

CITY OF COSMOS
COSMOS, MINNESOTA

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2021

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SECTION I

INTRODUCTORY SECTION

CITY OF COSMOS
COSMOS, MINNESOTA
GENERAL INFORMATION

ELECTED AND APPOINTED OFFICIALS

MAYOR	Tom McCarthy
COUNCIL MEMBER	Emily Van Hatten
COUNCIL MEMBER	Katie Hanson
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

INDEPENDENT AUDITORS' REPORT

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

Opinions

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, 2021, and the related notes to the financial statements, which collectively comprise the City of Cosmos, Minnesota's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Cosmos, Minnesota as of December 31, 2021, 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.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of 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.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

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

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

Required Supplementary Information

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 6 through 14 and 48 through 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary 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 accompanying summary financial report, and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 summary financial report, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2022 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 the effectiveness of the City of Cosmos, Minnesota's 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.
Redwood Falls, Minnesota

June 9, 2022

CITY OF COSMOS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021

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, 2021.

- 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 \$5,452,231 (net position). Of this amount \$1,666,657 (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 \$272,468, compared to an increase of \$39,606 in the previous year. The governmental activities net position increased during 2021 by \$270,020 and the business-type activities net position increased by \$2,448.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,444,370, an increase of \$1,776,508 in comparison with the prior year. Approximately 32.9 percent of this total amount, \$804,988, is available for spending at the City's discretion, although \$331,788 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 15) 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 16) 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, sanitation, and miscellaneous. The business-type activities of the City include water utility and sewer utility.

CITY OF COSMOS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021

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 17) and the governmental fund statement of revenues, expenditures and changes in fund balances (on page 19) provide a reconciliation (on pages 18 and 20) to facilitate this comparison between governmental funds and governmental activities.

The City maintains four 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, 2013A G.O. Improvement Fund, and Capital Project Fund; all of which are considered to be major funds. Data from the Garbage Fund is marked as nonmajor and shown in a single, aggregated presentation.

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 Storm Water Fund is shown in a separate column as a nonmajor fund. The basic proprietary fund financial statements can be found on pages 21 through 23 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 24 through 47 of this report.

CITY OF COSMOS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021

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 48 - 58) 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 to the financial statements, referred to as the basic financial statements.

Other Supplementary Information

This part of the annual report (starting on page 59) includes optional financial information such as 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>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Current Assets	\$ 2,953,534	\$ 1,201,957	\$ 403,389	\$ 414,085	\$ 3,356,923	\$ 1,616,042
Capital Assets	<u>3,371,224</u>	<u>2,443,943</u>	<u>2,298,104</u>	<u>2,382,728</u>	<u>5,669,328</u>	<u>4,826,671</u>
Total Assets	<u>6,324,758</u>	<u>3,645,900</u>	<u>2,701,493</u>	<u>2,796,813</u>	<u>9,026,251</u>	<u>6,442,713</u>
Deferred Outflows of						
Resources	<u>70,605</u>	<u>37,014</u>	<u>12,542</u>	<u>7,387</u>	<u>83,147</u>	<u>44,401</u>
Current Liabilities	<u>97,421</u>	<u>69,040</u>	<u>100,843</u>	<u>100,716</u>	<u>198,264</u>	<u>169,756</u>
Long-term Liabilities	<u>2,881,534</u>	<u>521,792</u>	<u>424,628</u>	<u>525,872</u>	<u>3,306,162</u>	<u>1,047,664</u>
Total Liabilities	<u>2,978,955</u>	<u>590,832</u>	<u>525,471</u>	<u>626,588</u>	<u>3,504,426</u>	<u>1,217,420</u>
Deferred Inflows of						
Resources	<u>139,941</u>	<u>85,635</u>	<u>12,800</u>	<u>4,296</u>	<u>152,741</u>	<u>89,931</u>
Net Position						
Net Investment in						
Capital Assets	<u>522,264</u>	<u>1,989,439</u>	<u>1,630,889</u>	<u>1,782,964</u>	<u>2,153,153</u>	<u>3,772,403</u>
Restricted	<u>1,632,421</u>	<u>162,826</u>	<u>-</u>	<u>-</u>	<u>1,632,421</u>	<u>162,826</u>
Unrestricted	<u>1,121,782</u>	<u>854,182</u>	<u>544,875</u>	<u>390,352</u>	<u>1,666,657</u>	<u>1,244,534</u>
Total Net Position	<u>\$ 3,276,467</u>	<u>\$ 3,006,447</u>	<u>\$ 2,175,764</u>	<u>\$ 2,173,316</u>	<u>\$ 5,452,231</u>	<u>\$ 5,179,763</u>

A large portion of the City's net position (39.5 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, 2021

THE CITY AS A WHOLE (Cont.)

Net Position (Cont.)

An additional portion of the City's net position (29.9 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (30.6 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

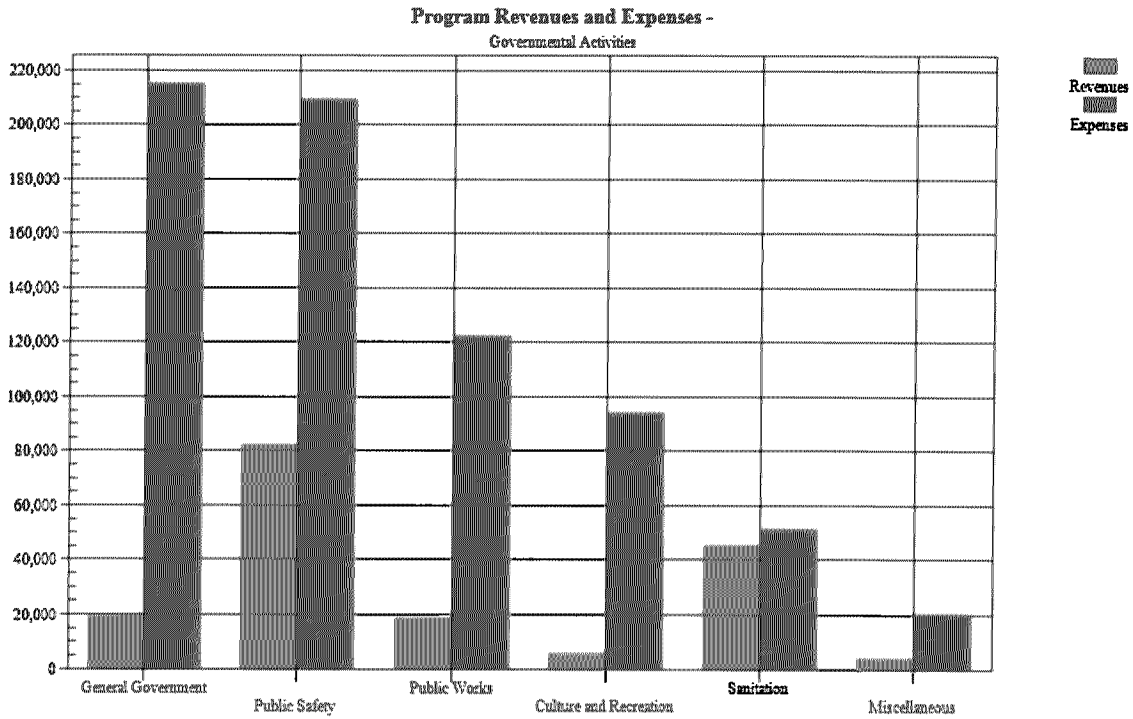
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
<u>Revenues</u>						
Program Revenues:						
Fees, Fines, and Charges for Services	\$ 143,998	\$ 127,265	\$ 245,508	\$ 239,080	\$ 389,506	\$ 366,345
Operating Grants and Contributions	34,146	13,413	-	-	34,146	13,413
General Revenues:						
Taxes and Assessments	368,385	306,573	-	7,615	368,385	314,188
Intergovernmental Revenue	453,207	186,398	-	-	453,207	186,398
Interest Income	2,807	8,789	971	5,001	3,778	13,790
Other Income	-	-	24	95	24	95
Miscellaneous Income	19,439	49,896	-	-	19,439	49,896
Total Revenues	<u>1,021,982</u>	<u>692,334</u>	<u>246,503</u>	<u>251,791</u>	<u>1,268,485</u>	<u>944,125</u>
<u>Expenses</u>						
General Government	215,298	217,646	-	-	215,298	217,646
Public Safety	209,486	154,612	-	-	209,486	154,612
Public Works	122,490	191,107	-	-	122,490	191,107
Culture and Recreation	94,497	47,064	-	-	94,497	47,064
Sanitation	51,503	39,251	-	-	51,503	39,251
Miscellaneous	20,367	-	-	-	20,367	-
Sewer Utility	-	-	50,278	67,683	50,278	67,683
Water Utility	-	-	193,777	187,156	193,777	187,156
Total Expenses	<u>713,641</u>	<u>649,680</u>	<u>244,055</u>	<u>254,839</u>	<u>957,696</u>	<u>904,519</u>
Changes in Net Position						
Before Transfers	308,341	42,654	2,448	(3,048)	310,789	39,606
Transfers	(38,321)	-	-	-	(38,321)	-
Change in Net Position	270,020	42,654	2,448	(3,048)	272,468	39,606
Net Position Beginning	<u>3,006,447</u>	<u>2,963,793</u>	<u>2,173,316</u>	<u>2,176,364</u>	<u>5,179,763</u>	<u>5,140,157</u>
Net Position Ending	<u>\$ 3,276,467</u>	<u>\$ 3,006,447</u>	<u>\$ 2,175,764</u>	<u>\$ 2,173,316</u>	<u>\$ 5,452,231</u>	<u>\$ 5,179,763</u>

CITY OF COSMOS, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 DECEMBER 31, 2021

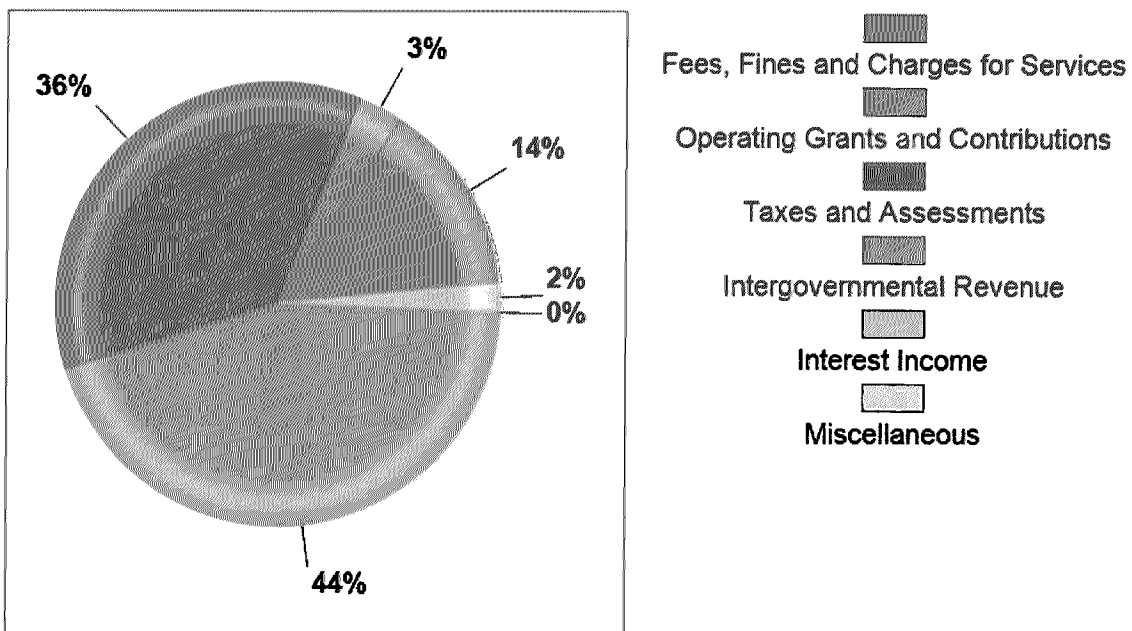
THE CITY AS A WHOLE (Cont.)

Governmental Activities

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



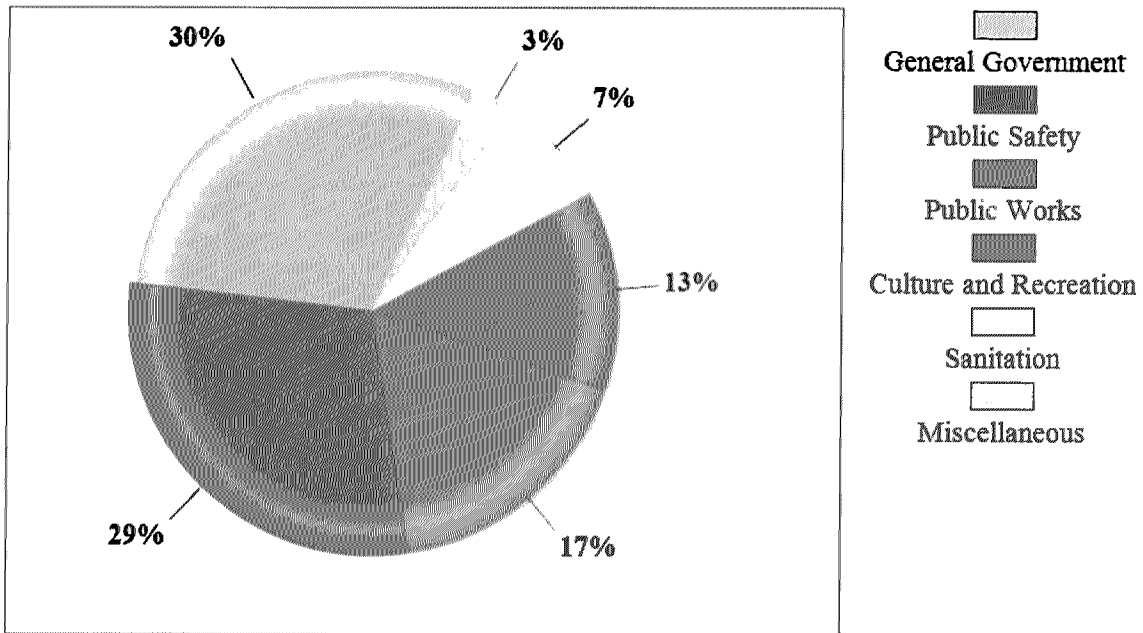
Sources of Funds in Governmental Activities



CITY OF COSMOS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021

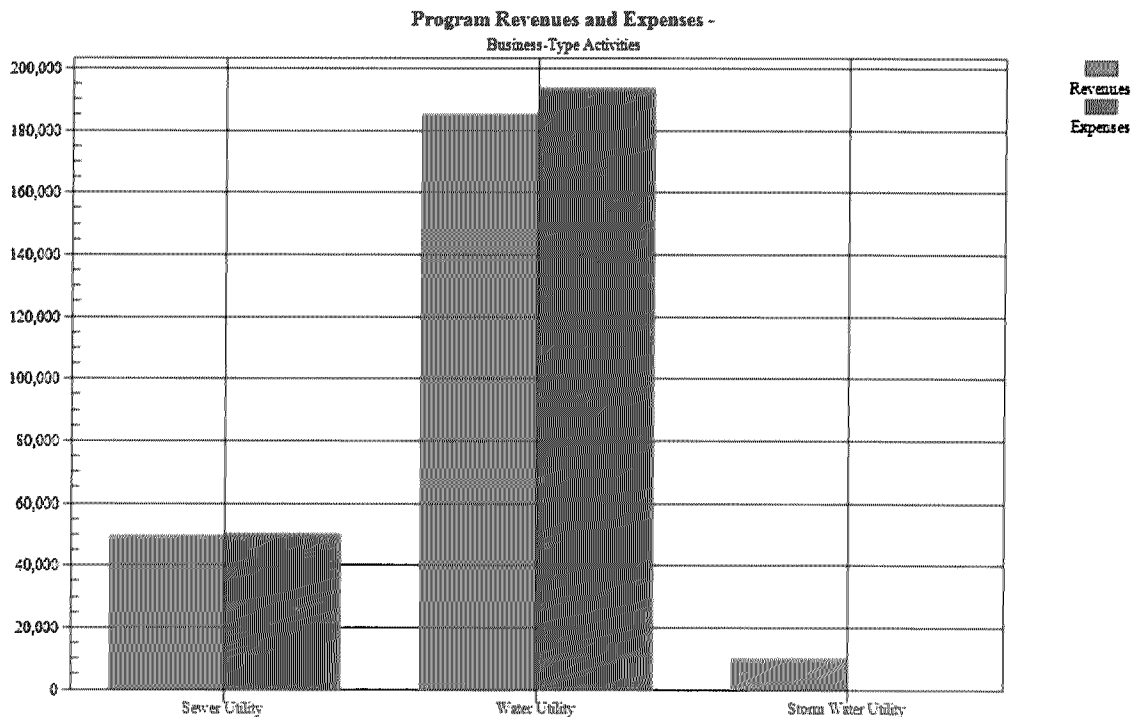
THE CITY AS A WHOLE (Cont.)
Governmental Activities (Cont.)

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, 2021

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 2021 audit. Those funds include the General Fund, 2013A G.O. Improvement Fund, Garbage Fund, Capital Project Fund, Water Fund, Storm 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 \$822,265, of which \$317,570 was assigned for specific purposes and \$6,961 was nonspendable to offset prepaid expenses, and \$24,534 was restricted to offset unspent ARPA grant funds. 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 \$473,200 represents 87.9 percent of fund expenditures. The fund balance of the City's General Fund increased \$77,343 compared to the prior year.

The 2013A G.O. Improvement Bond Fund has a fund balance of \$267,543, which has been restricted for future debt service payments. The net increase in fund balance during the current year was \$104,717.

The Capital Project Fund has a fund balance of \$1,340,344, which was restricted. The net increase in fund balance during the current year was \$1,599,866. The increase was due to the issuance of debt and grant proceeds received for past and future project related costs.

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 \$544,875. The total increase in net position of the funds was \$2,448. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City's General Fund budget was not amended during the year. The budget called for revenues and other financing sources in excess of expenditures and other financing uses in the amount of \$9,772 during 2021. Revenues were over expectations by \$59,651 and expenditures came in over budget by \$19,155 during 2021.

CITY OF COSMOS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021

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, 2021, amounts to \$5,669,328 (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 17.5 percent (a 37.9 percent increase for governmental activities and a 3.6 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>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Land	\$ 83,198	\$ 83,198	\$ -	\$ -	\$ 83,198	\$ 83,198
Construction in Progress	1,336,345	259,522	-	-	1,336,345	259,522
Buildings	1,241,813	1,241,813	1,321,575	1,321,575	2,563,388	2,563,388
Improvements other than Building	1,759,556	1,759,556	2,915,249	2,915,249	4,674,805	4,674,805
Machinery and Equipment	<u>1,563,131</u>	<u>1,563,131</u>	<u>150,414</u>	<u>105,401</u>	<u>1,713,545</u>	<u>1,668,532</u>
Subtotal	5,984,043	4,907,220	4,387,238	4,342,225	10,371,281	9,249,445
Less: Accumulated Depreciation	<u>2,612,819</u>	<u>2,463,277</u>	<u>2,089,134</u>	<u>1,959,497</u>	<u>4,701,953</u>	<u>4,422,774</u>
Total	<u>\$ 3,371,224</u>	<u>\$ 2,443,943</u>	<u>\$ 2,298,104</u>	<u>\$ 2,382,728</u>	<u>\$ 5,669,328</u>	<u>\$ 4,826,671</u>

The City's major addition in the governmental activities was for engineering costs and constructions costs on the capital project. The City's major addition for the business-type activities included the purchase of water equipment.

Debt

At the end of the current fiscal year, the City had total Long-term debt outstanding of \$3,341,724.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
G.O. Improvement Bonds	\$1,258,000	\$ -	\$ -	\$ -	\$1,258,000	\$ -
G.O. Revenue Bonds	1,155,000	-	-	-	1,155,000	-
G.O. Revenue Notes	-	-	503,764	599,764	503,764	599,764
USDA Promissory Note	413,960	421,504	-	-	413,960	421,504
Contract for Deed	<u>11,000</u>	<u>33,000</u>	<u>-</u>	<u>-</u>	<u>11,000</u>	<u>33,000</u>
Total	<u>\$2,837,960</u>	<u>\$ 454,504</u>	<u>\$ 503,764</u>	<u>\$ 599,764</u>	<u>\$3,341,724</u>	<u>\$1,054,268</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 2022 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 2022 final budget.

CITY OF COSMOS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021

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, 233 Milky Way Street S, PO Box 614, Cosmos, MN 56228, phone 320 877 7345.

CITY OF COSMOS, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2021

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 2,469,396	\$ 373,491	\$ 2,842,887
Receivables:			
Accounts Receivable	11,080	26,130	37,210
Property Taxes Receivable	24,190	-	24,190
Special Assessments Receivable	249,348	3,767	253,115
Due from Other Governments	20,163	-	20,163
Prepaid Expense	6,961	-	6,961
Capital Assets:			
Nondepreciable			
Land	83,198	-	83,198
Construction in Progress	1,336,345	-	1,336,345
Depreciable, Net of Accumulated Depreciation:			
Buildings	966,299	538,955	1,505,254
Improvements other than Building	527,342	1,679,293	2,206,635
Machinery and Equipment	458,040	79,857	537,897
Net Pension Asset	172,396	-	172,396
TOTAL ASSETS	6,324,758	2,701,493	9,026,251
DEFERRED OUTFLOWS OF RESOURCES			
Related to Pensions	70,605	12,542	83,147
LIABILITIES			
Accounts Payable	58,801	539	59,340
Taxes Payable	1,136	-	1,136
Accrued Interest	296	2,304	2,600
Salaries Payable	3,292	-	3,292
Unamortized Bond Premium	15,195	-	15,195
Noncurrent liabilities:			
Due within one year	18,701	98,000	116,701
Net Pension Liability	62,275	18,864	81,139
Due in more than one year	2,819,259	405,764	3,225,023
TOTAL LIABILITIES	2,978,955	525,471	3,504,426
DEFERRED INFLOWS OF RESOURCES			
Related to Pensions	139,941	12,800	152,741
NET POSITION			
Net Investment in Capital Assets	522,264	1,630,889	2,153,153
Restricted for:			
Debt Service	267,543	-	267,543
Capital Outlay	1,340,344	-	1,340,344
ARPA Expenses	24,534	-	24,534
Unrestricted	1,121,782	544,875	1,666,657
TOTAL NET POSITION	\$ 3,276,467	\$ 2,175,764	\$ 5,452,231

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, 2021

Functions/Programs	Expenses	Program Revenues		Net Sources (Uses) and Changes in Net Position		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government						
Governmental Activities:						
General Government	\$ 215,298	\$ 19,352	\$ -	\$ (195,946)	\$ -	\$ (195,946)
Public Safety	209,486	67,441	15,249	(126,796)	-	(126,796)
Public Works	122,490	-	18,897	(103,593)	-	(103,593)
Culture and Recreation	94,497	6,563	-	(87,934)	-	(87,934)
Sanitation	51,503	46,056	-	(5,447)	-	(5,447)
Miscellaneous	20,367	4,587	-	(15,780)	-	(15,780)
Total Governmental Activities	<u>713,641</u>	<u>143,999</u>	<u>34,146</u>	<u>(535,496)</u>	<u>-</u>	<u>(535,496)</u>
Business-Type Activities:						
Sewer Utility	50,278	49,760	-	-	(518)	(518)
Water Utility	193,777	185,462	-	-	(8,315)	(8,315)
Storm Water Utility	-	10,284	-	-	10,284	10,284
Total Business-Type Activities:	<u>244,055</u>	<u>245,506</u>	<u>-</u>	<u>-</u>	<u>1,451</u>	<u>1,451</u>
Total Primary Government	<u>\$ 957,696</u>	<u>\$ 389,505</u>	<u>\$ 34,146</u>	<u>(535,496)</u>	<u>1,451</u>	<u>(534,045)</u>
General Revenues:						
Taxes and Assessments				368,385	-	368,385
Intergovernmental Revenue				453,207	-	453,207
Interest Income				2,806	973	3,779
Other Income				-	24	24
Miscellaneous				19,439	-	19,439
Cost of Issuance of Debt				(38,321)	-	(38,321)
Total General Revenues				<u>805,516</u>	<u>997</u>	<u>806,513</u>
Changes in Net Position				270,020	2,448	272,468
Net Position - January 1				3,006,447	2,173,316	5,179,763
Net Position - December 31				<u>\$ 3,276,467</u>	<u>\$ 2,175,764</u>	<u>\$ 5,452,231</u>

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

CITY OF COSMOS, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2021

	<u>General</u> <u>Fund</u>	<u>2013A G.O.</u> <u>Improvement</u>	<u>Capital</u> <u>Project Fund</u>	<u>Nonmajor</u> <u>Garbage</u> <u>Fund</u>	<u>Total</u>
ASSETS:					
Cash and Cash Equivalents	\$ 799,915	\$ 266,312	\$ 1,390,209	\$ 12,960	\$ 2,469,396
Accounts Receivable	6,163	-	-	4,917	11,080
Due from Other Governments	18,931	1,232	-	-	20,163
Property Taxes Receivable	24,190	-	-	-	24,190
Special Assessments Receivable	-	249,348	-	-	249,348
Prepaid Expense	6,961	-	-	-	6,961
Total Assets	<u>\$ 856,160</u>	<u>\$ 516,892</u>	<u>\$ 1,390,209</u>	<u>\$ 17,877</u>	<u>\$ 2,781,138</u>
LIABILITIES:					
Accounts Payable	\$ 5,277	\$ -	\$ 49,865	\$ 3,659	\$ 58,801
Taxes Payable	1,136	-	-	-	1,136
Salaries Payable	3,292	-	-	-	3,292
Total Liabilities	<u>9,705</u>	<u>-</u>	<u>49,865</u>	<u>3,659</u>	<u>63,229</u>
DEFERRED INFLOWS OF RESOURCES:					
Unavailable/Unearned Revenue	24,190	249,349	-	-	273,539
Total Deferred Inflows of Resources	<u>24,190</u>	<u>249,349</u>	<u>-</u>	<u>-</u>	<u>273,539</u>
FUND BALANCES:					
Nonspendable	6,961	-	-	-	6,961
Restricted	24,534	267,543	1,340,344	-	1,632,421
Assigned	317,570	-	-	14,218	331,788
Unassigned	473,200	-	-	-	473,200
Total Fund Balances	<u>822,265</u>	<u>267,543</u>	<u>1,340,344</u>	<u>14,218</u>	<u>2,444,370</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 856,160</u>	<u>\$ 516,892</u>	<u>\$ 1,390,209</u>	<u>\$ 17,877</u>	<u>\$ 2,781,138</u>

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, 2021

Total Governmental Fund Balances	\$ 2,444,370
<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.	3,371,224
Part of taxes and special assessments receivable are not available to pay for current period expenditures and therefore are deferred in the funds.	273,539
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.	(2,853,451)
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>40,785</u>
Net Position of Governmental Activities	\$ <u>3,276,467</u>

CITY OF COSMOS, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021

	General Fund	2013A G.O. Improvement	Capital Project Fund	Nonmajor Garbage Fund	Total
REVENUES					
Taxes	\$ 285,328	\$ 104,304	\$ 9,088	\$ -	\$ 398,720
Licenses and Permits	5,272	-	-	-	5,272
Intergovernmental Revenue	211,911	-	275,263	-	487,174
Charges for Services	90,485	-	-	46,056	136,541
Fines and Forfeits	2,186	-	-	-	2,186
Interest Income	989	413	1,379	29	2,810
Miscellaneous	19,439	-	-	-	19,439
Total Revenues	615,610	104,717	285,730	46,085	1,052,142
EXPENDITURES					
Current Operations:					
General Government	175,548	-	-	-	175,548
Public Safety	147,749	-	-	-	147,749
Public Works	81,046	-	-	-	81,046
Culture and Recreation	74,002	-	-	-	74,002
Sanitation	-	-	-	51,503	51,503
Miscellaneous	20,367	-	-	-	20,367
Debt Service:					
Principal Payments	29,544	-	-	-	29,544
Interest Payments	10,011	-	-	-	10,011
Capital Outlay	-	-	1,076,823	-	1,076,823
Total Expenditures	538,267	-	1,076,823	51,503	1,666,593
EXCESS REVENUES OVER (UNDER) EXPENDITURES	77,343	104,717	(791,093)	(5,418)	(614,451)
OTHER FINANCING SOURCES (USES)					
Issuance of Debt	-	-	2,413,000	-	2,413,000
Cost of Issuance of Debt/Bond Premium	-	-	(22,041)	-	(22,041)
EXCESS REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	77,343	104,717	1,599,866	(5,418)	1,776,508
FUND BALANCES (DEFICIT) - January 1	744,922	162,826	(259,522)	19,636	667,862
FUND BALANCES - December 31	\$ 822,265	\$ 267,543	\$ 1,340,344	\$ 14,218	\$ 2,444,370

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, 2021

Net Change in Fund Balances - Total Governmental Funds \$ 1,776,508

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

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

Capital Outlay	1,076,824
Depreciation Expense	(149,542)

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	(30,335)
--	----------

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

5

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	(2,413,000)
Principal Repayments	29,544
Debt Premium/Discount	(15,195)

Compensated Absences do not require the use of current financial resources and, therefore, are not accrued in the fund statements.

3,081

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.

(7,870)

Change in Net Position of Governmental Activities \$ 270,020

CITY OF COSMOS, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2021

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Nonmajor Storm Water Fund</u>	<u>Total</u>
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 224,106	\$ 139,091	\$ 10,295	\$ 373,492
Accounts Receivable	7,219	18,911	-	26,130
Special Assessments Receivable	-	3,767	-	3,767
Total Current Assets	<u>231,325</u>	<u>161,769</u>	<u>10,295</u>	<u>403,389</u>
NONCURRENT ASSETS				
Capital Assets:				
Buildings	390,000	931,575	-	1,321,575
Improvements other than Building	134,148	2,781,101	-	2,915,249
Machinery and Equipment	71,245	79,169	-	150,414
Total Capital Assets	<u>595,393</u>	<u>3,791,845</u>	<u>-</u>	<u>4,387,238</u>
Less: Accumulated Depreciation	446,884	1,642,250	-	2,089,134
Net Capital Assets	<u>148,509</u>	<u>2,149,595</u>	<u>-</u>	<u>2,298,104</u>
TOTAL ASSETS	<u>379,834</u>	<u>2,311,364</u>	<u>10,295</u>	<u>2,701,493</u>
DEFERRED OUTFLOWS OF RESOURCES				
Related to Pensions	<u>4,959</u>	<u>7,583</u>	<u>-</u>	<u>12,542</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 384,793</u>	<u>\$ 2,318,947</u>	<u>\$ 10,295</u>	<u>\$ 2,714,035</u>
LIABILITIES				
CURRENT LIABILITIES				
Accounts Payable	\$ 59	\$ 480	\$ -	\$ 539
Accrued Interest	-	2,304	-	2,304
Current Amount of Long-Term Debt	-	98,000	-	98,000
Total Current Liabilities	<u>59</u>	<u>100,784</u>	<u>-</u>	<u>100,843</u>
LONG-TERM LIABILITIES				
Net Pension Liability	6,187	12,677	-	18,864
Bonds and Notes Payable	-	405,764	-	405,764
Total Long-Term Liabilities	<u>6,187</u>	<u>418,441</u>	<u>-</u>	<u>424,628</u>
TOTAL LIABILITIES	<u>6,246</u>	<u>519,225</u>	<u>-</u>	<u>525,471</u>
DEFERRED INFLOWS OF RESOURCES				
Related to Pensions	<u>6,582</u>	<u>6,218</u>	<u>-</u>	<u>12,800</u>
NET POSITION				
Net Investment in Capital Assets	148,509	1,482,380	-	1,630,889
Unrestricted	<u>223,456</u>	<u>311,124</u>	<u>10,295</u>	<u>544,875</u>
Total Net Position	<u>371,965</u>	<u>1,793,504</u>	<u>10,295</u>	<u>2,175,764</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND EQUITY	<u>\$ 384,793</u>	<u>\$ 2,318,947</u>	<u>\$ 10,295</u>	<u>\$ 2,714,035</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, 2021

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Nonmajor Storm Water Fund</u>	<u>Total</u>
OPERATING REVENUES				
Charges for Services	\$ 49,760	\$ 185,462	\$ 10,284	\$ 245,506
Total Operating Revenues	<u>49,760</u>	<u>185,462</u>	<u>10,284</u>	<u>245,506</u>
OPERATING EXPENSES				
Personnel Services	9,275	19,973	-	29,248
Depreciation	14,942	114,695	-	129,637
Equipment	-	53	-	53
Insurance	3,379	3,250	-	6,629
Repairs and Maintenance	5,190	18,029	-	23,219
Supplies	14,079	18,118	-	32,197
Training and Travel	1,141	-	-	1,141
Utilities	489	3,095	-	3,584
Miscellaneous	1,783	9,205	-	10,988
Total Operating Expenses	<u>50,278</u>	<u>186,418</u>	<u>-</u>	<u>236,696</u>
NET OPERATING INCOME (LOSS)	<u>(518)</u>	<u>(956)</u>	<u>10,284</u>	<u>8,810</u>
NON OPERATING INCOME AND EXPENSE:				
Interest Income	667	295	11	973
Other Income	12	12	-	24
Interest Expense	-	(7,359)	-	(7,359)
Net Non Operating Income and Expense	<u>679</u>	<u>(7,052)</u>	<u>11</u>	<u>(6,362)</u>
CHANGE IN NET POSITION	161	(8,008)	10,295	2,448
NET POSITION - January 1	<u>371,804</u>	<u>1,801,512</u>	<u>-</u>	<u>2,173,316</u>
NET POSITION - December 31	<u>\$ 371,965</u>	<u>\$ 1,793,504</u>	<u>\$ 10,295</u>	<u>\$ 2,175,764</u>

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

CITY OF COSMOS, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021

	Enterprise Funds		Nonmajor Storm	Total
	Sewer Fund	Water Fund	Water Fund	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from Customers	\$ 53,938	\$ 193,441	\$ 10,284	\$ 257,663
Payments to Vendors	(26,002)	(53,298)	-	(79,300)
Payments to Employees	(9,516)	(19,627)	-	(29,143)
Other Receipts and Payments	12	12	-	24
Net Cash Provided By Operating Activities	18,432	120,528	10,284	149,244
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Purchase of Capital Assets	-	(45,013)	-	(45,013)
Principal Paid on Capital Debt	-	(96,000)	-	(96,000)
Interest Paid on Capital Debt	-	(7,743)	-	(7,743)
Net Cash Used By Capital and Related Financing Activities	-	(148,756)	-	(148,756)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest Received	667	295	11	973
Net Cash Provided By Investing Activities	667	295	11	973
NET INCREASE (DECREASE) IN CASH	19,099	(27,933)	10,295	1,461
CASH AND CASH EQUIVALENTS - January 1	205,007	167,024	-	372,031
CASH AND CASH EQUIVALENTS - December 31	\$ 224,106	\$ 139,091	\$ 10,295	\$ 373,492
Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities				
Operating Income (Loss)	\$ (518)	\$ (956)	\$ 10,284	\$ 8,810
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By Operating Activities				
Depreciation	14,942	114,695	-	129,637
Noncash Pension Expense	(241)	346	-	105
Changes in Assets and Liabilities				
Accounts Receivable	2,196	7,900	-	10,096
Special Assessments	1,982	79	-	2,061
Accounts Payable	59	(1,548)	-	(1,489)
Other Revenues and Expenses	12	12	-	24
Net Cash Provided By Operating Activities	\$ 18,432	\$ 120,528	\$ 10,284	\$ 149,244

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, storm water utility and sanitary sewer.

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

A. Reporting Entity

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

B. Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) sales. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

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

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

The City reports the following major governmental funds:

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

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. 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.

F. 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.

The City may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Share of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities in (1) above.
3. General obligations of the State of Minnesota or any of its municipalities.
4. Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System.
5. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality, and maturing in 270 days or less.
6. Repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000 a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
7. Guaranteed investment contracts (GIC's) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories, or in the top three rating categories for long-term GIC's issued by Minnesota banks.

Investments for the City are reported at fair value. The 4M Fund and broker money market accounts operate in accordance with appropriate state laws and regulations. The reported value of the pools is the same as the fair value of the pool shares.

The City has adopted an investment policy to establish objectives and specific guidelines that the City will use in the investment of City funds. The objectives of the policy are as follows:

- Safety of Principal - Safety of the principal is the foremost objective of the City. Each investment transaction must seek to first ensure that losses are minimized.

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

F. Deposits and Investments (Cont.)

- Liquidity - The investment portfolio must remain sufficiently liquid to meet all operating costs that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands.
- Yield - The investment portfolio must be maintained so as to attain a market-average rate of return.

The City will attempt to diversify its investments according to type and maturity. The portfolio, as much as possible, will contain both short-term and long-term investments. The City will attempt to match its investments with anticipated cash flow requirements. Extended maturities may be utilized to take advantage of higher yields; however, no more than five percent of unreserved funds shall extend beyond three years unless ratified by the City Council to extend beyond that period.

For purposes of the statement of cash flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All of the cash and investments allocated to the proprietary funds have original maturities of 90 days or less. Therefore, the entire balance in the proprietary funds is considered cash equivalents.

G. 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.

H. 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 2021. 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.

I. Special Assessments

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

J. Prepaid Items

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

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

K. 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.

L. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay 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. There was no compensated absences accrued at December 31, 2021.

M. Long-term Obligations

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

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

N. 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.

O. Fund Balance

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

Nonspendable - Consists of amounts that are not in spendable form, such as prepaid items.

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

Committed - Consists of internally imposed constraints. These constraints are established by Resolution of the City Council.

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

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

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

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

P. 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”.

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Q. 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 principles generally accepted in the United States of America for the General fund. All annual appropriations lapse at fiscal year end. The City does not use encumbrance accounting.

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, 2021.

<u>Function Area</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Culture and Recreation	\$ 63,015	\$ 74,002	\$ (10,987)
Miscellaneous	\$ -	\$ 20,367	\$ (20,367)
Debt Service	\$ -	\$ 39,555	\$ (39,555)

3. DEPOSITS AND INVESTMENTS

A. Cash and Cash Investments

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

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

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 \$423,728 and the bank balance was \$457,751 including certificates of deposits of \$300,000. All of the bank balance was covered by federal depository insurance.

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

3. DEPOSITS AND INVESTMENTS (Cont.)

B. Investments

As of December 31, 2021, the City had the following pooled investments that are insured or registered, or securities held by the City or its agent in the City's name.

<u>Type of Investment</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Minnesota Municipal Money				
Market (4M) Fund	\$ 2,419,160	\$ -	\$ 2,419,160	\$ -
Total	\$ <u>2,419,160</u>	\$ <u>-</u>	\$ <u>2,419,160</u>	\$ <u>-</u>

A fair value hierarchy has been established, which prioritizes the valuation inputs into three broad levels. Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related assets. Level 3 inputs are unobservable inputs related to the asset.

C. Cash and Investments Summary

A reconciliation of cash and investments as shown on the Statement of Net Position follows:

Total Deposits	\$ 423,728
Total Investments	<u>2,419,160</u>
	\$ <u>2,842,888</u>
Statement of Net Position	
Cash and Cash Investments	\$ <u>2,842,888</u>
	\$ <u>2,842,888</u>

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	\$ 24,190	\$ -
2013A G.O. Improvement		
Special Assessments Receivable	<u>13,624</u>	<u>235,725</u>
Total	\$ <u>37,814</u>	\$ <u>235,725</u>

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

5. CHANGES IN CAPITAL ASSETS

Governmental Activities - Capital asset activity for the year ended December 31, 2021 was as follows:

	<u>Balance</u> <u>January 1</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance</u> <u>December 31</u>
Not Being Depreciated:				
Land	\$ 83,198	\$ -	\$ -	\$ 83,198
Construction in Progress	<u>259,522</u>	<u>1,076,823</u>	<u>-</u>	<u>1,336,345</u>
Subtotal	<u>342,720</u>	<u>1,076,823</u>	<u>-</u>	<u>1,419,543</u>
Other Capital Assets:				
Buildings	1,241,813	-	-	1,241,813
Improvements other than Building	<u>1,759,556</u>	<u>-</u>	<u>-</u>	<u>1,759,556</u>
Machinery and Equipment	<u>1,563,131</u>	<u>-</u>	<u>-</u>	<u>1,563,131</u>
Subtotal	<u>4,564,500</u>	<u>-</u>	<u>-</u>	<u>4,564,500</u>
Less: Accumulated Depreciation				
Buildings	246,817	28,697	-	275,514
Improvements other than Building	<u>1,201,568</u>	<u>30,646</u>	<u>-</u>	<u>1,232,214</u>
Machinery and Equipment	<u>1,014,892</u>	<u>90,199</u>	<u>-</u>	<u>1,105,091</u>
Subtotal	<u>2,463,277</u>	<u>149,542</u>	<u>-</u>	<u>2,612,819</u>
Net Other Capital Assets	<u>2,101,223</u>	<u>(149,542)</u>	<u>-</u>	<u>1,951,681</u>
Net Capital Assets	<u>\$ 2,443,943</u>	<u>\$ 927,281</u>	<u>\$ -</u>	<u>\$ 3,371,224</u>

Business-Type Activities - The following is a summary of business-type activities capital assets at December 31, 2021.

	<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	\$ 1,321,575	\$ -	\$ -	\$ 1,321,575
Improvements other than Building	<u>2,915,249</u>	<u>-</u>	<u>-</u>	<u>2,915,249</u>
Machinery and Equipment	<u>105,401</u>	<u>45,013</u>	<u>-</u>	<u>150,414</u>
Subtotal	<u>4,342,225</u>	<u>45,013</u>	<u>-</u>	<u>4,387,238</u>
Less: Accumulated Depreciation				
Buildings	742,656	39,964	-	782,620
Improvements other than Building	<u>1,152,481</u>	<u>83,476</u>	<u>-</u>	<u>1,235,957</u>
Machinery and Equipment	<u>64,360</u>	<u>6,197</u>	<u>-</u>	<u>70,557</u>
Subtotal	<u>1,959,497</u>	<u>129,637</u>	<u>-</u>	<u>2,089,134</u>
Net Capital Assets	<u>\$ 2,382,728</u>	<u>\$ (84,624)</u>	<u>\$ -</u>	<u>\$ 2,298,104</u>

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

5. CHANGES IN CAPITAL ASSETS (Cont.)

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

Governmental Activities:

General Government	\$	34,496
Public Safety		51,527
Public Works		42,735
Culture and Recreation		<u>20,784</u>
Total Depreciation Expense - Governmental Activities	\$	<u>149,542</u>

Business-Type Activities:

Sewer Utility	\$	14,942
Water Utility		<u>114,695</u>
Total Depreciation Expense - Business-Type Activities	\$	<u>129,637</u>

6. FUND BALANCE

A. Classifications

	<u>General Fund</u>	<u>2013A G.O. Improvement</u>	<u>Capital Project Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Nonspendable:					
Prepaid Items	\$ 6,961	\$ -	\$ -	\$ -	\$ 6,961
Total Nonspendable	<u>6,961</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,961</u>
Restricted for:					
Debt Service	-	267,543	-	-	267,543
Capital Project	-	-	1,340,344	-	1,340,344
ARPA	24,534	-	-	-	24,534
Total Restricted	<u>24,534</u>	<u>267,543</u>	<u>1,340,344</u>	<u>-</u>	<u>1,632,421</u>
Assigned to:					
Equipment Purchases	242,106	-	-	-	242,106
USDA Building	17,555	-	-	-	17,555
Fire Equipment	57,909	-	-	-	57,909
Garbage Operations	-	-	-	14,218	14,218
Total Assigned	<u>317,570</u>	<u>-</u>	<u>-</u>	<u>14,218</u>	<u>331,788</u>
Unassigned	473,200	-	-	-	473,200
Total	<u>\$ 822,265</u>	<u>\$ 267,543</u>	<u>\$ 1,340,344</u>	<u>\$ 14,218</u>	<u>\$ 2,444,370</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, 2021, the unassigned fund balance of the General Fund was a 90.5 percent of the subsequent years budgeted expenditures.

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

7. CHANGES IN LONG-TERM DEBT

The following is a summary of long-term debt transactions of the City for the year ended December 31, 2021.

	<u>Balance</u> <u>January 1</u>	<u>Debt Issued</u>	<u>Debt</u> <u>Retired</u>	<u>Balance</u> <u>December 31</u>	<u>Current</u> <u>Amount</u>
G.O. Improvement Bonds	\$ -	\$1,258,000	\$ -	\$ 1,258,000	\$ -
G.O. Revenue Bonds	-	1,155,000	-	1,155,000	-
G.O. Revenue Notes	599,764	-	96,000	503,764	98,000
USDA Promissory Note	421,504	-	7,544	413,960	7,701
Contract for Deed	33,000	-	22,000	11,000	11,000
Totals	<u>\$ 1,054,268</u>	<u>\$2,413,000</u>	<u>\$ 125,544</u>	<u>\$ 3,341,724</u>	<u>\$ 116,701</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.

Bonds and other long-term debt outstanding at December 31, 2021 are comprised of the following issues:

Governmental Activities

\$1,258,000 General Obligation Temporary Improvement Bond of 2021B, due on June 1, 2024 plus interest at 1.25% due in semi-annual installments.	\$ 1,258,000
\$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.	11,000
\$402,000 USDA Promissory Note, due in annual installments of \$17,555 through December 2057, including interest at 2.38%.	413,960
\$1,155,000 General Obligation Temporary Revenue Bond of 2021A, due on June 1, 2024, plus interest of 1.45% due in semi-annual installments.	<u>1,155,000</u>
Total Governmental Activities	<u>2,837,960</u>

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

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

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%	163,706
\$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%	173,000
\$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%	104,000
\$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%	<u>63,058</u>
Total Business-Type Activities	<u>503,764</u>
Total Long-Term Debt	<u>\$ 3,341,724</u>

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

	<u>Contract for Deed</u> <u>Governmental Activities</u>			<u>G.O. Improvement Bonds</u> <u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 11,000	-	\$ 11,000	-	\$ 15,244	\$ 15,244
2023	-	-	-	-	15,725	15,725
2024	-	-	-	\$1,258,000	15,725	1,273,725
2025	-	-	-	-	-	-
2026	-	-	-	-	-	-
2027-2031	-	-	-	-	-	-
2032-2036	-	-	-	-	-	-
2037-2041	-	-	-	-	-	-
2042-2046	-	-	-	-	-	-
2047-2051	-	-	-	-	-	-
2052-2056	-	-	-	-	-	-
Total	<u>\$ 11,000</u>	<u>\$ -</u>	<u>\$ 11,000</u>	<u>\$1,258,000</u>	<u>\$ 46,694</u>	<u>\$1,304,694</u>

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

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

	<u>G.O. Temp Revenue Bond</u>			<u>G.O. Revenue Notes</u>		
	<u>Governmental Funds</u>			<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	-	\$ 25,121	\$ 25,121	\$ 98,000	\$ 5,525	\$ 103,525
2023	-	16,748	16,748	98,000	4,980	102,980
2024	\$1,155,000	8,374	1,163,374	100,706	3,586	104,292
2025	-	-	-	45,000	2,150	47,150
2026	-	-	-	45,000	1,674	46,674
2027-2031	-	-	-	84,000	3,208	87,208
2032-2036	-	-	-	15,000	1,350	16,350
2037-2041	-	-	-	18,000	570	18,570
2042-2046	-	-	-	58	1	59
2047-2051	-	-	-	-	-	-
2052-2056	-	-	-	-	-	-
Total	<u>\$1,155,000</u>	<u>\$ 50,243</u>	<u>\$1,205,243</u>	<u>\$ 503,764</u>	<u>\$ 23,044</u>	<u>\$ 526,808</u>

	<u>USDA Promissory Note</u>		
	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 7,701	\$ 9,854	\$ 17,555
2023	7,884	9,671	17,555
2024	8,072	9,483	17,555
2025	8,264	9,291	17,555
2026	8,460	9,095	17,555
2027-2031	45,419	42,355	87,774
2032-2036	51,090	36,686	87,776
2037-2041	57,464	30,311	87,775
2042-2046	64,635	23,140	87,775
2047-2051	72,700	15,075	87,775
2052-2056	82,271	5,997	88,268
Total	<u>\$ 413,960</u>	<u>\$ 200,958</u>	<u>\$ 614,918</u>

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

Governmental Activities:

General Government	\$ <u>10,005</u>
Total Interest Expense - Governmental Activities	\$ <u>10,005</u>

Business-Type Activities:

Water Utility	\$ <u>7,359</u>
Total Interest Expense - Business-Type Activities	\$ <u>7,359</u>

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

8. 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.

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. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

C. Contributions

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

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

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

C. Contributions (Cont.)

1. General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2021 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, 2021, were \$10,282. 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, 2021, the City of Cosmos, Minnesota reported a liability of \$81,139 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. 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 \$2,531.

The net pension liability was measured as of June 30, 2021 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 share 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, 2020 through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2021, the City of Cosmos, Minnesota proportionate share was 0.0019% at the end of the measurement period and 0.0018% for the beginning of the period.

City of Cosmos proportionate share of the net pension liability	\$ 81,139
State of Minnesota's proportionate share of the net pension liability associated with the City of Cosmos	<u>2,531</u>
Total	<u>\$ 83,670</u>

For the year ended December 31, 2021, the City of Cosmos, Minnesota recognized pension expense of \$8,315 for its proportionate share of the General Employees Plan's pension expense. In addition, the City of Cosmos, Minnesota recognized an additional \$204 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.

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

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

D. Pension Costs (Cont.)

At December 31, 2021, 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 443	\$ 2,468
Changes in actuarial assumptions	49,541	1,609
Net collective difference between projected and actual investment earnings	-	73,532
Changes in proportion	12,790	2,773
Contributions paid to PERA subsequent to the measurement date	<u>4,915</u>	<u>-</u>
Total	<u>\$ 67,689</u>	<u>\$ 80,382</u>

The \$4,915 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, 2022. 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>
2022	\$ (2,123)
2023	\$ 2,960
2024	\$ 722
2025	\$ (19,167)
2026	\$ -
Thereafter	\$ -

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

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

E. Long-Term Expected Return on Investment

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 geometric 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 Equity	33.5%	5.10%
International Equity	16.5%	5.30%
Fixed Income	25.0%	0.75%
Private Markets	25.0%	5.90%
Total	100%	

F. Actuarial Assumptions

The total pension liability in the June 30, 2021, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.5%. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.5% was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25% for the General Employee Plan, 2.25% for the Police and Fire Plan and 2.25% for the Correctional Plan. Benefit increases after retirement are assumed to be 1.25% for the General Employees Plan and 2% for the Correctional Plan. The Police and Fire Plan benefit increase is fixed at 1% per year and that increase was used in the valuation.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25% after one year of service to 3.0% after 29 years of service and 6.0% per year thereafter. In the police and Fire Plan, salary growth assumptions range from 11.75% after one year of service to 3.0% after 24 years of service. In the Correctional Plan, salary growth assumptions range from 11.0% at age 20 to 3.0% at age 60.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. Mortality rates for the Police and Fire Plan and the Correctional Plans are based on the Pub-2010 Public Safety Employee Mortality tables. The tables are adjusted slightly to fit PERA's experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation. The most recent four-year experience study for the Police and Fire and the Correctional Plan were completed in 2020 were adopted by the Board and became effective with the July 1, 2021 actuarial valuation.

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

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

E. Actuarial Assumptions (Cont.)

The following changes in actuarial assumptions and plan provisions occurred in 2021:

General Employees Fund

Changes in Actuarial Assumptions:

- The investment return and single discount rates were changed from 7.50% to 6.50%, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changed in Plan Provisions:

- There were no changes to plan provisions since the previous valuation.

G. Discount Rate

The discount rate used to measure the total pension liability in 2021 was 6.5%. 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.

H. 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 (5.5%)	Discount Rate (6.5%)	1% Increase in Discount Rate (7.5%)
General Employees Fund:	\$ 165,481	\$ 81,139	\$ 11,930

I. 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.

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

9. DEFINED BENEFIT PENSION PLANS – STATEWIDE FIRE PERA

A. Plan Description

The City of Cosmos, Minnesota participates in the Statewide Volunteer Firefighter Retirement 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, 2021 the plan covered 17 active firefighters and 7 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 \$15,249 in fire state aid to the fund for the year ended December 31, 2021. Required employer contributions are calculated annually based on statutory provisions. The City had no required annual contribution for December 31, 2021.

D. Pension Costs

At December 31, 2021, the City of Cosmos, Minnesota reported a net pension asset of \$172,397 for the Volunteer Firefighter Fund. The net pension asset was measured as of December 31, 2021. 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

DEFINED BENEFIT PENSION PLANS – STATEWIDE FIRE PERA (Cont.)

D. Pension Costs (Cont.)

	Total Pension <u>Liability</u>	Plan Fiduciary <u>Net Position</u>	Net Pension Liability <u>(Asset)</u>
Beginning Balance December 31, 2020	\$ 232,172	\$ 415,257	\$ (183,085)
Changes for the Year			
Service Cost	11,006	-	11,006
TPL Interest	14,590	-	14,590
Projected Investment Earnings	-	40,742	(40,742)
Contributions (ER/State)	-	15,249	(15,249)
Difference between Projected and Actual Investment Earnings	(4,529)	-	(4,529)
Change in Benefit Level	44,958	-	44,958
PERA Administrative Fee	-	(654)	654
Net Changes	<u>66,025</u>	<u>55,337</u>	<u>10,688</u>
Balance End of Year December 31, 2021	<u>\$ 298,197</u>	<u>\$ 470,594</u>	<u>\$ (172,397)</u>

For the year ended December 31, 2021 the City of Cosmos, Minnesota recognized pension expense of \$42,222.

At December 31, 2021 the City of Cosmos, Minnesota reported deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual investment earnings	\$ 6,399	\$ 46,852
Contributions paid to PERA subsequent to the measurement date	-	16,448
Total	<u>\$ 6,399</u>	<u>\$ 63,300</u>

<u>Year Ended December 31:</u>	<u>Pension Expense Amount</u>
2020	\$ (16,435)
2023	\$ (21,945)
2024	\$ (14,449)
2025	\$ (4,072)
Thereafter	\$ -

E. Actuarial Assumptions

The total pension liability in the December 31, 2021, 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

DEFINED BENEFIT PENSION PLANS – STATEWIDE FIRE PERA (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)	\$ (165,047)	\$ (172,397)	\$ (179,638)

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%
Unallocated Cash	5%	0.00%

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

DEFINED BENEFIT PENSION PLANS – STATEWIDE FIRE PERA (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 2021 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, 2021, 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.

10. OTHER POST EMPLOYMENT BENEFITS

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

11. RELATED PARTY TRANSACTIONS

There were no material related party transactions during the year 2021.

12. 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.

CITY OF COSMOS, MINNESOTA
NOTES TO FINANCIAL STATEMENTS

13. SUBSEQUENT EVENTS

Management evaluated all activity of City of Cosmos through June 9, 2022 (the issue date of the financial statements) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

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, 2021
 With Comparative Amounts for the year ended December 31, 2020

	<u>2021</u>			Variance with Final	<u>2020</u>
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
REVENUES:					
TAXES:					
General Property Taxes	\$ 287,263	\$ 287,263	\$ 285,328	\$ (1,935)	\$ 289,095
Total Taxes	<u>287,263</u>	<u>287,263</u>	<u>285,328</u>	<u>(1,935)</u>	<u>289,095</u>
LICENSES AND PERMITS:					
Licenses and Permits	<u>4,550</u>	<u>4,550</u>	<u>5,272</u>	<u>722</u>	<u>2,885</u>
INTERGOVERNMENTAL REVENUE:					
Other Federal Grants	-	-	24,534	24,534	34,729
Local Government Aid	152,896	152,896	152,896	-	151,073
Market Value Credit	400	400	335	(65)	358
PERA Rate Increase Aid	360	360	-	(360)	-
State Fire Aid	2,500	2,500	15,249	12,749	13,413
Small Cities Street Aid	-	-	18,897	18,897	-
Total Intergovernmental Revenue	<u>156,156</u>	<u>156,156</u>	<u>211,911</u>	<u>55,755</u>	<u>199,573</u>
CHARGES FOR SERVICES:					
General Government	24,500	24,500	14,080	(10,420)	22,690
Public Safety	57,840	57,840	65,255	7,415	46,982
Culture and Recreation	4,000	4,000	6,563	2,563	1,200
Health and Welfare	5,000	5,000	4,587	(413)	4,153
Total Charges for Services	<u>91,340</u>	<u>91,340</u>	<u>90,485</u>	<u>(855)</u>	<u>75,025</u>
FINES AND FORFEITS	<u>650</u>	<u>650</u>	<u>2,186</u>	<u>1,536</u>	<u>1,932</u>
INTEREST INCOME	<u>9,000</u>	<u>9,000</u>	<u>989</u>	<u>(8,011)</u>	<u>8,229</u>
MISCELLANEOUS:					
Refunds and Reimbursements	3,000	3,000	5,485	2,485	1,811
Donations	2,000	2,000	13,515	11,515	42,077
Miscellaneous Income	2,000	2,000	439	(1,561)	5,758
Sale of Property	-	-	-	-	250
Total Miscellaneous	<u>7,000</u>	<u>7,000</u>	<u>19,439</u>	<u>12,439</u>	<u>49,896</u>
TOTAL REVENUES	<u>555,959</u>	<u>555,959</u>	<u>615,610</u>	<u>59,651</u>	<u>626,635</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, 2021
 With Comparative Amounts for the year ended December 31, 2020

	<u>2021</u>			Variance	<u>2020</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	with Final	<u>Actual</u>
	<u>Budget</u>	<u>Budget</u>		<u>Budget</u>	
EXPENDITURES:					
GENERAL GOVERNMENT:					
Mayor and Council:					
Salaries	\$ 5,909	\$ 5,909	\$ 5,538	\$ 371	\$ 4,933
Consulting Fees	4,500	4,500	-	4,500	-
Other Current Expenditures	2,250	2,250	1,032	1,218	6,189
Administrative and Finance:					
Salaries	87,085	87,085	89,402	(2,317)	82,073
Payroll Taxes and Benefits	23,832	23,832	20,874	2,958	20,022
Supplies	2,250	2,250	5,586	(3,336)	5,684
Telephone	2,200	2,200	3,006	(806)	3,825
Other Current Expenditures	4,650	4,650	2,305	2,345	5,512
Capital Outlay	2,000	2,000	-	2,000	-
City Hall:					
Personnel Services	-	-	-	-	2,000
Insurance	13,500	13,500	6,723	6,777	6,532
Repairs	7,500	7,500	243	7,257	997
Supplies	1,000	1,000	1,980	(980)	3,771
Utilities	20,000	20,000	23,116	(3,116)	15,817
Other Current Expenditures	10,250	10,250	3,804	6,446	6,280
Capital Outlay	27,700	27,700	-	27,700	-
Assessor Fees					
Current Expenditures	-	-	4,650	(4,650)	4,488
Independent Auditing					
Current Expenditures	6,800	6,800	6,850	(50)	6,800
Legal					
Current Expenditures	1,000	1,000	439	561	415
Total General Government	<u>222,426</u>	<u>222,426</u>	<u>175,548</u>	<u>46,878</u>	<u>175,338</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, 2021
 With Comparative Amounts for the year ended December 31, 2020

	<u>2021</u>			Variance with Final Budget	<u>2020</u>
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>		<u>Actual</u>
EXPENDITURES:					
PUBLIC SAFETY:					
Police Protection:					
Contracted Services	\$ 38,723	\$ 38,723	\$ 38,025	\$ 698	\$ 37,050
Ambulance:					
Personnel Services	26,913	26,913	38,534	(11,621)	17,591
Insurance	3,300	3,300	4,589	(1,289)	1,250
Supplies	5,500	5,500	3,995	1,505	9,826
Repairs	2,500	2,500	-	2,500	3,357
Gas and Oil	1,500	1,500	1,024	476	259
Other Current Expenditures	8,000	8,000	2,637	5,363	3,368
Fire Protection:					
Personnel Services	5,383	5,383	5,418	(35)	5,327
State Fire Aid	-	-	15,249	(15,249)	13,153
Insurance	9,000	9,000	7,000	2,000	8,850
Gas and Oil	4,500	4,500	3,759	741	3,793
Repairs	7,500	7,500	16,140	(8,640)	7,906
Supplies	2,500	2,500	564	1,936	3,221
Telephone	2,909	2,909	200	2,709	1,091
Utilities	2,000	2,000	489	1,511	-
Other Current Expenditures	7,500	7,500	6,539	961	1,350
Capital Outlay	27,075	27,075	-	27,075	35,618
Building Inspection					
Current Expenditures	3,750	3,750	3,587	163	1,205
Total Public Safety	<u>158,553</u>	<u>158,553</u>	<u>147,749</u>	<u>10,804</u>	<u>154,215</u>
PUBLIC WORKS:					
Highways and Streets:					
Salaries	23,604	23,604	14,582	9,022	18,359
Payroll Taxes and Benefits	9,576	9,576	11,536	(1,960)	8,290
Equipment Repairs and Supplies	7,000	7,000	999	6,001	7,654
Insurance	3,800	3,800	1,000	2,800	3,611
Gas and Oil	5,000	5,000	3,327	1,673	2,468
Supplies	12,013	12,013	20,872	(8,859)	16,920
Street Maintenance	22,000	22,000	17,102	4,898	58,324
Telephone	1,200	1,200	2,572	(1,372)	1,758
Utilities	-	-	8,974	(8,974)	7,549
Other Current Expenditures	2,000	2,000	82	1,918	3,391
Capital Outlay	16,000	16,000	-	16,000	27,210
Total Public Works	<u>102,193</u>	<u>102,193</u>	<u>81,046</u>	<u>21,147</u>	<u>155,534</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, 2021
 With Comparative Amounts for the year ended December 31, 2020

	<u>2021</u>			Variance	<u>2020</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	with Final	<u>Actual</u>
	<u>Budget</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
EXPENDITURES:					
CULTURE AND RECREATION:					
Parks:					
Salaries	\$ 29,620	\$ 29,620	\$ 41,074	\$ (11,454)	\$ 20,125
Payroll Taxes and Benefits	3,745	3,745	4,354	(609)	2,826
Telephone	-	-	141	(141)	-
Gas and Oil	1,400	1,400	2,133	(733)	799
Repairs	5,000	5,000	7,662	(2,662)	2,734
Supplies	6,250	6,250	16,565	(10,315)	2,357
Utilities	-	-	129	(129)	256
Other Current Expenditures	2,000	2,000	1,173	827	-
Capital Outlay	15,000	15,000	-	15,000	87,328
Fitness Center:					
Other Current Expenditures	-	-	771	(771)	-
Total Culture and Recreation	<u>63,015</u>	<u>63,015</u>	<u>74,002</u>	<u>(10,987)</u>	<u>116,425</u>
MISCELLANEOUS:					
Current Expenditures	-	-	20,367	(20,367)	-
Total Miscellaneous	<u>-</u>	<u>-</u>	<u>20,367</u>	<u>(20,367)</u>	<u>-</u>
DEBT SERVICE:					
Principal Payments	-	-	29,544	(29,544)	18,369
Interest Payments	-	-	10,011	(10,011)	10,186
Total Debt Service	<u>-</u>	<u>-</u>	<u>39,555</u>	<u>(39,555)</u>	<u>28,555</u>
TOTAL EXPENDITURES	<u>546,187</u>	<u>546,187</u>	<u>538,267</u>	<u>7,920</u>	<u>630,067</u>
EXCESS REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	<u>9,772</u>	<u>9,772</u>	<u>77,343</u>	<u>67,571</u>	<u>(3,432)</u>
EXCESS REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	9,772	9,772	77,343	67,571	(3,432)
FUND BALANCE - January 1	<u>744,922</u>	<u>744,922</u>	<u>744,922</u>	<u>-</u>	<u>748,354</u>
FUND BALANCE - December 31	<u>\$ 754,694</u>	<u>\$ 754,694</u>	<u>\$ 822,265</u>	<u>\$ 67,571</u>	<u>\$ 744,922</u>

CITY OF COSMOS, MINNESOTA
 SCHEDULE OF PROPORTIONATE SHARE OF THE
 NET PENSION LIABILITY
 PERA GENERAL EMPLOYEES RETIREMENT FUND
 DECEMBER 31, 2021

Fiscal Year Ending	Proportion (Percentage) of the Net Pension Liability (Asset)	Proportionate Share (Amount) of the Net Pension Liability (Asset)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with City	Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the City	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, 2021	0.0019 %	81,139	2,531	83,670	137,013	61.07 %	87.00 %
June 30, 2020	0.0018 %	107,918	3,408	111,326	128,893	86.37 %	79.10 %
June 30, 2019	0.0015 %	82,932	2,667	85,599	108,320	79.02 %	80.20 %
June 30, 2018	0.0017 %	94,309	2,995	97,304	111,160	87.54 %	79.50 %
June 30, 2017	0.0017 %	108,527	1,362	109,889	108,520	101.26 %	75.90 %
June 30, 2016	0.0016 %	129,912	1,780	131,692	99,801	131.95 %	68.90 %
June 30, 2015	0.0016 %	82,920	-	82,920	97,656	84.91 %	78.19 %

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

CITY OF COSMOS, MINNESOTA
SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2021

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, 2021	\$ 10,282	\$ 10,282	-	\$ 137,097	7.50 %
December 31, 2020	\$ 9,952	\$ 9,952	-	\$ 132,693	7.50 %
December 31, 2019	\$ 8,498	\$ 8,498	-	\$ 113,307	7.50 %
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 %

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

CITY OF COSMOS, MINNESOTA
 SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET)
 AND RELATED RATIOS
 COSMOS FIRE DEPARTMENT RELIEF ASSOCIATION
 DECEMBER 31, 2021

Fiscal Year	2021	2020	2019	2018
Total Pension Liability				
Total Pension Liability	\$ 11,006	\$ 7,184	\$ 7,723	\$ 8,615
Service Cost	14,590	14,552	13,522	10,926
Interest on the Total Pension Liability	(4,529)	(21,562)	2,501	(4,444)
Difference Between Expected and Actual Experience	-	-	-	-
Changes in Assumptions	44,958	18,090	16,536	30,249
Changes of Benefit Terms	-	(42,875)	(2,323)	-
Benefit Payouts	-	-	-	-
Net change in total pension liability	66,025	(24,611)	37,959	45,346
Total Pension Liability - Beginning	<u>232,172</u>	<u>256,783</u>	<u>218,824</u>	<u>173,478</u>
Total Pension Liability - Ending (a)	<u>\$ 298,197</u>	<u>\$ 232,172</u>	<u>\$ 256,783</u>	<u>\$ 218,824</u>
Plan Fiduciary Net Position	\$ 15,249	\$ 13,153	\$ 13,628	\$ 13,676
Contributions State	-	-	-	-
Contributions Local	40,742	53,837	59,291	(12,699)
Net Investment Income	-	(42,875)	(2,323)	-
Benefit Payments	(654)	(653)	(680)	(738)
Administrative Costs	-	-	-	-
Net Change in Total Pension Liability	55,337	23,462	69,916	239
Plan Fiduciary Net Position - Beginning	<u>415,257</u>	<u>391,795</u>	<u>321,879</u>	<u>321,640</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 470,594</u>	<u>\$ 415,257</u>	<u>\$ 391,795</u>	<u>\$ 321,879</u>
Net Pension (Asset)/Liability - Ending (a) - (b)	<u>\$ (172,397)</u>	<u>\$ (183,085)</u>	<u>\$ (135,012)</u>	<u>\$ (103,055)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	157.81 %	178.86 %	152.58 %	147.09 %

The City implemented GASB Statement No. 68 for fiscal year ended December 31, 2017. Information for prior years is not available.

CITY OF COSMOS, MINNESOTA
SCHEDULE OF CONTRIBUTIONS AND NET PENSION LIABILITY (ASSET)
AS A PERCENT OF PAYROLL
COSMOS FIRE DEPARTMENT RELIEF ASSOCIATION
DECEMBER 31, 2021

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, 2021	\$ 15,249	\$ 15,249	-	N/A	N/A
December 31, 2020	\$ 13,153	\$ 13,153	-	N/A	N/A
December 31, 2019	\$ 13,628	\$ 13,628	-	N/A	N/A
December 31, 2018	\$ 13,676	\$ 13,676	-	N/A	N/A
December 31, 2017	\$ 13,606	\$ 15,106	1,500	N/A	N/A

The City implemented GASB Statement No. 68 for fiscal year ended December 31, 2017.
Information for prior years is not available.

CITY OF COSMOS, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

General Employees Fund

2021 Changes

Change in Actuarial Assumptions

- The investment return and single discount rates were changed from 7.50% to 6.50% for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions

- There were no changes in plan provisions since the previous valuation.

2020 Changes

Change in Actuarial Assumptions

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Change in Plan Provisions

- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019 Changes

Change in Actuarial Assumptions

- The mortality projection scale was changed from MP-2017 to MP-2018

Changes in Plan Provisions

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

CITY OF COSMOS, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

2018 Changes

Changes in Actuarial Assumptions

- The morality projection scale was changed from MP-2015 to MP-2017
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

Changes in Plan Provisions

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and no more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes

Changes in Actuarial Assumptions

- The combined service annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and non-vested deferred members. The revised CSA load are now 0.00 percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed postretirement benefit increase rate was changed for 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

Changes in Plan Provisions

- The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

CITY OF COSMOS, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

2016 Changes

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study June 30, 2015. The assumed future salary increase, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2015 Changes

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter.

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6.0 million, which meets the special funding situation definition, was due September 2015.

SECTION III

SUPPLEMENTAL SECTION

CITY OF COSMOS, MINNESOTA
SUMMARY FINANCIAL REPORT

REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS
GOVERNMENTAL FUNDS
DECEMBER 31, 2021

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, 233 Milky Way Street S Cosmos, MN Questions about this report should be directed to John Douville, City Administrator, at 320 877 7345

	<u>Total</u> <u>2021</u>	<u>Total</u> <u>2020</u>	Percent Increase (Decrease)
REVENUES:			
Taxes and Assessments	\$ 398,720	\$ 341,798	16.65 %
Licenses and Permits	5,272	2,885	82.74 %
Intergovernmental	487,174	199,573	144.11 %
Charges for Services	136,541	122,448	11.51 %
Fines	2,186	1,932	13.15 %
Investment Earnings	2,810	8,787	(68.02)%
Miscellaneous	19,439	49,896	(61.04)%
Total Revenues	<u>\$ 1,052,142</u>	<u>\$ 727,319</u>	<u>44.66 %</u>
Per Capita	<u>2,312</u>	<u>1,599</u>	
EXPENDITURES:			
Current			
General Government	\$ 175,548	\$ 175,338	0.12 %
Public Safety	147,749	118,597	24.58 %
Public Works	81,046	128,324	(36.84)%
Culture and Recreation	74,002	29,097	154.33 %
Sanitation	51,503	39,251	31.21 %
Miscellaneous	20,367	-	100.00 %
Debt Service:			
Principal Payments	29,544	18,369	60.84 %
Interest Payments	10,011	10,186	(1.72)%
Other Charges	22,041	-	100.00 %
Capital Outlay	<u>1,076,823</u>	<u>1,224,333</u>	<u>(12.05)%</u>
Total Expenditures	<u>\$ 1,688,634</u>	<u>\$ 899,770</u>	<u>87.67 %</u>
Per Capita	<u>3,711</u>	<u>1,978</u>	
Governmental Long-term Indebtedness	<u>\$ 2,837,960</u>	<u>\$ 454,504</u>	<u>524.41 %</u>
Per Capita	<u>6,237</u>	<u>999</u>	
General Fund Unassigned Fund Balance - December 31	<u>\$ 473,200</u>	<u>\$ 432,426</u>	<u>9.43 %</u>
Per Capita	<u>1,040</u>	<u>950</u>	

SECTION IV

ADDITIONAL INFORMATION

CITY OF COSMOS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2021

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Department of Agriculture			
Water and Waste Disposal Systems for Rural Communities	10.760	N/A	\$ 603,439
Community Facilities	10.766	N/A	<u>214,551</u>
Total U.S. Department of Agriculture			<u>817,990</u>
			<u>\$ 817,990</u>

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Cosmos under programs of the federal government for the year ended December 31, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of operations of the City of Cosmos it is not intended to and does not present the financial position, change in net position, or cash flows of the City of Cosmos.

Note B - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to requirement. The City of Cosmos has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note C - Loans and Loan Guarantees Outstanding

The City of Cosmos had no outstanding loan and loan guarantees at December 31, 2021.

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, 2021, 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 June 9, 2022.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City 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 on 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 questioned costs that we consider to be significant deficiencies. Items 2021-001 and 2021-002.

Report on 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 financial statements. 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 questioned costs. 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.
Redwood Falls, Minnesota

June 9, 2022

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 COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited City of Cosmos, Minnesota's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have direct and material effect on each of City of Cosmos, Minnesota's major federal programs for the year ended December 31, 2021. City of Cosmos, Minnesota's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, City of Cosmos, Minnesota complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit on compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of the Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of City of Cosmos, Minnesota and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of City of Cosmos, Minnesota's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to City of Cosmos, Minnesota's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and to express an opinion on City of Cosmos, Minnesota's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentation, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about City of Cosmos, Minnesota's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding City of Cosmos, Minnesota's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of City of Cosmos, Minnesota's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of City of Cosmos, Minnesota's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weakness in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2021-001 and 2021-002. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on City of Cosmos, Minnesota's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. City of Cosmos, Minnesota's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance in the accompanying schedule of findings and questioned costs as items 2021-001 and 2021-002 to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on City of Cosmos, Minnesota's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. City of Cosmos, Minnesota's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.


Oberloh & Oberloh, Ltd.
Redwood Falls, Minnesota

June 9, 2022

CITY OF COSMOS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2021

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements for the business-type activities, each major fund and the aggregate remaining funds and unmodified for the governmental activities of City of Cosmos.
2. Two significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements of City of Cosmos, Minnesota, as required to be reported in accordance with *Government Auditing Standards*.
3. There were no matters of noncompliance which is material to the financial statements of the City of Cosmos, Minnesota required to be reported in accordance with *Government Auditing Standards*.
4. The auditors' report on compliance for the major federal award programs for City of Cosmos, Minnesota expresses an unmodified opinion.
5. Two significant deficiencies in internal control over major federal award programs were noted by the audit and are reported in Part C. of this schedule.
6. The program tested as a major program included: Water and Waste Disposal Systems for Rural Communities.
7. The threshold for distinguishing Types A and B programs was \$750,000.
8. City of Cosmos, Minnesota was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT
INTERNAL CONTROL OVER FINANCIAL REPORTING
INTERNAL CONTROL FINDINGS

Audit Finding 2021-001

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 or Potential 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.

Questioned Cost: None.

CITY OF COSMOS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2021

B. FINDINGS - FINANCIAL STATEMENT AUDIT
INTERNAL CONTROL OVER FINANCIAL REPORTING

Context: During our audit, adjustments were made to the trial balance to prepare financial statements.

Repeat of Prior-Year Finding: 2020-001

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.

Views of Responsible Officials and Planned Corrective Actions: 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 2021-002

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 or Potential 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.

Questioned Cost: None.

Context: During our audit, we noted the City does not maintain proper separation within the accounting function of the City to ensure proper segregation of accounting duties.

Repeat of Prior-Year Finding: 2020-002

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.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with the recommendation that it is not cost effective for the City to maintain proper segregation of duties.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT
INTERNAL CONTROL OVER COMPLIANCE
Significant Deficiencies 2021-001 and 2021-002.

CITY OF COSMOS, MINNESOTA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2020

2020-001 Auditor Prepared Financial Statements - This finding is unresolved and appears as finding 2021-001.

2020-002 Lack of Segregation of Duties - This finding is unresolved and appears as finding 2021-002.

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



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

MINNESOTA LEGAL COMPLIANCE
INDEPENDENT AUDITOR'S REPORT

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 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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 9, 2022.

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 Cities*, promulgated by the State Auditor pursuant to Minn. Stat. 6.65, insofar as they relate to accounting matters. 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, insofar as they relate to accounting matters.

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.
Redwood Falls, Minnesota

June 9, 2022