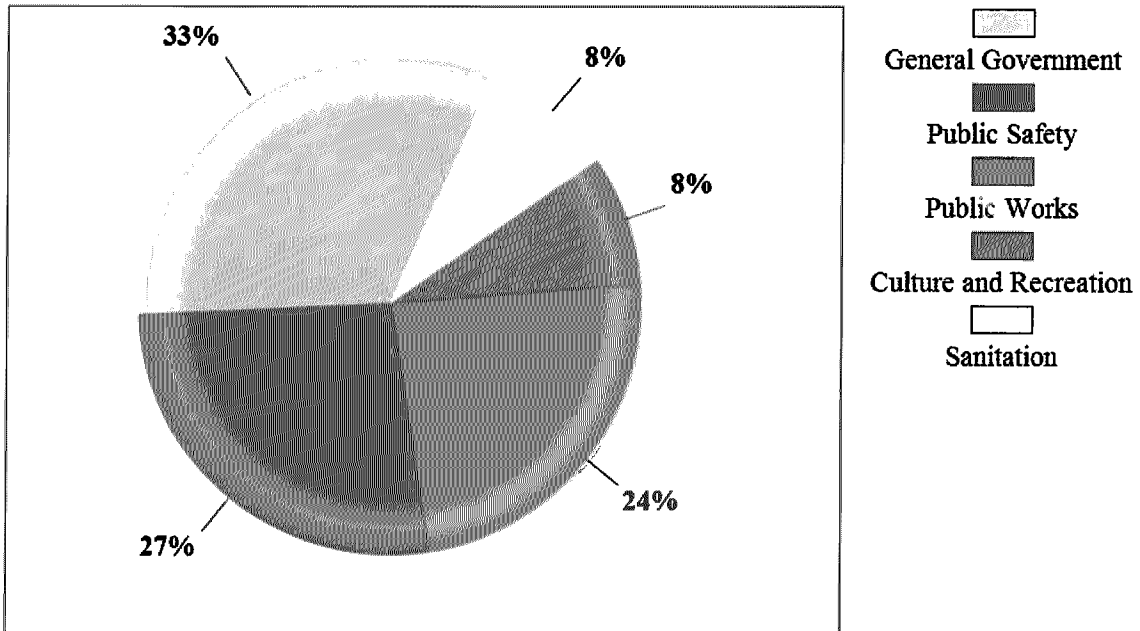
**Sources of Funds in Governmental Activities**



CITY OF COSMOS, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2018

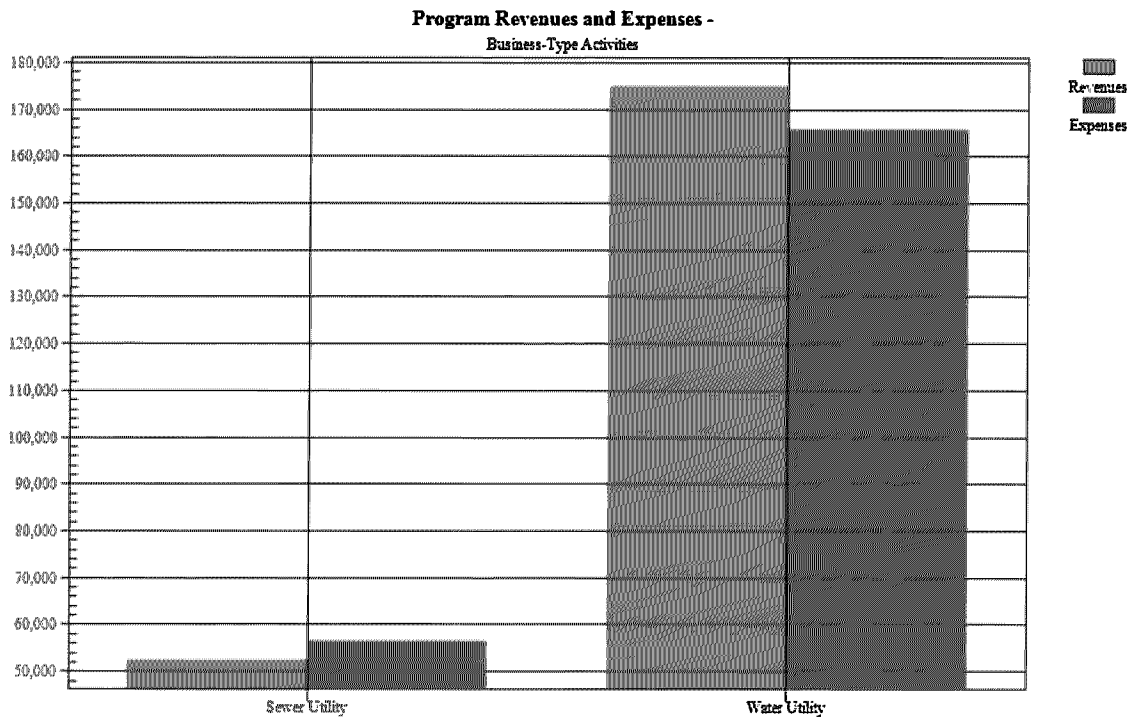
THE CITY AS A WHOLE (Cont.)  
Governmental Activities (Cont.)

**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.



CITY OF COSMOS, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2018

**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 2018 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 \$698,808, of which \$266,178 was assigned for specific purposes and \$8,473 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 \$424,157 represents 54.4 percent of fund expenditures. The fund balance of the City's General Fund decreased \$152,208 compared to the prior year.

The 2013A G.O. Improvement Bond Fund has a fund balance of \$60,374, which has been restricted for future debt service payments. The net decrease in fund balance during the current year was \$60,604.

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 \$335,659. The total increase in net position of the funds was \$18,101. 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 expenditures in excess of revenues in the amount of \$57,883 during 2018. Revenues were over expectations by \$23,739 and expenditures came in over budget by \$173,064 during 2018.

CITY OF COSMOS, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2018

**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, 2018, amounts to \$4,903,804 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges. The total increase in the City's investment in capital assets for the current fiscal year was 1.6 percent (a 9.4 percent increase for governmental activities and a 4.3 percent decrease for business-type activities). The increase was due to capital outlay exceeding depreciation.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Land	\$ 83,198	\$ 83,198	\$ -	\$ -	\$ 83,198	\$ 83,198
Buildings	1,219,610	1,164,610	1,304,853	1,304,853	2,524,463	2,469,463
Improvements other than Building	1,662,236	1,646,334	2,915,249	2,915,249	4,577,485	4,561,583
Machinery and Equipment	<u>1,435,516</u>	<u>1,175,554</u>	<u>98,368</u>	<u>88,018</u>	<u>1,533,884</u>	<u>1,263,572</u>
Subtotal	4,400,560	4,069,696	4,318,470	4,308,120	8,719,030	8,377,816
Less: Accumulated Depreciation	<u>2,113,712</u>	<u>1,980,419</u>	<u>1,701,514</u>	<u>1,572,812</u>	<u>3,815,226</u>	<u>3,553,231</u>
Total	<u>\$ 2,286,848</u>	<u>\$ 2,089,277</u>	<u>\$ 2,616,956</u>	<u>\$ 2,735,308</u>	<u>\$ 4,903,804</u>	<u>\$ 4,824,585</u>

The City's major addition in the governmental activities included the purchase of a city shop building, purchase of a 2008 Mack Tanker Truck, purchase of public works equipment, and improvements to ballfield lights.

Debt

At the end of the current fiscal year, the City had total Long-term debt outstanding of \$1,278,836.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
G.O. Improvement Bonds	\$ -	\$ 141,000	\$ -	\$ -	\$ -	\$ 141,000
G.O. Revenue Notes	-	-	787,764	879,764	787,764	879,764
USDA Promissory Note	436,072	443,103	-	-	436,072	443,103
Contract for Deed	<u>55,000</u>	-	-	-	<u>55,000</u>	-
Total	<u>\$ 491,072</u>	<u>\$ 584,103</u>	<u>\$ 787,764</u>	<u>\$ 879,764</u>	<u>\$1,278,836</u>	<u>\$1,463,867</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 2018 final budget.

CITY OF COSMOS, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2018

**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, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 750,285	\$ 338,208	\$ 1,088,493
Receivables:			
Accounts Receivable	14,822	28,492	43,314
Property Taxes Receivable	32,740	-	32,740
Special Assessments Receivable	447,768	1,044	448,812
Interest Receivable	23,028	-	23,028
Due from Other Governments	8,031	-	8,031
Prepaid Expense	8,473	-	8,473
Capital Assets:			
Nondepreciable			
Land	83,198	-	83,198
Depreciable, Net of Accumulated Depreciation:			
Buildings	1,029,330	641,465	1,670,795
Improvements other than Building	556,172	1,929,720	2,485,892
Machinery and Equipment	618,148	45,771	663,919
Net Pension Asset	136,128	-	136,128
<b>TOTAL ASSETS</b>	<u>3,708,123</u>	<u>2,984,700</u>	<u>6,692,823</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Related to Pensions	50,134	6,473	56,607
<b>LIABILITIES</b>			
Accounts Payable	31,910	8,338	40,248
Taxes Payable	1,653	-	1,653
Accrued Interest	312	3,764	4,076
Salaries Payable	457	-	457
Accrued Compensated Absences	2,841	-	2,841
Noncurrent liabilities:			
Due within one year	18,176	93,000	111,176
Net Pension Liability	75,452	18,857	94,309
Due in more than one year	472,896	694,764	1,167,660
<b>TOTAL LIABILITIES</b>	<u>603,697</u>	<u>818,723</u>	<u>1,422,420</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Related to Pensions	54,064	7,599	61,663
<b>NET POSITION</b>			
Net Investment in Capital Assets	1,795,776	1,829,192	3,624,968
Restricted for:			
Debt Service	60,374	-	60,374
Unrestricted	1,244,346	335,659	1,580,005
<b>TOTAL NET POSITION</b>	<u>\$ 3,100,496</u>	<u>\$ 2,164,851</u>	<u>\$ 5,265,347</u>

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

CITY OF COSMOS, MINNESOTA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2018

Functions/Programs Primary Government	Program Revenues			Net Sources (Uses) and Changes in Net Position		Total
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental Activities:						
General Government	\$ 200,727	\$ 23,403	\$ -	\$ (177,324)	\$ -	\$ (177,324)
Public Safety	164,695	63,442	16,901	(84,352)	-	(84,352)
Public Works	145,049	5,913	8,464	(130,672)	-	(130,672)
Culture and Recreation	51,752	10,823	-	(40,929)	-	(40,929)
Sanitation	51,713	45,801	-	(5,912)	-	(5,912)
Total Governmental Activities	613,936	149,382	25,365	(439,189)	-	(439,189)
Business-Type Activities:						
Sewer Utility	56,584	52,509	-	-	(4,075)	(4,075)
Water Utility	165,660	175,046	-	-	9,386	9,386
Total Business-Type Activities:	222,244	227,555	-	-	5,311	5,311
Total Primary Government	\$ 836,180	\$ 376,937	\$ 25,365	(439,189)	5,311	(433,878)

General Revenues:

Taxes and Assessments	310,084	342	310,426
Intergovernmental Revenue	149,943	-	149,943
Interest Income	18,560	11,849	30,409
Other Income	-	599	599
Miscellaneous	11,411	-	11,411
Total General Revenues	489,998	12,790	502,788
Changes in Net Position	50,809	18,101	68,910
Net Position - January 1	3,049,687	2,146,750	5,196,437
Net Position - December 31	\$ 3,100,496	\$ 2,164,851	\$ 5,265,347

CITY OF COSMOS, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2018

	General Fund	2013A G.O. Improvement	Nonmajor Governmental Funds	Total
<b>ASSETS:</b>				
Cash and Cash Equivalents	\$ 680,158	\$ 56,974	\$ 13,153	\$ 750,285
Accounts Receivable	9,219	-	5,603	14,822
Due from Other Governments	4,631	3,400	-	8,031
Property Taxes Receivable	32,740	-	-	32,740
Special Assessments Receivable	-	447,768	-	447,768
Interest Receivable	23,028	-	-	23,028
Prepaid Expense	8,473	-	-	8,473
Total Assets	\$ 758,249	\$ 508,142	\$ 18,756	\$ 1,285,147
<b>LIABILITIES:</b>				
Accounts Payable	\$ 24,591	\$ -	\$ 7,319	\$ 31,910
Taxes Payable	1,653	-	-	1,653
Salaries Payable	457	-	-	457
Total Liabilities	26,701	-	7,319	34,020
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Unavailable/Uncarned Revenue	32,740	447,768	-	480,508
Total Deferred Inflows of Resources	32,740	447,768	-	480,508
<b>FUND BALANCES:</b>				
Nonspendable	8,473	-	-	8,473
Restricted	-	60,374	-	60,374
Assigned	266,178	-	11,437	277,615
Unassigned	424,157	-	-	424,157
Total Fund Balances	698,808	60,374	11,437	770,619
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 758,249</b>	<b>\$ 508,142</b>	<b>\$ 18,756</b>	<b>\$ 1,285,147</b>

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, 2018

Total Governmental Fund Balances	\$ 770,619
<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.	2,286,848
Part of taxes and special assessments receivable are not available to pay for current period expenditures and therefore are deferred in the funds.	480,508
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.	(494,225)
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>56,746</u>
Net Position of Governmental Activities	\$ <u>3,100,496</u>

CITY OF COSMOS, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2018

	General Fund	2013A G.O. Improvement	Nonmajor Governmental Funds	Total
<b>REVENUES</b>				
Taxes	\$ 264,236	\$ 60,541	\$ 22,426	\$ 347,203
Licenses and Permits	3,519	-	-	3,519
Intergovernmental Revenue	174,726	-	-	174,726
Charges for Services	99,262	-	45,801	145,063
Fines and Forfeits	800	-	-	800
Interest Income	18,238	-	323	18,561
Miscellaneous	11,411	-	-	11,411
Total Revenues	<u>572,192</u>	<u>60,541</u>	<u>68,550</u>	<u>701,283</u>
<b>EXPENDITURES</b>				
Current Operations:				
General Government	153,462	-	-	153,462
Public Safety	128,054	-	-	128,054
Public Works	81,566	-	-	81,566
Culture and Recreation	42,673	-	-	42,673
Sanitation	-	-	51,713	51,713
Debt Service:				
Principal Payments	7,031	109,000	32,000	148,031
Interest Payments	10,524	1,962	648	13,134
Miscellaneous	-	1,010	-	1,010
Capital Outlay	<u>356,090</u>	<u>-</u>	<u>-</u>	<u>356,090</u>
Total Expenditures	<u>779,400</u>	<u>111,972</u>	<u>84,361</u>	<u>975,733</u>
<b>EXCESS EXPENDITURES OVER REVENUES</b>	<u>(207,208)</u>	<u>(51,431)</u>	<u>(15,811)</u>	<u>(274,450)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer In	-	-	9,173	9,173
Issuance of Debt	55,000	-	-	55,000
Transfer Out	<u>-</u>	<u>(9,173)</u>	<u>-</u>	<u>(9,173)</u>
<b>EXCESS EXPENDITURES AND OTHER USES OVER REVENUES AND OTHER SOURCES</b>	<u>(152,208)</u>	<u>(60,604)</u>	<u>(6,638)</u>	<u>(219,450)</u>
<b>FUND BALANCES - January 1</b>	<u>851,016</u>	<u>120,978</u>	<u>18,075</u>	<u>990,069</u>
<b>FUND BALANCES - December 31</b>	<u>\$ 698,808</u>	<u>\$ 60,374</u>	<u>\$ 11,437</u>	<u>\$ 770,619</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, 2018

Net Change in Fund Balances - Total Governmental Funds	\$ (219,450)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
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	356,089
Depreciation Expense	(158,518)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	
Property Taxes and Special Assessments	(37,119)
Interest on long-term liabilities is expensed as paid in the funds, but accrued in the period due in the Statement of Activities.	
	886
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 change in net position of governmental activities.	
Debt Issued	(55,000)
Principal Repayments	148,031
Compensated Absences do not require the use of current financial resources and, therefore, are not accrued in the fund statements.	
	(2,841)
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.	
	<u>18,731</u>
Change in Net Position of Governmental Activities	<u>\$ 50,809</u>

CITY OF COSMOS, MINNESOTA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2018

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$ 182,052	\$ 156,156	\$ 338,208
Accounts Receivable	7,059	21,433	28,492
Special Assessments Receivable	522	522	1,044
Total Current Assets	<u>189,633</u>	<u>178,111</u>	<u>367,744</u>
<b>NONCURRENT ASSETS</b>			
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	71,245	27,123	98,368
Total Capital Assets	<u>595,393</u>	<u>3,723,077</u>	<u>4,318,470</u>
Less: Accumulated Depreciation	<u>400,350</u>	<u>1,301,164</u>	<u>1,701,514</u>
Net Capital Assets	<u>195,043</u>	<u>2,421,913</u>	<u>2,616,956</u>
<b>TOTAL ASSETS</b>	<u>384,676</u>	<u>2,600,024</u>	<u>2,984,700</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Related to Pensions	<u>2,545</u>	<u>3,928</u>	<u>6,473</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 387,221</u>	<u>\$2,603,952</u>	<u>\$ 2,991,173</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable	\$ 2,617	\$ 5,721	\$ 8,338
Accrued Interest	-	3,764	3,764
Current Amount of Long-Term Debt	-	93,000	93,000
Total Current Liabilities	<u>2,617</u>	<u>102,485</u>	<u>105,102</u>
<b>LONG-TERM LIABILITIES</b>			
Net Pension Liability	7,479	11,378	18,857
Bonds and Notes Payable	-	694,764	694,764
Total Long-Term Liabilities	<u>7,479</u>	<u>706,142</u>	<u>713,621</u>
<b>TOTAL LIABILITIES</b>	<u>10,096</u>	<u>808,627</u>	<u>818,723</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Related to Pensions	<u>3,133</u>	<u>4,466</u>	<u>7,599</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	195,043	1,634,149	1,829,192
Unrestricted	<u>178,949</u>	<u>156,710</u>	<u>335,659</u>
Total Net Position	<u>373,992</u>	<u>1,790,859</u>	<u>2,164,851</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND EQUITY</b>	<u>\$ 387,221</u>	<u>\$2,603,952</u>	<u>\$ 2,991,173</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, 2018

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
OPERATING REVENUES			
Charges for Services	\$ <u>52,509</u>	\$ <u>175,046</u>	\$ <u>227,555</u>
Total Operating Revenues	<u>52,509</u>	<u>175,046</u>	<u>227,555</u>
OPERATING EXPENSES			
Personnel Services	8,726	12,792	21,518
Depreciation	17,325	111,377	128,702
Equipment	-	71	71
Insurance	2,763	3,540	6,303
Repairs and Maintenance	3,164	6,063	9,227
Supplies	21,197	3,758	24,955
Telephone	-	561	561
Utilities	1,664	11,018	12,682
Miscellaneous	<u>1,745</u>	<u>5,406</u>	<u>7,151</u>
Total Operating Expenses	<u>56,584</u>	<u>154,586</u>	<u>211,170</u>
NET OPERATING INCOME (LOSS)	<u>(4,075)</u>	<u>20,460</u>	<u>16,385</u>
NON OPERATING INCOME AND EXPENSE:			
Interest Income	4,147	7,702	11,849
Taxes and Special Assessments	-	342	342
Other Income	48	551	599
Interest Expense	<u>-</u>	<u>(11,074)</u>	<u>(11,074)</u>
Net Non Operating Income and Expense	<u>4,195</u>	<u>(2,479)</u>	<u>1,716</u>
CHANGE IN NET POSITION	120	17,981	18,101
NET POSITION - January 1	<u>373,872</u>	<u>1,772,878</u>	<u>2,146,750</u>
NET POSITION - December 31	<u>\$ 373,992</u>	<u>\$ 1,790,859</u>	<u>\$ 2,164,851</u>

CITY OF COSMOS, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Enterprise Funds</u>		
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from Customers	\$ 54,788	\$ 181,636	\$ 236,424
Payments to Vendors	(27,826)	(23,957)	(51,783)
Payments to Employees	(9,334)	(13,680)	(23,014)
Other Receipts and Payments	48	551	599
Net Cash Provided By Operating Activities	<u>17,676</u>	<u>144,550</u>	<u>162,226</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Special Assessment Collections	1,316	1,658	2,974
Purchase of Capital Assets	(5,175)	(5,175)	(10,350)
Principal Paid on Capital Debt	-	(92,000)	(92,000)
Interest Paid on Capital Debt	-	(11,720)	(11,720)
Net Cash Used By Capital and Related Financing Activities	<u>(3,859)</u>	<u>(107,237)</u>	<u>(111,096)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest Received	<u>4,147</u>	<u>7,702</u>	<u>11,849</u>
Net Cash Provided By Investing Activities	<u>4,147</u>	<u>7,702</u>	<u>11,849</u>
NET INCREASE IN CASH	17,964	45,015	62,979
CASH AND CASH EQUIVALENTS - January 1	<u>164,088</u>	<u>111,141</u>	<u>275,229</u>
CASH AND CASH EQUIVALENTS - December 31	<u>\$ 182,052</u>	<u>\$ 156,156</u>	<u>\$ 338,208</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities</b>			
Operating Income (Loss)	\$ (4,075)	\$ 20,460	\$ 16,385
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By Operating Activities			
Depreciation	17,325	111,377	128,702
Noncash Pension Expense	(72)	(84)	(156)
Changes in Assets and Liabilities			
Accounts Receivable	2,279	6,590	8,869
Prepaid Items	796	1,573	2,369
Accounts Payable	1,911	4,887	6,798
Accrued Salaries	(536)	(804)	(1,340)
Other Revenues and Expenses	48	551	599
Net Cash Provided By Operating Activities	<u>\$ 17,676</u>	<u>\$ 144,550</u>	<u>\$ 162,226</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 deferred outflows of resources and liabilities and deferred inflows of resources (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Activities 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.)

Unavailable revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as unearned revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as unavailable 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 2018. 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 unavailable/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

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The liability for unpaid accumulated sick leave is accrued for employees with 5 years or more of service. The policy allows for 50 percent of the unused sick leave up to 200 hours to be paid out upon separation after 5 years of employment. All vacation pay and the sick for employees with 5 years of service is accrued when incurred in the government-wide, and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The total amount of compensated absences accrued at December 31, 2018 was \$2,841.

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.

CITY OF COSMOS, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

N. Long-term Obligations (Cont.)

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.

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

CITY OF COSMOS, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Q. Fund Balance (Cont.)

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.

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”.

S. Comparative Data/Reclassifications

Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation.

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, 2018.

<u>Function Area</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Public Safety	\$ 118,553	\$ 276,739	\$ (158,186)
Public Works	\$ 131,417	\$ 262,819	\$ (131,402)

CITY OF COSMOS, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

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).

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 \$1,088,493 and the bank balance was \$1,147,863 including certificates of deposits of \$1,002,000. 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	\$ 32,740	\$ -
2013A G.O. Improvement		
Special Assessments Receivable	10,941	436,827
Total	<u>\$ 43,681</u>	<u>\$ 436,827</u>

CITY OF COSMOS, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

5. TRANSFERS

Transfers to and from other funds at December 31, 2018, follows:

	<u>Transfers to Other Funds</u>	<u>Transfers from Other Funds</u>
2013A G.O. Improvement	\$ 9,173	\$ -
Nonmajor Governmental Funds	-	9,173
	<u>\$ 9,173</u>	<u>\$ 9,173</u>

- The 2013A G.O. Improvement Fund transferred \$9,173 to the Nonmajor Governmental Funds for the payoff of the 2011A G.O. Improvement Bond.

6. CHANGES IN CAPITAL ASSETS

Governmental Activities - Capital asset activity for the year ended December 31, 2018 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	1,164,610	55,000	-	1,219,610
Improvements other than Building	1,646,334	15,902	-	1,662,236
Machinery and Equipment	<u>1,175,554</u>	<u>285,188</u>	<u>(25,226)</u>	<u>1,435,516</u>
Subtotal	<u>3,986,498</u>	<u>356,090</u>	<u>(25,226)</u>	<u>4,317,362</u>
Less: Accumulated Depreciation				
Buildings	161,155	29,125	-	190,280
Improvements other than Building	1,057,706	48,358	-	1,106,064
Machinery and Equipment	<u>761,559</u>	<u>81,035</u>	<u>(25,226)</u>	<u>817,368</u>
Subtotal	<u>1,980,420</u>	<u>158,518</u>	<u>(25,226)</u>	<u>2,113,712</u>
Net Other Capital Assets	<u>2,006,078</u>	<u>197,572</u>	<u>-</u>	<u>2,203,650</u>
Net Capital Assets	<u>\$ 2,089,276</u>	<u>\$ 197,572</u>	<u>\$ -</u>	<u>\$ 2,286,848</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, 2018.

	<u>Balance</u> <u>January 1</u>	<u>Additions</u>	<u>Transfers/ 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>10,350</u>	<u>-</u>	<u>98,368</u>
Subtotal	<u>4,308,120</u>	<u>10,350</u>	<u>-</u>	<u>4,318,470</u>
Less: Accumulated Depreciation				
Buildings	625,078	38,310	-	663,388
Improvements other than Building	902,053	83,476	-	985,529
Machinery and Equipment	<u>45,681</u>	<u>6,916</u>	<u>-</u>	<u>52,597</u>
Subtotal	<u>1,572,812</u>	<u>128,702</u>	<u>-</u>	<u>1,701,514</u>
Net Capital Assets	<u>\$ 2,735,308</u>	<u>\$ (118,352)</u>	<u>\$ -</u>	<u>\$ 2,616,956</u>

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

Governmental Activities:	
General Government	\$ 34,407
Public Safety	53,855
Public Works	60,994
Culture and Recreation	<u>9,262</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 158,518</u>
Business-Type Activities:	
Sewer Utility	\$ 17,325
Water Utility	<u>111,377</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 128,702</u>

CITY OF COSMOS, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

7. FUND BALANCE

A. Classifications

	General Fund	2013A G.O. Improvement	Nonmajor Governmental Funds	Total
Nonspendable:				
Prepaid Items	\$ 8,473	\$ -	\$ -	\$ 8,473
Total Nonspendable	<u>8,473</u>	<u>-</u>	<u>-</u>	<u>8,473</u>
Restricted for:				
Debt Service	<u>-</u>	60,374	<u>-</u>	60,374
Total Restricted	<u>-</u>	<u>60,374</u>	<u>-</u>	<u>60,374</u>
Assigned to:				
Equipment Purchases	242,106	-	-	242,106
USDA Building	17,555	-	-	17,555
Fire Equipment	6,517	-	-	6,517
Garbage Operations	<u>-</u>	<u>-</u>	11,437	11,437
Total Assigned	<u>266,178</u>	<u>-</u>	<u>11,437</u>	<u>277,615</u>
Unassigned	<u>424,157</u>	<u>-</u>	<u>-</u>	<u>424,157</u>
Total	<u>\$ 698,808</u>	<u>\$ 60,374</u>	<u>\$ 11,437</u>	<u>\$ 770,619</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, 2018, 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, 2018.

	Balance <u>January 1</u>	Debt <u>Issued</u>	Debt <u>Retired</u>	Balance <u>December 31</u>	Current <u>Amount</u>
G.O. Improvement Bonds	\$ 141,000	\$ -	\$ 141,000	\$ -	\$ -
G.O. Revenue Notes	879,764	-	92,000	787,764	93,000
USDA Promissory Note	443,103	-	7,031	436,072	7,176
Contract for Deed	<u>-</u>	55,000	<u>-</u>	55,000	11,000
Totals	<u>\$ 1,463,867</u>	<u>\$ 55,000</u>	<u>\$ 240,031</u>	<u>\$ 1,278,836</u>	<u>\$ 111,176</u>

General Obligation Improvement Bonds issued by the governmental activities are liquidated by the related debt service funds. USDA Promissory Note and Contract for Deed 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 and other long-term debt outstanding at December 31, 2018 are comprised of the following issues:

Governmental Activities

\$55,000 Contract for Deed, due in annual installments of \$11,000 through 2023, with interest at 0.0%. This is for the purchase of the City Shop from the County. \$ 55,000

\$402,000 USDA Promissory Note, due in annual installments of \$17,555 through December 2057, including interest at 2.38%. 436,072

Total Governmental Activities 491,072

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% 319,706

\$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% 256,000

\$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% 140,000

\$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% 72,058

Total Business-Type Activities 787,764

Total Long-Term Debt \$ 1,278,836

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:

	Contract for Deed			G.O. Revenue Notes		
	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 11,000	-	\$ 11,000	\$ 93,000	\$ 10,414	\$ 103,414
2020	11,000	-	11,000	95,000	9,092	104,092
2021	11,000	-	11,000	96,000	7,742	103,742
2022	11,000	-	11,000	98,000	5,525	103,525
2023	11,000	-	11,000	98,000	4,980	102,980
2024-2028	-	-	-	252,706	9,318	262,024
2029-2033	-	-	-	28,000	1,930	29,930
2034-2038	-	-	-	15,000	1,050	16,050
2039-2043	-	-	-	12,058	241	12,299
2044-2048	-	-	-	-	-	-
2049-2053	-	-	-	-	-	-
2054-2058	-	-	-	-	-	-
Total	\$ <u>55,000</u>	\$ <u>-</u>	\$ <u>55,000</u>	\$ <u>787,764</u>	\$ <u>50,292</u>	\$ <u>838,056</u>

	USDA Promissory Note		
	Governmental Activities		
	Principal	Interest	Total
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	7,884	9,671	17,555
2024-2028	42,325	45,449	87,774
2029-2033	47,608	40,167	87,775
2034-2038	53,550	34,226	87,776
2039-2043	60,232	27,543	87,775
2044-2048	67,747	20,028	87,775
2049-2053	76,203	11,572	87,775
2054-2058	<u>50,777</u>	<u>2,473</u>	<u>53,250</u>
Total	\$ <u>436,072</u>	\$ <u>231,603</u>	\$ <u>667,675</u>

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

Governmental Activities:	
General Government	\$ 10,519
Public Works	<u>1,729</u>
Total Interest Expense - Governmental Activities	<u>\$ 12,248</u>
Business-Type Activities:	
Water Utility	<u>\$ 11,074</u>
Total Interest Expense - Business-Type Activities	<u>\$ 11,074</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 the Coordinated Plan. Coordinated Plan members are covered by Social Security.

**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 associations 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. 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.

**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 Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for a Coordinated member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent of average salary for all 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.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90 percent funded for two consecutive years, benefit recipients are given a 2.5 percent increases. If the plan has not exceeded 90 percent funded, or have fallen below 80 percent, benefit recipients are given one percent increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 months as of June 30, will receive a pro rata increase.

CITY OF COSMOS, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

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

B. Benefits Provided (Cont.)

**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. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. Police and Fire Plan benefit recipients receive a future annual 1.0 percent increase. An annual adjustment will equal 2.5 percent any time the plan exceeds a 90 percent funded ratio for two consecutive years. If the adjustment is increase to 2.5 percent and the funded ratio falls below 80 percent for one year or 85 percent for two years, the post-retirement benefit increase will be lowered to one percent. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase. For retirements after May 31, 2014, the first increase will be delayed two years.

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**

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2018 and the City of Cosmos, Minnesota was required to contribute 7.50% for Coordinated Plan members. The City of Cosmos, Minnesota contributions to the General Employees Fund for the year ended December 31, 2018, were \$8,662. The City of Cosmos, Minnesota contributions were equal to the required contributions as set by state statute.

D. Pension Costs

**1. General Employees Fund Pension Costs**

At December 31, 2018, the City of Cosmos, Minnesota reported a liability of \$94,309 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 \$16 million to the fund in 2018. 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 \$2,995. 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, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City of Cosmos, Minnesota proportionate share was 0.0017% which was unchanged from its proportion measured as of June 30, 2017.

CITY OF COSMOS, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

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

D. Pension Costs (Cont.)

For the year ended December 31, 2018, the City of Cosmos, Minnesota recognized pension expense of \$5,469 for its proportionate share of the General Employees Plan's pension expense. In addition, the City of Cosmos, Minnesota recognized an additional \$698 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2018, 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 Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 2,795	\$ 3,882
Changes in actuarial assumptions	8,479	10,596
Difference between projected and actual investment earnings	11,346	21,692
Changes in proportion	4,060	-
Contributions paid to PERA subsequent to the measurement date	4,329	-
Total	<u>\$ 31,009</u>	<u>\$ 36,170</u>

\$4,329 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, 2019. 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>
2019	\$ 4,826
2020	\$ (5,612)
2021	\$ (6,767)
2022	\$ (1,937)
2023	\$ -
Thereafter	\$ -

**2. Police and Fire Fund Pension Costs**

At December 31, 2018, 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion	\$ -	\$ 7,692
Total	<u>\$ -</u>	<u>\$ 7,692</u>

CITY OF COSMOS, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

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

D. Pension Costs (Cont.)

<u>Year Ended June 30:</u>	<u>Pension Expense Amount</u>
2019	\$ (3,847)
2020	\$ (3,845)
2021	\$ -
2022	\$ -
2023	\$ -
Thereafter	\$ -

E. Actuarial Assumptions

The total pension liability in the June 30, 2018, 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%

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, 2018, 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. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2018:

**General Employees Fund**

- The mortality projection scale was changed from MP-2015 to MP-2017
- The assumed post-retirement benefit increase was changed from 1.0 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

**Police and Fire Fund**

- The mortality projection scale was changed from MP-2016 to MP-2017
- As set by statute, the assumed post-retirement benefit increase was changed from 1.0 percent per year through 2064 and 2.5 percent per year, thereafter, to 1.0 percent for all years, with no trigger.

CITY OF COSMOS, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

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

E. Actuarial Assumptions (Cont.)

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	36%	5.10%
International Stocks	17%	5.30%
Bonds	20%	0.75%
Alternative Assets	25%	5.90%
Cash	2%	0.00%
Total	100%	

F. Discount Rate

The discount rate used to measure the total pension liability in 2018 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.

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:	\$ 156,264	\$ 94,309	\$ 45,643

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](http://www.mnpera.org).

CITY OF COSMOS, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

10. DEFINED BENEFIT PENSION PLANS – STATEWIDE

A. Plan Description

The Cosmos Fire Department 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, 2018, 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 \$13,676 in fire state aid to the fund for the year ended December 31, 2018. Required employer contributions are calculated annually based on statutory provisions. The City had no required annual contribution for December 31, 2018.

D. Pension Costs

At December 31, 2018, the City of Cosmos, Minnesota reported a net pension asset of \$136,128 for the Volunteer Firefighter Fund. The net pension asset was measured as of December 31, 2018. 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.

CITY OF COSMOS, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

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

D. Pension Costs (Cont.)

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
Beginning Balance 12/31/17	\$ 173,478	\$ 321,640	\$ (148,162)
Changes for the Year			
Service Cost	7,179	-	7,179
TPL Interest	10,840	-	10,840
Actuarial Experience (Gains)/Losses	(5,746)	-	(5,746)
Projected Investment Earnings	-	19,298	(19,298)
Contributions (ER/State)	-	13,676	(13,676)
Difference between Projected and Actual Investment Earnings	-	(31,997)	31,997
PERA Administrative Fee	-	(738)	738
Net Changes	<u>12,273</u>	<u>239</u>	<u>12,034</u>
Balance End of Year 12/31/2018	<u>\$ 185,751</u>	<u>\$ 321,879</u>	<u>\$ (136,128)</u>

For the year ended December 31, 2018 the City of Cosmos, Minnesota recognized pension expense of \$4,710.

At December 31, 2018 the City of Cosmos, Minnesota reported deferred inflows of resources related to pensions from the following:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 5,869
Difference between projected and actual investment earnings	<u>25,598</u>	<u>11,928</u>
Total	<u>\$ 25,598</u>	<u>\$ 17,797</u>

<u>Year Ended December 31:</u>	<u>Pension Expense Amount</u>
2019	\$ 850
2020	\$ 850
2021	\$ 850
2022	\$ 5,251
Thereafter	\$ -

E. Actuarial Assumptions

The total pension liability in the December 31, 2018, 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

CITY OF COSMOS, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

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

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 Rate (5.0%)	Discount Rate (6.0%)	1% Increase in Discount Rate (7.0%)
Net Pension Liability (Asset)	\$ (130,930)	\$ (136,128)	\$ (141,266)

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.

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%

CITY OF COSMOS, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS

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

I. Asset Allocation (Cont.)

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 2018 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, 2018, 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](http://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 2018.

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.

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.

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, 2018  
 With Comparative Amounts for the year ended December 31, 2017

	<u>2018</u>			Variance with Final	<u>2017</u>
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
REVENUES:					
TAXES:					
General Property Taxes	\$ 264,513	\$ 264,513	\$ 264,234	\$ (279)	\$ 261,164
Special Assessments	-	-	2	2	157
Total Taxes	<u>264,513</u>	<u>264,513</u>	<u>264,236</u>	<u>(277)</u>	<u>261,321</u>
LICENSES AND PERMITS:					
Licenses and Permits	<u>3,400</u>	<u>3,400</u>	<u>3,519</u>	<u>119</u>	<u>3,136</u>
INTERGOVERNMENTAL REVENUE:					
Local Government Aid	146,675	146,675	146,675	-	143,494
Market Value Credit	-	-	401	401	412
PERA Rate Increase Aid	-	-	360	360	360
State Fire Aid	2,500	2,500	16,901	14,401	20,496
Other State Grants	8,000	8,000	1,925	(6,075)	-
Small Cities Street Aid	-	-	8,464	8,464	8,640
Total Intergovernmental Revenue	<u>157,175</u>	<u>157,175</u>	<u>174,726</u>	<u>17,551</u>	<u>173,402</u>
CHARGES FOR SERVICES:					
General Government	16,000	16,000	19,884	3,884	16,886
Public Safety	73,105	73,105	62,642	(10,463)	60,615
Public Works	-	-	5,913	5,913	-
Culture and Recreation	4,500	4,500	3,799	(701)	2,975
Health and Welfare	15,000	15,000	7,024	(7,976)	12,267
Other Charges for Services	-	-	-	-	3,789
Total Charges for Services	<u>108,605</u>	<u>108,605</u>	<u>99,262</u>	<u>(9,343)</u>	<u>96,532</u>
FINES AND FORFEITS	<u>400</u>	<u>400</u>	<u>800</u>	<u>400</u>	<u>283</u>
INTEREST INCOME	<u>8,000</u>	<u>8,000</u>	<u>18,238</u>	<u>10,238</u>	<u>11,232</u>
MISCELLANEOUS:					
Refunds and Reimbursements	3,360	3,360	7,212	3,852	79,166
Donations	2,000	2,000	(50)	(2,050)	4,175
Miscellaneous Income	1,000	1,000	581	(419)	1,492
Sale of Property	-	-	3,668	3,668	22,348
Total Miscellaneous	<u>6,360</u>	<u>6,360</u>	<u>11,411</u>	<u>5,051</u>	<u>107,181</u>
TOTAL REVENUES	<u>548,453</u>	<u>548,453</u>	<u>572,192</u>	<u>23,739</u>	<u>653,087</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, 2018  
 With Comparative Amounts for the year ended December 31, 2017

	<u>2018</u>			Variance	<u>2017</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>with Final</u>	<u>Actual</u>
	<u>Budget</u>	<u>Budget</u>	<u>Budget</u>	<u>Budget</u>	<u>Budget</u>
<b>OTHER FINANCING SOURCES</b>					
Transfer In	\$ -	\$ -	\$ -	\$ -	\$ 166,825
Issuance of Debt	<u>-</u>	<u>-</u>	<u>55,000</u>	<u>55,000</u>	<u>-</u>
<b>TOTAL REVENUES AND OTHER FINANCING SOURCES</b>	<u>548,453</u>	<u>548,453</u>	<u>627,192</u>	<u>78,739</u>	<u>819,912</u>
<b>EXPENDITURES:</b>					
<b>GENERAL GOVERNMENT:</b>					
Mayor and Council:					
Salaries	5,782	5,782	5,020	762	3,960
Consulting Fees	7,000	7,000	458	6,542	-
Other Current Expenditures	2,000	2,000	1,835	165	2,467
Administrative and Finance:					
Salaries	66,663	66,663	74,166	(7,503)	64,214
Payroll Taxes and Benefits	16,024	16,024	18,418	(2,394)	14,875
Supplies	3,500	3,500	5,732	(2,232)	2,063
Telephone	2,200	2,200	2,288	(88)	2,501
Other Current Expenditures	3,700	3,700	2,922	778	269
Capital Outlay	1,500	1,500	-	1,500	-
City Hall:					
Insurance	13,500	13,500	8,650	4,850	10,553
Repairs	10,000	10,000	2,809	7,191	83,424
Supplies	3,000	3,000	3,378	(378)	1,290
Utilities	20,000	20,000	12,433	7,567	9,309
Other Current Expenditures	7,900	7,900	2,661	5,239	1,936
Capital Outlay	23,250	23,250	-	23,250	-
Assessor Fees					
Current Expenditures	-	-	4,124	(4,124)	3,885
Independent Auditing					
Current Expenditures	6,800	6,800	6,800	-	16,000
Legal					
Current Expenditures	<u>1,500</u>	<u>1,500</u>	<u>1,768</u>	<u>(268)</u>	<u>1,390</u>
<b>Total General Government</b>	<u>194,319</u>	<u>194,319</u>	<u>153,462</u>	<u>40,857</u>	<u>218,136</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, 2018  
 With Comparative Amounts for the year ended December 31, 2017

	<u>2018</u>			Variance with Final Budget	<u>2017</u>
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>		<u>Actual</u>
<b>EXPENDITURES:</b>					
<b>PUBLIC SAFETY:</b>					
<b>Police Protection:</b>					
Salaries	\$ 19,500	\$ 19,500	\$ -	\$ 19,500	\$ 8,464
Payroll Taxes and Benefits	3,376	3,376	-	3,376	930
Contracted Services	-	-	35,490	(35,490)	-
Insurance	750	750	-	750	750
Repairs and Maintenance	2,500	2,500	524	1,976	180
Supplies	500	500	103	397	1,408
Telephone	1,500	1,500	-	1,500	1,715
Other Current Expenditures	2,800	2,800	-	2,800	832
Capital Outlay	5,000	5,000	-	5,000	-
<b>Ambulance:</b>					
Personnel Services	19,377	19,377	21,589	(2,212)	16,903
Insurance	1,800	1,800	1,500	300	1,500
Supplies	6,000	6,000	6,064	(64)	7,487
Repairs	3,000	3,000	4,832	(1,832)	1,704
Gas and Oil	1,200	1,200	1,536	(336)	830
Current Expenditures	8,000	8,000	8,494	(494)	4,159
<b>Fire Protection:</b>					
Personnel Services	7,000	7,000	7,613	(613)	7,265
State Fire Aid	-	-	13,676	(13,676)	15,106
Insurance	9,000	9,000	1,500	7,500	2,500
Gas and Oil	5,400	5,400	5,332	68	4,762
Repairs	4,500	4,500	9,428	(4,928)	7,361
Supplies	3,000	3,000	567	2,433	3,540
Telephone	1,600	1,600	2,281	(681)	5,039
Utilities	2,000	2,000	-	2,000	-
Other Current Expenditures	7,500	7,500	5,715	1,785	10,794
Capital Outlay	-	-	148,685	(148,685)	8,800
<b>Building Inspection</b>					
Current Expenditures	3,250	3,250	1,810	1,440	1,562
<b>Total Public Safety</b>	<u>118,553</u>	<u>118,553</u>	<u>276,739</u>	<u>(158,186)</u>	<u>113,591</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, 2018  
 With Comparative Amounts for the year ended December 31, 2017

	<u>2018</u>			Variance with Final	<u>2017</u>
	Original Budget	Final Budget	Actual	Budget	Actual
<b>EXPENDITURES:</b>					
<b>PUBLIC WORKS:</b>					
Highways and Streets:					
Salaries	\$ 16,164	\$ 16,164	\$ 11,571	\$ 4,593	\$ 13,870
Payroll Taxes and Benefits	5,990	5,990	8,786	(2,796)	7,603
Equipment Repairs and Supplies	26,500	26,500	3,177	23,323	3,330
Insurance	5,800	5,800	2,730	3,070	2,100
Gas and Oil	3,500	3,500	2,190	1,310	1,924
Supplies	18,013	18,013	5,467	12,546	7,657
Street Maintenance	30,000	30,000	32,327	(2,327)	28,545
Telephone	1,200	1,200	985	215	815
Utilities	-	-	14,333	(14,333)	11,684
Other Current Expenditures	1,250	1,250	-	1,250	1,486
Capital Outlay	<u>23,000</u>	<u>23,000</u>	<u>181,253</u>	<u>(158,253)</u>	<u>2,365</u>
Total Public Works	<u>131,417</u>	<u>131,417</u>	<u>262,819</u>	<u>(131,402)</u>	<u>81,379</u>
<b>CULTURE AND RECREATION:</b>					
Parks:					
Salaries	21,426	21,426	22,620	(1,194)	19,748
Payroll Taxes and Benefits	3,771	3,771	2,129	1,642	2,318
Telephone	750	750	-	750	-
Gas and Oil	1,400	1,400	1,883	(483)	674
Repairs	5,000	5,000	5,205	(205)	10,276
Supplies	10,000	10,000	6,709	3,291	6,694
Utilities	-	-	2,709	(2,709)	2,963
Current Expenditures	2,000	2,000	1,418	582	2,514
Capital Outlay	<u>100,000</u>	<u>100,000</u>	<u>26,152</u>	<u>73,848</u>	<u>-</u>
Total Culture and Recreation	<u>144,347</u>	<u>144,347</u>	<u>68,825</u>	<u>75,522</u>	<u>45,187</u>
<b>DEBT SERVICE:</b>					
Principal Payments	3,700	3,700	7,031	(3,331)	6,897
Interest Payments	<u>14,000</u>	<u>14,000</u>	<u>10,524</u>	<u>3,476</u>	<u>10,658</u>
Total Debt Service	<u>17,700</u>	<u>17,700</u>	<u>17,555</u>	<u>145</u>	<u>17,555</u>
<b>TOTAL EXPENDITURES</b>	<u>606,336</u>	<u>606,336</u>	<u>779,400</u>	<u>(173,064)</u>	<u>475,848</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, 2018  
With Comparative Amounts for the year ended December 31, 2017

	<u>2018</u>			<u>Variance</u>	<u>2017</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>with Final</u>	<u>Actual</u>
	<u>Budget</u>	<u>Budget</u>		<u>Budget</u>	
EXCESS EXPENDITURES OVER REVENUES AND OTHER FINANCING SOURCES	\$ <u>(57,883)</u>	\$ <u>(57,883)</u>	\$ <u>(152,208)</u>	\$ <u>(94,325)</u>	\$ <u>344,064</u>
OTHER FINANCING USES: Transfer to Capital Projects Fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,000)</u>
EXCESS EXPENDITURES AND OTHER FINANCING USES OVER REVENUES AND OTHER FINANCING SOURCES	<u>(57,883)</u>	<u>(57,883)</u>	<u>(152,208)</u>	<u>(94,325)</u>	<u>334,064</u>
FUND BALANCE - January 1	<u>851,016</u>	<u>851,016</u>	<u>851,016</u>	<u>-</u>	<u>516,952</u>
FUND BALANCE - December 31	<u>\$ 793,133</u>	<u>\$ 793,133</u>	<u>\$ 698,808</u>	<u>\$ (94,325)</u>	<u>\$ 851,016</u>

CITY OF COSMOS, MINNESOTA  
SCHEDULE OF PROPORTIONATE SHARE OF THE  
NET PENSION LIABILITY  
PERA GENERAL EMPLOYEES RETIREMENT FUND  
DECEMBER 31, 2018

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, 2018	0.0017 %	94,309	111,160	84.84 %	79.50 %
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, 2018

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, 2018	\$ 8,662	\$ 8,662	-	\$ 115,493	7.50 %
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 %

CITY OF COSMOS, MINNESOTA  
 SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET)  
 AND RELATED RATIOS  
 COSMOS FIRE DEPARTMENT RELIEF ASSOCIATION  
 DECEMBER 31, 2018

Fiscal Year	2017	2018
<b>Total Pension Liability</b>		
Service Cost	\$ 7,412	\$ 7,179
Interest on the Total Pension Liability	9,940	10,840
Difference Between Expected and Actual Experience	(2,119)	(5,746)
Changes in Assumptions	-	-
Changes of Benefit Terms		
Benefit Payments	-	-
<b>Net change in total pension liability</b>	<b>15,233</b>	<b>12,273</b>
<b>Total Pension Liability - Beginning</b>	<b><u>158,245</u></b>	<b><u>173,478</u></b>
<b>Total Pension Liability - Ending (a)</b>	<b><u>\$ 173,478</u></b>	<b><u>\$ 185,751</u></b>
<b>Plan Fiduciary Net Position</b>		
Contributions State	\$ 13,606	\$ 13,676
Contributions Local	1,500	-
Net Investment Income	36,354	(12,699)
Benefit Payments	-	-
Pension Plan Administrative Expense	(2,417)	(738)
<b>Net Change in Total Pension Liability</b>	<b>49,043</b>	<b>239</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b><u>272,597</u></b>	<b><u>321,640</u></b>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b><u>\$ 321,640</u></b>	<b><u>\$ 321,879</u></b>
<b>Net Pension (Asset)/Liability - Ending (a) - (b)</b>	<b><u>\$ (148,162)</u></b>	<b><u>\$ (136,128)</u></b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>185.41 %</b>	<b>173.29 %</b>

CITY OF COSMOS, MINNESOTA  
SCHEDULE OF CONTRIBUTIONS AND NET PENSION LIABILITY (ASSET)  
AS A PERCENT OF PAYROLL  
COSMOS FIRE DEPARTMENT RELIEF ASSOCIATION  
DECEMBER 31, 2018

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, 2018	\$ 13,676	\$ 13,676	-	N/A	N/A
December 31, 2017	\$ 13,606	\$ 15,106	1,500	N/A	N/A

SECTION III

SUPPLEMENTAL SECTION

CITY OF COSMOS, MINNESOTA  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2018

	Special Revenue <u>Fund</u> Garbage <u>Fund</u>	Debt Service <u>Fund</u> 2011A G.O. <u>Improvement</u>	<u>Total</u>
ASSETS:			
Cash and Cash Equivalents	\$ 13,153	\$ -	\$ 13,153
Accounts Receivable	<u>5,603</u>	<u>-</u>	<u>5,603</u>
TOTAL ASSETS	<u>\$ 18,756</u>	<u>\$ -</u>	<u>\$ 18,756</u>
LIABILITIES:			
Accounts Payable	\$ <u>7,319</u>	\$ <u>-</u>	\$ <u>7,319</u>
Total Liabilities	<u>7,319</u>	<u>-</u>	<u>7,319</u>
FUND BALANCES:			
Assigned	<u>11,437</u>	<u>-</u>	<u>11,437</u>
Total Fund Balances	<u>11,437</u>	<u>-</u>	<u>11,437</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 18,756</u>	<u>\$ -</u>	<u>\$ 18,756</u>

CITY OF COSMOS, MINNESOTA  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2018

	Special Revenue Fund Garbage Fund	Debt Service Fund 2011A G.O. Improvement	Total
REVENUES			
Taxes	\$ -	\$ 22,426	\$ 22,426
Charges for Services	45,801	-	45,801
Interest Income	<u>322</u>	<u>1</u>	<u>323</u>
Total Revenues	<u>46,123</u>	<u>22,427</u>	<u>68,550</u>
EXPENDITURES			
Sanitation	51,713	-	51,713
Principal Payments	-	32,000	32,000
Interest Payments	<u>-</u>	<u>648</u>	<u>648</u>
Total Expenditures	<u>51,713</u>	<u>32,648</u>	<u>84,361</u>
EXCESS EXPENDITURES OVER REVENUES	(5,590)	(10,221)	(15,811)
OTHER FINANCING SOURCES (USES)			
Transfer In	<u>-</u>	<u>9,173</u>	<u>9,173</u>
EXCESS EXPENDITURES AND OTHER USES OVER REVENUES AND OTHER SOURCES	(5,590)	(1,048)	(6,638)
FUND BALANCES - January 1	<u>17,027</u>	<u>1,048</u>	<u>18,075</u>
FUND BALANCES - December 31	<u>\$ 11,437</u>	<u>\$ -</u>	<u>\$ 11,437</u>

CITY OF COSMOS, MINNESOTA  
SUMMARY FINANCIAL REPORT

REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2018

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>2018</u>	<u>Total</u> <u>2017</u>	<u>Percent</u> <u>Increase</u> <u>(Decrease)</u>
<b>REVENUES:</b>			
Taxes and Assessments	\$ 347,203	\$ 353,409	(1.76)%
Licenses and Permits	3,519	3,136	12.21 %
Intergovernmental	174,726	238,705	(26.80)%
Charges for Services	145,063	143,532	1.07 %
Fines	800	283	182.69 %
Investment Earnings	18,579	11,736	58.31 %
Miscellaneous	11,411	142,799	(92.01)%
Transfer In	9,173	176,825	(94.81)%
Issuance of Debt	55,000	-	100.00 %
Total Revenues	<u>\$ 765,474</u>	<u>\$ 1,070,425</u>	<u>(28.49)%</u>
Per Capita	<u>1,682</u>	<u>2,353</u>	
<b>EXPENDITURES:</b>			
Current			
General Government	\$ 153,462	\$ 218,136	(29.65)%
Public Safety	128,054	104,791	22.20 %
Public Works	81,566	79,014	3.23 %
Culture and Recreation	42,673	51,252	(16.74)%
Sanitation	51,713	51,786	(0.14)%
Debt Service:			
Principal Payments	148,031	64,897	128.10 %
Interest Payments	13,134	16,567	(20.72)%
Other Charges	1,010	-	DIV/0 %
Capital Outlay	356,090	1,224,333	(70.92)%
Transfer Out	9,173	170,325	(94.61)%
Total Expenditures	<u>\$ 984,906</u>	<u>\$ 794,791</u>	<u>23.92 %</u>
Per Capita	<u>2,165</u>	<u>1,747</u>	
Governmental Long-term Indebtedness	<u>\$ 491,072</u>	<u>\$ 584,103</u>	<u>(15.93)%</u>
Per Capita	<u>1,079</u>	<u>1,284</u>	
General Fund Unassigned Fund Balance - December 31	<u>\$ 424,157</u>	<u>\$ 413,068</u>	<u>2.68 %</u>
Per Capita	<u>932</u>	<u>908</u>	

SECTION IV

ADDITIONAL INFORMATION

Dennis E. Oberloh, CPA  
Sara J. Oberloh, CPA



P.O. Box 186  
530 West Park Road  
Redwood Falls, MN 56283  
507-644-6400  
www.oberlohcpa.com

INDEPENDENT AUDITORS' 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, 2018, 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 May 9, 2019.

**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. 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 2018-001 and 2018-002.

## **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.

*Oberloh & Oberloh, Ltd.*  
Oberloh & Oberloh, Ltd.

May 9, 2019

CITY OF COSMOS  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2018

INTERNAL CONTROL FINDINGS

Audit Finding 2018-001

*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 2018-002

*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.

Dennis E. Oberloh, CPA  
Sara J. Oberloh, CPA



P.O. Box 186  
530 West Park Road  
Redwood Falls, MN 56283  
507-644-6400  
www.oberlohcpa.com

## AUDITORS' 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, 2018, and the related notes to the financial statements, and have issued our report thereon dated May 9, 2019.

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.

*Oberloh & Oberloh, Ltd.*  
Oberloh & Oberloh, Ltd.

May 9, 2019