CITY OF COSMOS, MINNESOTA

AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2011

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

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CITY OF COSMOS, MINNESOTA

TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2011

	PAGE
ELECTED AND APPOINTED OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2-3
REQUIRED SUPPLEMENTARY INFORMATION	
Management's Discussion and Analysis	4-10
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	11
Statement of Activities	12
Balance Sheet - Governmental Funds	13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	14
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	17
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Trash Collection Special Revenue Fund	18
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Redevelopment Revolving Loan Special Revenue Fund	19
Statement of Net Assets - Proprietary Funds	20
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds	21
Statement of Cash Flows - Proprietary Funds	22-23
Notes to the Financial Statements	24-39

CITY OF COSMOS, MINNESOTA

TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2011

	PAGE
SUPPLEMENTARY INFORMATION	
INDIVIDUAL FUND STATEMENTS	
Balance Sheet - General Fund	40
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	41-45
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Trash Collection Special Revenue Fund	46
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Redevelopment Revolving Loan Special Revenue Fund	47
Fire Enterprise Fund	
Statement of Net Assets	48
Statement of Revenues, Expenses and Changes in Net Assets	49
Sewer Enterprise Fund	
Statement of Net Assets	50
Statement of Revenues, Expenses and Changes in Net Assets	51
Water Enterprise Fund	
Statement of Net Assets	52
Statement of Revenues, Expenses and Changes in Net Assets	53
FINANCIAL SCHEDULES	
Computation of Legal Debt Margin	54
COMPLIANCE SECTION	
Independent Auditor's Report on Minnesota Legal Compliance	55
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*	56-57
Schedule of Findings	58-59

CITY OF COSMOS, MINNESOTA

ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2011

		Term Expires
Mayor	Rich Gieser	12/31/2012
Council Member	Terry Anderson	12/31/2014
Council Member	Tom Rennecke	12/31/2014
Council Member	Wade Haley	12/31/2012
Council Member	Mike McRoberts	12/31/2012
City Clerk/Treasurer	Kathy Blackwell	Appointed

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

Quality | Dedication | Integrity

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of City of Cosmos, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the City's 2010 financial statements and, in our report dated June 16, 2011, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, and each major fund.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Cosmos, Minnesota, as of December 31, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and the Trash Collection and Redevelopment Revolving Loan Special Revenue Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the basic financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the year ended December 31, 2011. Adoption of the provisions of this statement results in significant changes to the classifications of the components of fund balance.

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In accordance with *Government Auditing Standards,* we have also issued our report dated June 14, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do no express an opinion or provide any assurance on the information because of the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The Elected and Appointed Officials page and supplementary information identified in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The individual fund statements and financial schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The Elected and Appointed Officials page has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on the information presented.

Conway, Deuth & Schmiesing, PLLP

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

June 14, 2012

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF COSMOS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the basic financial statements of the City of Cosmos (the City) presents a discussion and analysis of the City's financial performance during the fiscal year ended December 31, 2011. Please read it in conjunction with the City's basic financial statements following this section.

Financial Highlights

- The assets of the City exceeded liabilities by $2.5 million. Of this amount, $0.8 million may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designations and fiscal policies.

- The City's total net assets decreased by $85,757 mostly due to costs related to street patching, curb repair, and storm clean up.

- The City's governmental funds reported combined ending fund balances of $275,430. Of this total amount, 54% is available for spending at the City's discretion.

- At the end of the current fiscal year, unassigned fund balance for the General Fund was $159,498, or 29% of total General Fund expenditures of $550,490.

- The City's long-term debt increased by $127,019 with the issuance of the G.O. Improvement Note, Series 2011A.

Using This Annual Report

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

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

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

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

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

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

Governmental Activities - Most of the City's basic services are reported here, including the police, public works, and parks department, and general administration. Property taxes, and state and federal grants finance most of these activities.

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

The City's Most Significant Funds: Fund Financial Statements

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

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

The governmental fund financial statements can be found on pages 13-19 of this report.

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

The proprietary fund financial statements can be found on pages 20-23 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24-39 of this report.

Statement of Net Assets

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

Table 1
Comparative Condensed Statement of Net Assets

	Governmental Activities		
	2011	2010	Change
Current and Other Assets	$ 362,061	$ 416,578	$ (54,517)
Net Capital Assets	593,739	425,235	168,504
Total Assets	$ 955,800	$ 841,813	$ 113,987
Current and Other Liabilities	$ 27,841	$ 23,166	$ 4,675
Long-Term Liabilities	207,491	3,096	204,395
Total Liabilities	235,332	26,262	209,070
Net Assets			
Invested in Capital Assets, Net of Related Debt	389,939	425,235	(35,296)
Unrestricted	330,529	390,316	(59,787)
Total Net Assets	720,468	815,551	(95,083)
Total Liabilities and Net Assets	$ 955,800	$ 841,813	$ 113,987

Table 2
Comparative Condensed Statement of Net Assets

	Business-Type Activities		
	2011	2010	Change
Current and Other Assets	$ 500,555	$ 580,880	$ (80,325)
Net Capital Assets	2,648,496	2,653,024	(4,528)
Total Assets	$ 3,149,051	$ 3,233,904	$ (84,853)
Current and Other Liabilities	$ 24,003	$ 40,806	$ (16,803)
Long-Term Liabilities	1,314,247	1,391,623	(77,376)
Total Liabilities	1,338,250	1,432,429	(94,179)
Net Assets			
Invested in Capital Assets, Net of Related Debt	1,334,249	1,261,401	72,848
Unrestricted	476,552	540,074	(63,522)
Total Net Assets	1,810,801	1,801,475	9,326
Total Liabilities and Net Assets	$ 3,149,051	$ 3,233,904	$ (84,853)

Governmental Activities

Net assets of the City's governmental activities decreased by $95,083. Table 3 presents the key elements of the decrease.

Business-Type Activities

The net assets of our business-type activities increased by $9,326. The increase was due to the following funds change in net assets: Fire - $27,960, Sewer - $(9,843), and Water - $(8,791). The Fire Fund showed the largest change from 2010. The change in net assets went from an increase of $1,669 in 2010 to an increase of $27,960 in 2011. This is due to the City receiving a grant from the county in 2011 to assist with the cost of updating the City's emergency response radio system.

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

Table 3
Comparative Condensed Statement of Activities

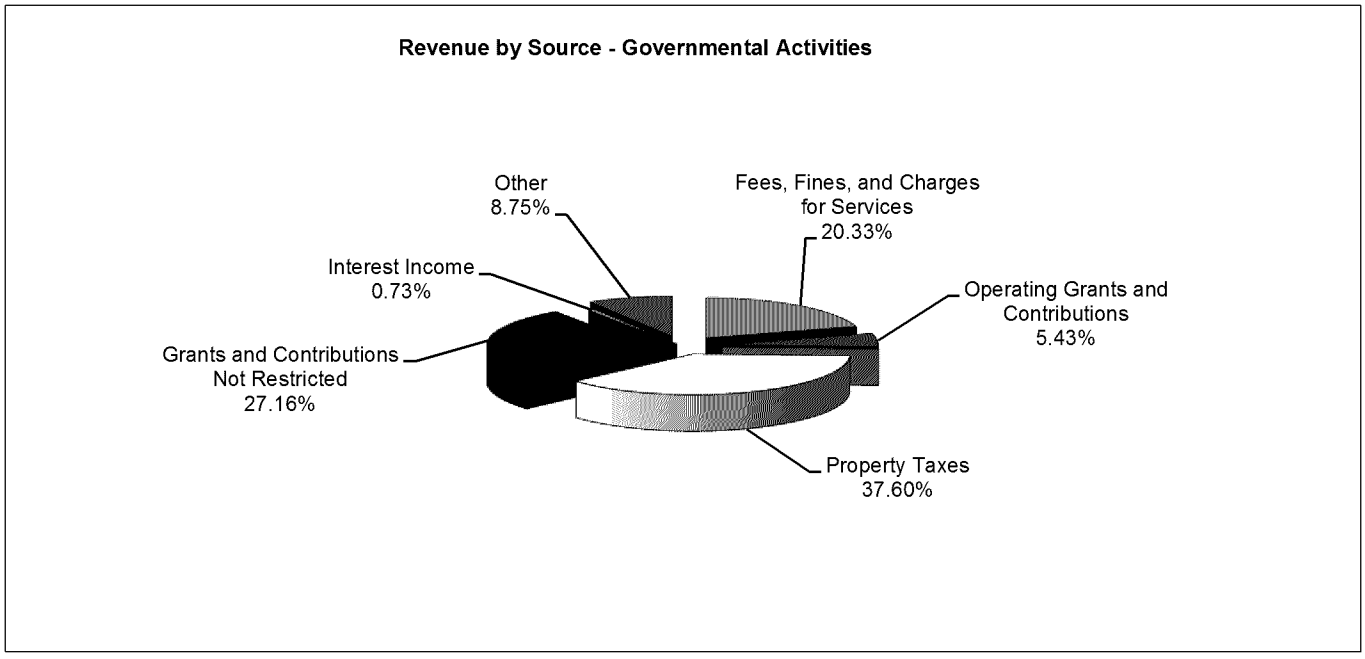
	Governmental Activities		
	2011	2010	Change
REVENUES			
Program Revenues			
Fees, Fines, and Charges for Services	$ 112,217	$ 53,636	$ 58,581
Operating Grants and Contributions	29,977	6,977	23,000
General Revenues			
Property Taxes	207,543	185,638	21,905
Grants and Contributions Not Restricted	149,902	153,427	(3,525)
Interest Income	4,008	4,443	(435)
Other	48,309	9,808	38,501
Total Revenues	551,956	413,929	138,027
EXPENSES			
General Government	101,380	93,946	7,434
Public Safety	124,507	128,459	(3,952)
Public Works	268,927	150,433	118,494
Sanitation	36,702	37,451	(749)
Culture and Recreation	114,516	41,199	73,317
Interest on Long-Term Debt	1,007		1,007
Total Expenses	647,039	451,488	195,551
Change in Net Assets	(95,083)	(37,559)	(57,524)
NET ASSETS, BEGINNING OF YEAR	815,551	853,110	(37,559)
NET ASSETS, END OF YEAR	$ 720,468	$ 815,551	$ (95,083)

Table 4
Comparative Condensed Statement of Activities

	Business-Type Activities		
	2011	2010	Change
REVENUES			
Program Revenues			
Fees, Fines, and Charges for Services	$ 270,364	$ 264,445	$ 5,919
Operating Grants and Contributions	31,775	9,455	22,320
Capital grants and Contributions	2,500		2,500
General Revenues			
Interest Income	5,341	5,572	(231)
Total Revenues	309,980	279,472	30,508
EXPENSES			
Fire	94,614	88,578	6,036
Sewer	59,617	45,725	13,892
Water	146,423	142,475	3,948
Total Expenses	300,654	276,778	23,876
Change in Net Assets	9,326	2,694	6,632
NET ASSETS, BEGINNING OF YEAR	1,801,475	1,798,781	2,694
NET ASSETS, END OF YEAR	$ 1,810,801	$ 1,801,475	$ 9,326

Governmental Activities

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



Financial Analysis of the City's Funds

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

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

As of the end of they current fiscal year, the City's governmental funds reported combined ending fund balances of $275,430, a decrease of $96,511 in comparison to the prior year. Approximately 54 percent of this total ($149,029) constitutes unassigned fund balance. The remainder of the fund balance ($126,401) is not available for new spending because it is either 1) restricted ($104,493) or 2) assigned ($21,908).

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was $159,498. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 29 percent of the total General Fund expenditures.

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

The unrestricted net assets in the respective proprietary funds are Fire - $121,216, Sewer - $254,226, and Water - $101,110. The proprietary fund that had an increase in total net assets for the year was the Fire Fund.

General Fund Budgetary Highlights

Over the course of the year, the City of Cosmos City Council did not revise the budget. The General Fund budget included sufficient revenues to cover expenditures predicting no change in fund balance. Additional expenditures related to street patching, curb repair, and storm clean up resulted in a General Fund balance decrease of $90,655.

Capital Assets

At the end of 2011, the City of Cosmos had $5,460,887 invested in a broad range of capital assets. Refer to Note 5 of the Notes to the Financial Statements for a schedule showing the City's capital asset activity.

Long-Term Debt

At year-end, the City of Cosmos had $1,518,047 in notes payable. Refer to Note 6 of the Notes to the Financial Statements for a schedule showing the City's long-term debt activity.

Economic Factors and Next Year's Budget

The City's appointed officials considered many factors when setting the fiscal year 2012 budget, rates, and fees that will be charged for the business-type activities. The major factor accounted for when adopting the General Fund budget was to hold all line items as much as possible to the 2011 final budget.

Contacting the City's Financial Management

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

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BASIC FINANCIAL STATEMENTS

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CITY OF COSMOS, MINNESOTA

STATEMENT OF NET ASSETS
DECEMBER 31, 2011
WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2010

	Governmental Activities	Business-Type Activities	Totals 2011	Totals 2010
ASSETS				
Cash and Investments	$ 259,231	$ 461,037	$ 720,268	$ 900,076
Receivables				
Accounts	10,466	39,364	49,830	38,037
Interest	1,021		1,021	2,382
Loans	8,731		8,731	8,731
Delinquent Taxes	8,915		8,915	8,598
Special Assessments	38,351		38,351	4,142
Due from Other Governmental Units	31,636	154	31,790	35,492
Deferred Charges	3,710		3,710	
Capital Assets				
Assets Not Being Depreciated	251,916	33,507	285,423	626,712
Other Capital Assets, Net of Depreciation	341,823	2,614,989	2,956,812	2,451,547
Total Assets	$ 955,800	$ 3,149,051	$ 4,104,851	$ 4,075,717
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts Payable	$ 8,693	$ 4,900	$ 13,593	$ 20,455
Contracts Payable	8,986		8,986	23,855
Salaries Payable	2,261	390	2,651	2,404
Unearned Revenue	1,450		1,450	1,650
Accrued Interest Payable	917	6,039	6,956	5,681
Customer Deposits	3,878	6,049	9,927	9,927
Due to Other Governmental Units	1,656	6,625	8,281	
Noncurrent Liabilities				
Due Within One Year	25,800	81,000	106,800	80,299
Due in More Than One Year	181,691	1,233,247	1,414,938	1,314,420
Total Liabilities	235,332	1,338,250	1,573,582	1,458,691
Net Assets				
Invested in Capital Assets, Net of Related Debt	389,939	1,334,249	1,724,188	1,686,636
Unrestricted	330,529	476,552	807,081	930,390
Total Net Assets	720,468	1,810,801	2,531,269	2,617,026
Total Liabilities and Net Assets	$ 955,800	$ 3,149,051	$ 4,104,851	$ 4,075,717

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2011
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals 2011	Totals 2010
GOVERNMENTAL ACTIVITIES								
General Government	$ 101,380	$ 9,508	$	$	$ (91,872)	$	$ (91,872)	$ (88,606)
Public Safety	124,507		7,031		(117,476)		(117,476)	(121,482)
Public Works	268,927	55,409	22,946		(190,572)		(190,572)	(149,075)
Sanitation	36,702	39,172			2,470		2,470	1,625
Culture and Recreation	114,516	8,128			(106,388)		(106,388)	(33,337)
Interest on Long-Term Debt	1,007				(1,007)		(1,007)	
Total Governmental Activities	647,039	112,217	29,977	0	(504,845)	0	(504,845)	(390,875)
BUSINESS-TYPE ACTIVITIES								
Fire	94,614	87,352	31,775	2,500		27,013	27,013	702
Sewer	59,617	46,693				(12,924)	(12,924)	1,864
Water	146,423	136,319				(10,104)	(10,104)	(5,444)
Total Business-Type Activities	300,654	270,364	31,775	2,500	0	3,985	3,985	(2,878)
Total	$ 947,693	$ 382,581	$ 61,752	$ 2,500	(504,845)	3,985	(500,860)	(393,753)
GENERAL REVENUES								
Property Taxes					207,543		207,543	185,638
Grants and Contributions not Restricted to Specific Programs					149,902		149,902	153,427
Interest Income					4,008	5,341	9,349	10,015
Other					48,309		48,309	9,808
Total General Revenues					409,762	5,341	415,103	358,888
Change in Net Assets					(95,083)	9,326	(85,757)	(34,865)
NET ASSETS, BEGINNING OF YEAR					815,551	1,801,475	2,617,026	2,651,891
NET ASSETS, END OF YEAR					$ 720,468	$ 1,810,801	$ 2,531,269	$ 2,617,026

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011
WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2010

	General	2011A G.O. Improvement	Public Works Reserve	2011 Street and Utility Improvements	Trash Collection	Redevelopment Revolving Loan	Totals 2011	Totals 2010
ASSETS								
Cash and Investments	$ 130,108	$	$ 98,081	$ 3,634	$ 21,017	$ 6,391	$ 259,231	$ 379,098
Receivables								
Accounts	5,697				4,769		10,466	5,694
Interest	1,000		21				1,021	2,382
Loans						8,731	8,731	8,731
Delinquent Taxes	8,915						8,915	8,598
Special Assessments	2,071	36,280					38,351	4,142
Due from Other Governmental Units	31,636						31,636	7,933
Total Assets	$ 179,427	$ 36,280	$ 98,102	$ 3,634	$ 25,786	$ 15,122	$ 358,351	$ 416,578
LIABILITIES AND FUND BALANCE								
Liabilities								
Accounts Payable	$ 3,576	$	$	$ 5,117	$	$	$ 8,693	$ 15,714
Contracts Payable				8,986			8,986	
Salaries Payable	2,261						2,261	1,924
Due to Other Governmental Units	1,656						1,656	
Deferred Revenue								
Licenses	1,450						1,450	1,650
Loans						8,731	8,731	8,731
Delinquent Taxes	8,915						8,915	8,598
Special Assessments	2,071	36,280					38,351	4,142
Customer Deposits					3,878		3,878	3,878
Total Liabilities	19,929	36,280	0	14,103	3,878	8,731	82,921	44,637
Fund Balance								
Restricted								
Capital Improvements			98,102				98,102	96,200
Revolving Loan						6,391	6,391	6,391
Assigned for Fund Operations					21,908		21,908	19,197
Unassigned	159,498			(10,469)			149,029	250,153
Total Fund Balance	159,498	0	98,102	(10,469)	21,908	6,391	275,430	371,941
Total Liabilities and Fund Balance	$ 179,427	$ 36,280	$ 98,102	$ 3,634	$ 25,786	$ 15,122	$ 358,351	$ 416,578

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2011
WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2010

	2011	2010
Total Fund Balances - Governmental Funds	$ 275,430	$ 371,941
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.		
Capital Assets	1,545,664	1,474,733
Less: Accumulated Depreciation	(951,925)	(1,049,498)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Loans	8,731	8,731
Delinquent Taxes	8,915	8,598
Special Assessments	38,351	4,142
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Note Payable	(203,800)	
Compensated Absences	(3,691)	(3,096)
Accrued Interest Payable	(917)	
Deferred Charges	3,710	
Total Net Assets - Governmental Activities	$ 720,468	$ 815,551

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2011
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010

	General	2011A G.O. Improvement	Public Works Reserve	2011 Street and Utility Improvements	Trash Collection	Redevelopment Revolving Loan	Totals 2011	Totals 2010
REVENUES								
Taxes	$ 207,226	$	$	$	$	$	$ 207,226	$ 186,255
Special Assessments	2,314			16,280			18,594	4,095
Licenses and Permits	8,716						8,716	4,543
Intergovernmental	179,879						179,879	160,404
Charges for Services	10,734				39,172		49,906	48,296
Fines and Forfeits	480						480	555
CDBG Loan Repayments								625
Interest Income	1,865		1,902		241		4,008	4,443
Refunds and Reimbursements	38,515						38,515	4,112
Donations	325						325	1,040
Miscellaneous	9,781						9,781	4,522
Total Revenues	459,835	0	1,902	16,280	39,413	0	517,430	418,890
EXPENDITURES								
Current								
General Government	100,271						100,271	92,918
Public Safety	114,363						114,363	115,978
Public Works	212,770						212,770	108,271
Sanitation					36,702		36,702	37,451
Culture and Recreation	77,933						77,933	33,195
Capital Outlay								
Public Safety	11,309						11,309	2,830
Public Works	33,844			226,749			260,593	5,572
Culture and Recreation								2,651
Debt Service		3,800					3,800	
Total Expenditures	550,490	3,800	0	226,749	36,702	0	817,741	398,866
Excess (Deficiency) of Revenues Over (Under) Expenditures	(90,655)	(3,800)	1,902	(210,469)	2,711	0	(300,311)	20,024
OTHER FINANCING SOURCES (USES)								
G.O. Improvement Note Proceeds		3,800		200,000			203,800	
Transfers In								18,911
Transfers Out								(18,911)
Total Other Financing Sources (Uses)	0	3,800	0	200,000	0	0	203,800	0
Net Change in Fund Balances	(90,655)	0	1,902	(10,469)	2,711	0	(96,511)	20,024
FUND BALANCE, BEGINNING OF YEAR	250,153		96,200		19,197	6,391	371,941	351,917
FUND BALANCE, END OF YEAR	$ 159,498	$ 0	$ 98,102	$ (10,469)	$ 21,908	$ 6,391	$ 275,430	$ 371,941

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2011
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010

	2011	2010
Total Net Change in Fund Balances - Governmental Funds	$ (96,511)	$ 20,024
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. In the Statement of Activities, the cost of those assets, however, is allocated over the estimated useful lives as depreciation expense.		
Capital Outlay	254,001	2,310
Depreciation Expense	(47,215)	(53,845)
Loss on Asset Disposals	(38,282)	
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Deferred Revenue, End of Year	55,997	21,471
Deferred Revenue, Beginning of Year	(21,471)	(26,432)
Some expenses reported in the Statement of Activities do not require the use of current resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated Absences	(595)	(1,087)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
Long-Term Debt Proceeds	(203,800)	
Issuance Costs	3,800	
Change in Accrued Interest Payable	(917)	
Amortization of Bond Issuance Costs	(90)	
Change in Net Assets - Governmental Activities	$ (95,083)	$ (37,559)

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2011
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010

	2011				2010
	Budgeted Amounts			Over (Under) Final	
	Original	Final	Actual	Budget	Actual
REVENUES					
Taxes	$ 215,714	$ 215,714	$ 207,226	$ (8,488)	$ 186,255
Special Assessments			2,314	2,314	4,095
Licenses and Permits	4,000	4,000	8,716	4,716	4,543
Intergovernmental	147,837	147,837	179,879	32,042	160,404
Charges for Services	5,500	5,500	10,734	5,234	9,220
Fines and Forfeits	1,500	1,500	480	(1,020)	555
Interest Income	3,000	3,000	1,865	(1,135)	2,341
Refunds and Reimbursements	1,000	1,000	38,515	37,515	4,112
Donations			325	325	1,040
Miscellaneous	3,500	3,500	9,781	6,281	4,522
Total Revenues	382,051	382,051	459,835	77,784	377,087
EXPENDITURES					
Current					
General Government	97,100	97,100	100,271	3,171	92,918
Public Safety	126,188	126,188	114,363	(11,825)	115,978
Public Works	80,096	80,096	212,770	132,674	108,271
Culture and Recreation	38,250	38,250	77,933	39,683	33,195
Capital Outlay					
General Government	3,100	3,100		(3,100)	
Public Safety	10,000	10,000	11,309	1,309	2,830
Public Works	24,517	24,517	33,844	9,327	5,572
Culture and Recreation	2,800	2,800		(2,800)	2,651
Total Expenditures	382,051	382,051	550,490	168,439	361,415
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	0	(90,655)	(90,655)	15,672
OTHER FINANCING SOURCES (USES)					
Transfers In					18,911
Net Change in Fund Balances	$ 0	$ 0	(90,655)	$ (90,655)	34,583
FUND BALANCE, BEGINNING OF YEAR			250,153		215,570
FUND BALANCE, END OF YEAR			$ 159,498		$ 250,153

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
TRASH COLLECTION SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2011
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010

	2011				2010
	Budgeted Amounts			Over (Under) Final	
	Original	Final	Actual	Budget	Actual
REVENUES					
Charges for Services	$ 39,000	$ 39,000	$ 39,172	$ 172	$ 39,076
Interest Income			241	241	215
Total Revenues	39,000	39,000	39,413	413	39,291
EXPENDITURES					
Current					
Sanitation	39,000	39,000	36,702	(2,298)	37,451
Net Change in Fund Balances	$ 0	$ 0	2,711	$ 2,711	1,840
FUND BALANCE, BEGINNING OF YEAR			19,197		17,357
FUND BALANCE, END OF YEAR			$ 21,908		$ 19,197

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
REDEVELOPMENT REVOLVING LOAN SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2011
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010

	2011				2010
	Budgeted Amounts			Over (Under) Final	
	Original	Final	Actual	Budget	Actual
REVENUES					
CDBG Loan Repayments	$	$	$	$	$ 625
OTHER FINANCING SOURCES (USES)					
Transfers Out					(18,911)
Net Change in Fund Balances	$ 0	$ 0	0	$ 0	(18,286)
FUND BALANCE, BEGINNING OF YEAR			6,391		24,677
FUND BALANCE, END OF YEAR			$ 6,391		$ 6,391

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2011
WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2010

	Business-Type Activities - Enterprise Funds				
				Totals	
	Fire	Sewer	Water	2011	2010
ASSETS					
Current Assets					
Cash and Investments	$ 121,136	$ 254,154	$ 85,747	$ 461,037	$ 520,978
Accounts Receivable	7,210	4,824	27,330	39,364	32,343
Due from Other Governmental Units			154	154	27,559
Total Current Assets	128,346	258,978	113,231	500,555	580,880
Noncurrent Assets					
Capital Assets					
Assets Not Being Depreciated	33,507			33,507	600,945
Other Capital Assets, Net of Depreciation	340,276	182,955	2,091,758	2,614,989	2,052,079
Total Noncurrent Assets	373,783	182,955	2,091,758	2,648,496	2,653,024
Total Assets	$ 502,129	$ 441,933	$ 2,204,989	$ 3,149,051	$ 3,233,904
LIABILITIES AND NET ASSETS					
Liabilities					
Current Liabilities					
Accounts Payable	$ 505	$ 2,421	$ 1,974	$ 4,900	$ 4,741
Salaries Payable		156	234	390	480
Accrued Interest Payable			6,039	6,039	5,681
Contract Payable					23,855
Customer Deposits		2,175	3,874	6,049	6,049
Due to Other Governmental Units	6,625			6,625	
Current Portion of Note Payable			81,000	81,000	80,299
Total Current Liabilities	7,130	4,752	93,121	105,003	121,105
Noncurrent Liabilities					
Note Payable, Net of Current Portion			1,233,247	1,233,247	1,311,324
Total Liabilities	7,130	4,752	1,326,368	1,338,250	1,432,429
Net Assets					
Invested in Capital Assets, Net of Related Debt	373,783	182,955	777,511	1,334,249	1,261,401
Unrestricted	121,216	254,226	101,110	476,552	540,074
Total Net Assets	494,999	437,181	878,621	1,810,801	1,801,475
Total Liabilities and Net Assets	$ 502,129	$ 441,933	$ 2,204,989	$ 3,149,051	$ 3,233,904

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2011
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010

	Business-Type Activities - Enterprise Funds				
				Totals	
	Fire	Sewer	Water	2011	2010
OPERATING REVENUES					
Fire Contracts/Calls	$ 52,648	$	$	$ 52,648	$ 50,905
Ambulance Charges	34,704			34,704	28,920
Sewer Charges		46,693		46,693	47,589
Water Charges			136,319	136,319	137,031
Total Operating Revenues	87,352	46,693	136,319	270,364	264,445
OPERATING EXPENSES					
Salaries and Benefits	12,062	11,334	17,419	40,815	37,575
Insurance	5,269	1,527	3,121	9,917	10,537
Supplies	10,375	26,105	5,306	41,786	36,646
Maintenance and Repair	4,949	3,191	26,532	34,672	26,643
Gas, Oil and Fuel	4,655			4,655	3,280
Testing		4,207		4,207	3,350
Electricity	2,434	1,985	9,114	13,533	11,866
Firemen's Relief	7,981			7,981	6,830
Telephone	1,378		580	1,958	2,248
Education and Conferences	2,421			2,421	4,935
Miscellaneous	2,618	418	3,638	6,674	7,463
Depreciation	40,472	10,850	61,272	112,594	106,263
Total Operating Expenses	94,614	59,617	126,982	281,213	257,636
Operating Income (Loss)	(7,262)	(12,924)	9,337	(10,849)	6,809
NONOPERATING REVENUES (EXPENSES)					
Intergovernmental	31,775			31,775	9,455
Interest Income	947	3,081	1,313	5,341	5,572
Interest Expense			(19,441)	(19,441)	(19,142)
Other Income	2,500			2,500	
Total Nonoperating Revenues (Expenses)	35,222	3,081	(18,128)	20,175	(4,115)
Change in Net Assets	27,960	(9,843)	(8,791)	9,326	2,694
NET ASSETS, BEGINNING OF YEAR	467,039	447,024	887,412	1,801,475	1,798,781
NET ASSETS, END OF YEAR	$ 494,999	$ 437,181	$ 878,621	$ 1,810,801	$ 1,801,475

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2011
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010

	Business-Type Activities - Enterprise Funds				
				Totals	
	Fire	Sewer	Water	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers	$ 86,092	$ 47,198	$ 130,053	$ 263,343	$ 258,207
Payments to Suppliers	(10,375)	(23,998)	(5,306)	(39,679)	(38,331)
Payments to Other Sources	(25,941)	(11,328)	(44,072)	(81,341)	(84,637)
Payments to Employees	(12,062)	(11,330)	(17,513)	(40,905)	(37,378)
Net Cash Provided (Used) by Operating Activities	37,714	542	63,162	101,418	97,861
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Intergovernmental Revenue	31,775		27,405	59,180	9,455
Other Receipts	2,500			2,500	
Proceeds from Note Payable			2,923	2,923	18,537
Principal Payments on Note Payable			(80,299)	(80,299)	(78,200)
Interest Payments on Note Payable			(19,083)	(19,083)	(19,410)
Acquisition of Capital Assets	(105,362)		(26,559)	(131,921)	(16,082)
Net Cash Provided (Used) by Capital and Related Financing Activities	(71,087)	0	(95,613)	(166,700)	(85,700)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest Income	947	3,081	1,313	5,341	5,572
Net Increase (Decrease) in Cash and Cash Equivalents	(32,426)	3,623	(31,138)	(59,941)	17,733
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	153,562	250,531	116,885	520,978	503,245
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 121,136	$ 254,154	$ 85,747	$ 461,037	$ 520,978

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2011
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010

	Business-Type Activities - Enterprise Funds				
				Totals	
	Fire	Sewer	Water	2011	2010
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES					
Operating Income (Loss)	$ (7,262)	$ (12,924)	$ 9,337	$ (10,849)	$ 6,809
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Depreciation	40,472	10,850	61,272	112,594	106,263
(Increase) Decrease in Assets					
Accounts Receivable	(1,260)	505	(6,266)	(7,021)	(6,238)
Increase (Decrease) in Liabilities					
Accounts Payable	(861)	2,107	(1,087)	159	(9,170)
Due to Other Governmental Units	6,625			6,625	
Salaries Payable		4	(94)	(90)	197
Net Cash Provided (Used) by Operating Activities	$ 37,714	$ 542	$ 63,162	$ 101,418	$ 97,861

See Accompanying Notes to the Financial Statements

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

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

The financial statements present the City and its component units. The City includes all funds, account groups, organizations, institutions, agencies, departments and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the City are financially accountable and are included within the basic financial statements of the City because of the significance of their operational or financial relationships with the City.

The City is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and is able to impose its will on the organization by significantly influencing the programs, projects, activities or level of services performed or provided by the organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the City. As a result of applying the criteria above, the City does not have any component units.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the City. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Internally dedicated revenues are reported as general revenues rather than program revenues.

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

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

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is also 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.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

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

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

The 2011 Street and Utility Improvements Capital Projects Fund is used to account for the financial resources to be used for the construction of the street project.

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

The Redevelopment Revolving Loan Special Revenue Fund is used to account for the accumulation of revenues and expenditures for redevelopment loans, financing provided by loan repayments.

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

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

The City reports the following major enterprise funds:

The Fire Fund accounts for the operations of the Fire Department and Ambulance.

The Sewer Fund accounts for the operations of the City owned sewer utility system.

The Water Fund accounts for the operations of the City owned water utility system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. DEPOSITS AND INVESTMENTS

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

Minnesota Statutes authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase and reverse repurchase agreements and commercial paper of the highest quality with a maturity of no longer than 270 days and in the Minnesota Municipal Investment Pool. Investments are stated at fair value.

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

D. DEPOSITS AND INVESTMENTS (Cont'd)

Cash and investments as of December 31, 2011, were comprised of deposits and non-negotiable certificates of deposits.

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

Interest Rate Risk: This is the risk that market values of securities in a portfolio would decrease due to changes in market interest rates. The City does not have an investment policy that addresses interest rate risk.

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

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. Investments should be diversified to avoid incurring unreasonable risk inherent in over investing in specific instruments, individual financial institutions or maturities. The City does not have an investment policy that addresses concentration of credit risk.

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

E. RECEIVABLES AND PAYABLES

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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

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

E. RECEIVABLES AND PAYABLES (Cont'd)

The City levies its property tax for the subsequent year during the month of December. December 28th is the last day the City can certify a tax levy to the County Auditor for collection the following year. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. The property tax is recorded as revenue when it becomes measurable and available. Meeker County is the collecting agency for the levy and remits the collections to the City three times a year. The tax levy notice is mailed in March with the first half payment due on May 15 and the second half payment due on October 15. Taxes not collected as of December 31 each year are shown as delinquent taxes receivable.

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

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

F. CAPITAL ASSETS

Capital assets, both tangible and intangible, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Tangible and intangible 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 two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the City did not have any capitalized interest.

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

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

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

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

G. DEFERRED REVENUE

Governmental funds report deferred 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.

H. COMPENSATED ABSENCES

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

I. 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 Assets.

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

J. FUND BALANCE

The City adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the year ended December 31, 2011. This standard changed fund balance classifications within the fund level statements.

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources reported in governmental funds. These classifications are as follows:

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

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

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

J. FUND BALANCE (Cont'd)

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

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

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

The City uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

K. NET ASSETS

Net assets represent the difference between assets and liabilities in the government-wide financial statements and fund financial statements of the proprietary funds. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net assets are reported as restricted when there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

L. USE OF ESTIMATES

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

M. PRIOR YEAR INFORMATION

The basic financial statements include certain prior-year partial comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended December 31, 2010, from which the partial information was derived.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1) Prior to September 1, the City Clerk submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.

2) Public hearings are conducted to obtain taxpayer comments.

3) The City Clerk is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.

4) Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds. Formal budgetary integration is not employed for the Debt Service Fund because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.

5) Budgets are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the City Council. Appropriations for annually budgeted funds lapse at year-end.

Encumbrance accounting is not used for the General or Special Revenue Funds.

B. DEFICIT FUND BALANCES

The following fund had a deficit balance at December 31, 2011:

Capital Projects Fund	
2011 Street and Utility Improvements	$ (10,469)

C. EXPENDITURES EXCEEDING APPROPRIATIONS

For the year ended December 31, 2011, the following fund had expenditures that exceeded appropriations:

	Expenditure	Appropriations
General Fund	$ 550,490	$ 382,051

NOTE 3. DEPOSITS

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

Custodial Credit Risk - Deposits: As of December 31, 2011, the City's bank balances were not exposed to custodial credit risk because they were fully insured through the FDIC as well as collateralized with securities held by the pledging financial institution's trust department or agent and in the City's name.

Pooled Cash in Checking Account	$ 93,101
Pooled Cash in Savings Account	71,861
Non-Negotiable Certificates of Deposit	342,103
Special Purpose Bank Accounts	
Fire-Checking	7,062
Fire-Money Market Savings	107,675
Library Donation-Checking	322
Public Works Reserve Non-Negotiable Certificate of Deposit	98,081
Petty Cash	63
Total Deposits	$ 720,268

NOTE 4. RECEIVABLES

Receivables as of December 31, 2011, are as follows:

	Total Receivables	Amounts not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Accounts	$ 10,466	$
Interest	1,021	
Loans	8,731	
Delinquent Taxes	8,915	
Special Assessments	38,351	31,178
Total Governmental Activities	$ 67,484	$ 31,178
Business-Type Activities		
Accounts	$ 39,364	$ 0

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011, was as follows:

Governmental Activities	Beginning Balance	Increase	Decrease	Ending Balance
Capital Assets, Not Being Depreciated				
Land	$ 25,767	$	$	$ 25,767
Construction in Progress		226,149		226,149
Total Capital Assets, Not Being Depreciated	25,767	226,149	0	251,916
Capital Assets, Being Depreciated				
Buildings	161,186	17,701	(109,262)	69,625
Improvements Other than Buildings	1,119,117		(20,963)	1,098,154
Machinery and Equipment	168,663	10,151	(52,845)	125,969
Total Capital Assets Being Depreciated	1,448,966	27,852	(183,070)	1,293,748
Less Accumulated Depreciation for				
Buildings	125,546	1,670	(79,957)	47,259
Improvements Other than Buildings	780,775	35,680	(12,044)	804,411
Machinery and Equipment	143,177	9,865	(52,787)	100,255
Total Accumulated Depreciation	1,049,498	47,215	(144,788)	951,925
Total Capital Assets, Being Depreciated, Net	399,468	(19,363)	(38,282)	341,823
Governmental Activities Net Capital Assets	$ 425,235	$ (19,363)	$ (38,282)	$ 367,590

NOTE 5. CAPITAL ASSETS (Cont'd)

Business-Type Activities	Beginning Balance	Increase	Decrease	Ending Balance
Capital Assets, Not Being Depreciated				
Construction in Progress	$ 600,945	$ 36,210	$ (603,648)	$ 33,507
Capital Assets, Being Depreciated				
Buildings	1,397,577			1,397,577
Improvements Other than Buildings	1,205,855	603,648		1,809,503
Machinery and Equipment	655,822	71,856	(53,042)	674,636
Total Capital Assets, Being Depreciated	3,259,254	675,504	(53,042)	3,881,716
Less Accumulated Depreciation for				
Buildings	419,671	39,805		459,476
Improvements Other than Buildings	421,275	32,947		454,222
Machinery and Equipment	366,229	39,842	(53,042)	353,029
Total Accumulated Depreciation	1,207,175	112,594	(53,042)	1,266,727
Total Capital Assets, Being Depreciated, Net	2,052,079	562,910	0	2,614,989
Business-Type Activities Net Capital Assets	$ 2,653,024	$ 599,120	$ (603,648)	$ 2,648,496

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
General Government	$ 528
Public Safety	8,930
Public Works	36,453
Culture and Recreation	1,304
Total Depreciation Expense - Governmental Activities	$ 47,215
Business-Type Activities	
Fire	$ 40,472
Sewer	10,850
Water	61,272
Total Depreciation Expense - Business-Type Activities	$ 112,594

NOTE 6. LONG-TERM DEBT

A. GENERAL OBLIGATION BONDS

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

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

B. COMPONENTS OF LONG-TERM DEBT

	Original Amount Issued	Final Maturity Date	Interest Rate	Principal Outstanding
Governmental Activities				
G.O. Improvement Note, Series 2011A	$ 203,800	12/01/2018	2.70%	$ 203,800
Compensated Absences				3,691
Total Governmental Activities				$ 207,491
Business-Type Activities				
G.O. Revenue Note - Water Treatment Plant	$ 912,706	08/20/2024	1.720%	$ 652,706
G.O. Revenue Note - Water Tower	515,815	08/20/2027	1.092%	438,000
G.O. Revenue Note - Looping	242,741	08/20/2029	1.00%	223,541
Total Business-Type Activities				$ 1,314,247

C. CHANGES IN LONG-TERM LIABILITIES

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
G.O. Improvement Note	$	$ 203,800	$	$ 203,800	$ 25,800
Compensated Absences	3,096	2,701	(2,106)	3,691	
Total Governmental Activities	$ 3,096	$ 206,501	$ (2,106)	$ 207,491	$ 25,800
Business-Type Activities					
G.O. Revenue Notes	$ 1,391,623	$ 2,923	$ (80,299)	$ 1,314,247	$ 81,000

NOTE 6. LONG-TERM DEBT (Cont'd)

D. MINIMUM DEBT PAYMENTS

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

Year Ending December 31	Governmental Activities G.O. Improvement Note Principal	Interest	Total
2012	$ 25,800	$ 5,802	$ 31,602
2013	28,000	4,617	32,617
2014	28,000	3,861	31,861
2015	29,000	3,105	32,105
2016	30,000	2,309	32,309
2017-2018	63,000	2,146	65,146
	$ 203,800	$ 21,840	$ 225,640

Year Ending December 31	Business-Type Activities G.O. Revenue Notes Principal	Interest	Total
2012	$ 81,000	$ 18,183	$ 99,183
2013	83,000	17,092	100,092
2014	85,000	15,908	100,908
2015	86,000	14,696	100,696
2016	86,000	13,466	99,466
2017-2021	452,000	48,425	500,425
2022-2026	371,706	15,966	387,672
2027-2029	69,541	1,138	70,679
	$ 1,314,247	$ 144,874	$ 1,459,121

NOTE 7. DEFINED BENEFIT PENSION PLANS - STATEWIDE

A. PLAN DESCRIPTION

All full-time and certain part-time employees of the City of Cosmos are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire-fighters and peace officers who qualify for membership by statute are covered by PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The defined retirement 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.

NOTE 7. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

A. PLAN DESCRIPTION (Cont'd)

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF members and GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90.

Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree--no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives.

Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF and PEPFF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

B. FUNDING POLICY

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2011. PEPFF members were required to contribute 9.6% of their annual covered salary in 2011.

NOTE 7. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

B. FUNDING POLICY (Cont'd)

In 2011, the City was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.25% for Coordinated Plan members, and 14.4% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2011, 2010, and 2009, were $6,132, $5,051, and $4,829, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2011, 2010, and 2009, were $7,031, $7,131, and $7,360, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 8. COMMITMENT

The City has the following project in progress as of December 31, 2011:

Project	Original Contract Amount	Remaining Commitment
2011 Street and Utility Improvement Project	$ 189,881	$ 10,161

NOTE 9. CONTINGENCIES

A. FEDERAL GRANTS

The City receives state and federal aids through participation in various state and federal categorical aid programs. These programs are subject to audits by the State. The audits for these programs for the year ending December 31, 2011, have not been conducted. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

B. LITIGATION

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

NOTE 10. RISK MANAGEMENT

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

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

NOTE 10. RISK MANAGEMENT (Cont'd)

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for 2011 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2011, there are no other claims liabilities reported in the funds based on the requirements of accounting standards, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

NOTE 11. COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

The City was awarded a small cities development program grant in the amount of $462,700 on March 29, 1999. The purpose of the grant was to provide funding to rehabilitate owner-occupied single-family homes. The City entered into a contract with Mid-Minnesota Development Commission as the administering agency to conduct the project entitled "Cosmos Housing Rehabilitation Project" through the end of the grant in December 2002. Federal and State funds received and expensed were reported by the administering agency prior to 2004. In 2004, the City decided to close the grant. The Commission turned over the files and collections to the City to retain control.

NOTE 12. RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the current year's presentation. This includes restated prior year fund balance classifications within each fund to conform with the requirements of GASB 54. There was no effect on net assets or fund balance.

SUPPLEMENTARY INFORMATION

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CITY OF COSMOS, MINNESOTA

BALANCE SHEET
GENERAL FUND
DECEMBER 31, 2011
WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2010

	2011	2010
ASSETS		
Cash and Investments	$ 130,108	$ 258,443
Receivables		
Accounts	5,697	725
Interest	1,000	2,340
Delinquent Taxes	8,915	8,598
Special Assessments	2,071	4,142
Due from Other Governmental Units	31,636	7,933
Total Assets	$ 179,427	$ 282,181
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts Payable	$ 3,576	$ 15,714
Salaries Payable	2,261	1,924
Due to Other Governmental Units	1,656	
Deferred Revenue		
Licenses	1,450	1,650
Delinquent Taxes	8,915	8,598
Special Assessments	2,071	4,142
Total Liabilities	19,929	32,028
Fund Balance		
Unassigned	159,498	250,153
Total Liabilities and Fund Balance	$ 179,427	$ 282,181

Supplementary Information - See Auditor's Report

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2011
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010

	2011			2010
	Final Budget	Actual	Over (Under) Final Budget	Actual
REVENUES				
Property Taxes	$ 215,714	$ 207,226	$ (8,488)	$ 186,255
Special Assessments		2,314	2,314	4,095
Licenses and Permits	4,000	8,716	4,716	4,543
Intergovernmental				
Local Government Aid	128,232	128,232		133,472
Market Value Credit Aid	19,605	19,605		19,595
Police State Aid		7,031	7,031	6,618
FEMA Grant		22,946	22,946	
Other State Aid		2,065	2,065	719
Total Intergovernmental	147,837	179,879	32,042	160,404
Charges for Services	5,500	10,734	5,234	9,220
Fines and Forfeits	1,500	480	(1,020)	555
Interest Income	3,000	1,865	(1,135)	2,341
Refunds and Reimbursements	1,000	38,515	37,515	4,112
Donations		325	325	1,040
Miscellaneous				
Finance Charges		5,469	5,469	4,280
Other	3,500	4,312	812	242
Total Miscellaneous	3,500	9,781	6,281	4,522
Total Revenues	382,051	459,835	77,784	377,087

Supplementary Information - See Auditor's Report

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2011
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010

	2011			2010
	Final Budget	Actual	Over (Under) Final Budget	Actual
EXPENDITURES				
Current				
General Government				
Mayor and Council				
Salaries and Benefits	$ 6,300	$ 5,409	$ (891)	$ 5,760
Legal Service	3,000	2,024	(976)	1,030
Building/Health Inspector	3,600	7,191	3,591	3,281
Consulting Fees		2,080	2,080	1,290
Insurance	2,000	2,499	499	1,504
Advertising and Printing	2,000	1,132	(868)	1,339
Miscellaneous	3,000	3,752	752	3,774
Total Mayor and Council	19,900	24,087	4,187	17,978
City Hall				
Utilities	1,500	1,360	(140)	1,306
Telephone	1,900	2,324	424	2,105
Repairs	300	205	(95)	200
Supplies	3,400	2,834	(566)	3,546
Rentals	50		(50)	30
Total City Hall	7,150	6,723	(427)	7,187
Clerk and Secretary				
Salaries	35,000	33,886	(1,114)	33,649
Benefits	4,800	5,025	225	4,891
Insurance	10,500	11,164	664	11,121
Auditing and Accounting	14,000	14,050	50	14,350
Miscellaneous	2,000	2,508	508	985
Total Clerk and Secretary	66,300	66,633	333	64,996
Assessor	3,750	2,828	(922)	2,757
Total General Government	97,100	100,271	3,171	92,918

Supplementary Information - See Auditor's Report

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2011
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010

	2011			2010
	Final Budget	Actual	Over (Under) Final Budget	Actual
EXPENDITURES (Cont'd)				
Current (Cont'd)				
Public Safety				
Police Protection				
Salaries	$ 61,000	$ 54,637	$ (6,363)	$ 57,547
Benefits	8,000	8,464	464	8,349
Telephone	1,900	1,630	(270)	1,730
Insurance	15,000	14,158	(842)	14,106
Repairs	1,500	420	(1,080)	476
Supplies	2,500	1,562	(938)	1,884
Gas and Oil	7,200	5,101	(2,099)	4,195
Miscellaneous	3,800	3,103	(697)	2,403
Total Police Protection	100,900	89,075	(11,825)	90,690
Fire Protection	25,288	25,288		25,288
Total Public Safety	126,188	114,363	(11,825)	115,978
Public Works				
Salaries	14,000	14,929	929	14,139
Benefits	1,800	2,222	422	1,840
Utilities	2,000	1,050	(950)	1,072
Telephone	800	661	(139)	689
Street Lighting	13,000	13,940	940	12,478
Repairs	19,796	160,610	140,814	52,811
Supplies	10,000	5,622	(4,378)	5,970
Gas and Oil	2,000	2,820	820	2,733
Snow Removal	12,000	6,508	(5,492)	12,156
Insurance	4,500	4,060	(440)	4,076
Miscellaneous	200	348	148	307
Total Public Works	80,096	212,770	132,674	108,271

Supplementary Information - See Auditor's Report

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2011
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010

	2011			2010
	Final Budget	Actual	Over (Under) Final Budget	Actual
EXPENDITURES (Cont'd)				
Current (Cont'd)				
Culture and Recreation				
Library				
Salaries	$ 500	$ 198	$ (302)	$ 369
Utilities	1,600	190	(1,410)	698
Telephone	500	307	(193)	579
Electricity	600	163	(437)	580
Insurance	300	707	407	320
Repairs	200	50	(150)	580
Supplies	400	670	270	1,374
Books and Subscriptions	600		(600)	809
Professional Fees	1,000	25,997	24,997	
Miscellaneous	500	667	167	342
Total Library	6,200	28,949	22,749	5,651
Parks				
Salaries	12,500	13,720	1,220	10,930
Benefits	1,250	1,579	329	1,426
Electricity	1,200	1,334	134	1,525
Insurance	1,750	2,224	474	2,193
Repairs	1,500	1,403	(97)	1,102
Supplies	8,000	8,158	158	5,965
Miscellaneous	1,850	4,756	2,906	2,190
Total Parks	28,050	33,174	5,124	25,331
Community Center				
Salaries	500		(500)	242
Fuel	1,200	353	(847)	580
Telephone				221
Electricity	1,200	412	(788)	698
Insurance	300		(300)	268
Supplies	300	245	(55)	77
Professional Fees		14,800	14,800	
Repairs	500		(500)	127
Total Community Center	4,000	15,810	11,810	2,213
Total Culture and Recreation	38,250	77,933	39,683	33,195
Total Current	341,634	505,337	163,703	350,362

Supplementary Information - See Auditor's Report

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2011
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010

	2011			2010
	Final Budget	Actual	Over (Under) Final Budget	Actual
EXPENDITURES (Cont'd)				
Capital Outlay				
General Government	$ 3,100	$	$ (3,100)	$
Public Safety	10,000	11,309	1,309	2,830
Public Works	24,517	33,844	9,327	5,572
Culture and Recreation	2,800		(2,800)	2,651
Total Capital Outlay	40,417	45,153	4,736	11,053
Total Expenditures	382,051	550,490	168,439	361,415
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	(90,655)	(90,655)	15,672
OTHER FINANCING SOURCES (USES)				
Transfers In				18,911
Net Change in Fund Balances	$ 0	(90,655)	$ (90,655)	34,583
FUND BALANCE, BEGINNING OF YEAR		250,153		215,570
FUND BALANCE, END OF YEAR		$ 159,498		$ 250,153

Supplementary Information - See Auditor's Report

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
TRASH COLLECTION SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2011
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010

	2011			2010
	Final Budget	Actual	Over (Under) Final Budget	Actual
REVENUES				
Charges for Services	$ 39,000	$ 39,172	$ 172	$ 39,076
Interest Income		241	241	215
Total Revenues	39,000	39,413	413	39,291
EXPENDITURES				
Current				
Sanitation				
Insurance	500	473	(27)	434
Collection Contract	38,500	36,229	(2,271)	37,017
Total Expenditures	39,000	36,702	(2,298)	37,451
Net Change in Fund Balances	$ 0	2,711	$ 2,711	1,840
FUND BALANCE, BEGINNING OF YEAR		19,197		17,357
FUND BALANCE, END OF YEAR		$ 21,908		$ 19,197

Supplementary Information - See Auditor's Report

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
REDEVELOPMENT REVOLVING LOAN SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2011
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010

	2011			2010
	Final Budget	Actual	Over (Under) Final Budget	Actual
REVENUES				
CDBG Loan Repayments	$	$	$	$ 625
OTHER FINANCING SOURCES (USES)				
Transfers Out				(18,911)
Net Change in Fund Balances	$ 0	0	$ 0	(18,286)
FUND BALANCE, BEGINNING OF YEAR		6,391		24,677
FUND BALANCE, END OF YEAR		$ 6,391		$ 6,391

Supplementary Information - See Auditor's Report

CITY OF COSMOS, MINNESOTA

STATEMENT OF NET ASSETS
FIRE ENTERPRISE FUND
DECEMBER 31, 2011
WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2010

	2011	2010
ASSETS		
Current Assets		
Cash and Investments	$ 121,136	$ 153,562
Accounts Receivable	7,210	5,950
Total Current Assets	128,346	159,512
Noncurrent Assets		
Capital Assets		
Assets Not Being Depreciated	33,507	
Other Capital Assets, Net of Depreciation	340,276	308,893
Total Noncurrent Assets	373,783	308,893
Total Assets	$ 502,129	$ 468,405
LIABILITIES AND NET ASSETS		
Liabilities		
Current Liabilities		
Accounts Payable	$ 505	$ 1,366
Due to Other Governmental Units	6,625	
Total Current Liabilities	7,130	1,366
Net Assets		
Invested in Capital Assets	373,783	308,893
Unrestricted	121,216	158,146
Total Net Assets	494,999	467,039
Total Liabilities and Net Assets	$ 502,129	$ 468,405

Supplementary Information - See Auditor's Report

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FIRE ENTERPRISE FUND
YEAR ENDED DECEMBER 31, 2011
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010

	2011	2010
OPERATING REVENUES		
Fire Contracts/Calls	$ 52,648	$ 50,905
Ambulance Charges	34,704	28,920
Total Operating Revenues	87,352	79,825
OPERATING EXPENSES		
Fire		
Salaries and Benefits	6,110	4,304
Insurance	4,441	4,193
Supplies	6,081	8,398
Maintenance and Repair	4,949	4,030
Gas, Oil and Fuel	3,615	2,460
Education and Conferences	590	750
Electricity	2,434	1,840
Firemen's Relief	7,981	6,830
Telephone	1,378	1,530
Miscellaneous		174
Depreciation	40,472	34,561
Total Fire	78,051	69,070
Ambulance		
Salaries and Benefits	5,952	4,871
Insurance	828	1,835
Supplies	4,294	5,097
Gas, Oil and Fuel	1,040	820
Education and Conferences	1,831	4,185
Miscellaneous	2,618	2,700
Total Ambulance	16,563	19,508
Total Operating Expenses	94,614	88,578
Operating Income (Loss)	(7,262)	(8,753)
NONOPERATING REVENUES (EXPENSES)		
Intergovernmental Revenue	31,775	9,455
Interest Income	947	967
Other Income	2,500	
Total Nonoperating Revenues (Expenses)	35,222	10,422
Change in Net Assets	27,960	1,669
NET ASSETS, BEGINNING OF YEAR	467,039	465,370
NET ASSETS, END OF YEAR	$ 494,999	$ 467,039

Supplementary Information - See Auditor's Report

CITY OF COSMOS, MINNESOTA

STATEMENT OF NET ASSETS
SEWER ENTERPRISE FUND
DECEMBER 31, 2011
WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2010

	2011	2010
ASSETS		
Current Assets		
Cash and Investments	$ 254,154	$ 250,531
Accounts Receivable	4,824	5,329
Total Current Assets	258,978	255,860
Noncurrent Assets		
Capital Assets		
Other Capital Assets, Net of Depreciation	182,955	193,805
Total Assets	$ 441,933	$ 449,665
LIABILITIES AND NET ASSETS		
Liabilities		
Current Liabilities		
Accounts Payable	$ 2,421	$ 314
Salaries Payable	156	152
Customer Deposits	2,175	2,175
Total Liabilities	4,752	2,641
Net Assets		
Invested in Capital Assets	182,955	193,805
Unrestricted	254,226	253,219
Total Net Assets	437,181	447,024
Total Liabilities and Net Assets	$ 441,933	$ 449,665

Supplementary Information - See Auditor's Report

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
SEWER ENTERPRISE FUND
YEAR ENDED DECEMBER 31, 2011
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010

	2011	2010
OPERATING REVENUES		
Sewer Charges	$ 46,693	$ 47,589
OPERATING EXPENSES		
Salaries and Benefits	11,334	10,626
Insurance	1,527	1,489
Supplies	26,105	15,508
Maintenance and Repair	3,191	546
Testing	4,207	3,350
Electricity	1,985	2,072
Miscellaneous	418	1,285
Depreciation	10,850	10,849
Total Operating Expenses	59,617	45,725
Operating Income (Loss)	(12,924)	1,864
NONOPERATING REVENUES (EXPENSES)		
Interest Income	3,081	2,929
Change in Net Assets	(9,843)	4,793
NET ASSETS, BEGINNING OF YEAR	447,024	442,231
NET ASSETS, END OF YEAR	$ 437,181	$ 447,024

Supplementary Information - See Auditor's Report

CITY OF COSMOS, MINNESOTA

STATEMENT OF NET ASSETS
WATER ENTERPRISE FUND
DECEMBER 31, 2011
WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2010

	2011	2010
ASSETS		
Current Assets		
Cash and Investments	$ 85,747	$ 116,885
Accounts Receivable	27,330	21,064
Due from Other Governmental Units	154	27,559
Total Current Assets	113,231	165,508
Noncurrent Assets		
Capital Assets		
Assets Not Being Depreciated		600,945
Other Capital Assets, Net of Depreciation	2,091,758	1,549,381
Total Noncurrent Assets	2,091,758	2,150,326
Total Assets	$ 2,204,989	$ 2,315,834
LIABILITIES AND NET ASSETS		
Liabilities		
Current Liabilities		
Accounts Payable	$ 1,974	$ 3,061
Salaries Payable	234	328
Accrued Interest Payable	6,039	5,681
Contract Payable		23,855
Customer Deposits	3,874	3,874
Current Portion of Note Payable	81,000	80,299
Total Current Liabilities	93,121	117,098
Noncurrent Liabilities		
Note payable, Net of Current Portion	1,233,247	1,311,324
Total Liabilities	1,326,368	1,428,422
Net Assets		
Invested in Capital Assets, Net of Related Debt	777,511	758,703
Unrestricted	101,110	128,709
Total Net Assets	878,621	887,412
Total Liabilities and Net Assets	$ 2,204,989	$ 2,315,834

Supplementary Information - See Auditor's Report

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
WATER ENTERPRISE FUND
YEAR ENDED DECEMBER 31, 2011
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010

	2011	2010
OPERATING REVENUES		
Water Charges	$ 136,319	$ 137,031
OPERATING EXPENSES		
Salaries and Benefits	17,419	17,774
Insurance	3,121	3,020
Supplies	5,306	7,643
Maintenance and Repair	26,532	22,067
Electricity	9,114	7,954
Telephone	580	718
Miscellaneous	3,638	3,304
Depreciation	61,272	60,853
Total Operating Expenses	126,982	123,333
Operating Income (Loss)	9,337	13,698
NONOPERATING REVENUES (EXPENSES)		
Interest Income	1,313	1,676
Interest Expense	(19,441)	(19,142)
Total Nonoperating Revenues (Expenses)	(18,128)	(17,466)
Change in Net Assets	(8,791)	(3,768)
NET ASSETS, BEGINNING OF YEAR	887,412	891,180
NET ASSETS, END OF YEAR	$ 878,621	$ 887,412

Supplementary Information - See Auditor's Report

CITY OF COSMOS, MINNESOTA

COMPUTATION OF LEGAL DEBT MARGIN
DECEMBER 31, 2011

Estimated Market Value		$ 16,931,200
Debt limit - 3 percent of estimated market value		$ 507,936
Total Indebtedness	$ 1,518,047	
Less: Deductions Allowable By Law		
1) Obligation Payable Wholly or Partially from Special Assessments	(203,800)	
2) Obligations Issued for Acquisition and Improvement of Utilities and Conveniences from Which Revenue is Derived	(1,314,247)	
Total Amount of Debt Applicable to Debt Limit		0
Legal Debt Margin		$ 507,936

Supplementary Information - See Auditor's Report

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COMPLIANCE SECTION

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited the financial statements of the governmental activities, business-type activities, and each major fund of the City of Cosmos, Minnesota, as of and for the year ended December 31, 2011, and have issued our report thereon dated June 14, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions,* promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because the City does not have any tax increment financing.

The results of our tests indicate that for the items tested, the City of Cosmos, Minnesota, complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the City Council, management, and the State Auditor's Office and is not intended to be, and should not be, used by anyone other than these specified parties.

Conway, Deuth & Schmiesing, PLLP

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

June 14, 2012

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

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

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Cosmos, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 14, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings as items 2007-01 and 2007-02, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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Compliance and Other Matters

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

We noted certain other matters that we reported to management of the City of Cosmos, Minnesota, in a separate letter dated June 14, 2012.

The City of Cosmos' response to the findings identified in our audit is described in the accompanying Schedule of Findings. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council and management and is not intended to be and should not be used by anyone other than these specified parties.

Conway, Deuth & Schmiesing, PLLP

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

June 14, 2012

CITY OF COSMOS, MINNESOTA

SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2011

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

FINDING 2007-01	AUDITOR PREPARED FINANCIAL STATEMENTS
Condition:	The City's internal control policy over annual financial reporting under GAAP is not sufficient to fully prevent material misstatements in annual financial reporting. Therefore, the potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected and corrected by the City's internal controls.
Criteria:	The City must be able to prevent or detect and correct a material misstatement in the annual financial statements including footnote disclosures.
Context:	The City has informed us that they rely on the audit firm to prepare the annual financial statements.
Effect:	No effect on the financial statements.
Cause:	The City relies on the audit firm to prepare the annual financial statements and related footnote disclosures. However, they have reviewed and approved the annual financial statements and the related footnote disclosures.
Recommendation:	The City should continue to evaluate their internal staff to determine whether staff is available to prepare annual financial statements.
Management's Response:	The City relies, and will continue to rely, on the audit firm to prepare the annual financial statements and related footnote disclosures. We believe the cost of preparing the financial statements internally would exceed the benefits from doing so.

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

FINDING 2007-02	LACK OF SEGREGATION OF DUTIES
Condition:	The City's assignment of job responsibilities to personnel does not allow for appropriate segregation of duties.
Criteria:	The City should not have one staff person involved with two or more of the following functions: custody, authority, recording or reconciling. Proper segregation of duties would help ensure that errors or irregularities are prevented or detected on a timely basis by employees in the normal course of business.
Context:	The City is unable to segregate duties appropriately due to only having one finance staff member. The City will continue to monitor and evaluate its internal control procedures and segregating duties when appropriate and able to do so.
Effect:	No effect on the financial statements.
Cause:	The City has assigned duties to staff based on a cost-benefit relationship to the City.
Recommendation:	The City should continue to monitor and evaluate the job responsibilities assigned to staff to determine whether there is an unacceptable risk.
Management's Response:	Management is aware of the lack or segregation of duties situation and have implemented supplemental measures as we feel necessary. We believe the cost of correcting the situation would exceed the benefits from doing so.