

CITY OF COSMOS, MINNESOTA
AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2012

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

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CITY OF COSMOS, MINNESOTA

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CITY OF COSMOS, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2012

		<u>Term Expires</u>
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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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Cosmos, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the City of Cosmos, Minnesota, as of December 31, 2012, and, the respective changes in financial position and, where applicable, cash flows 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 accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, for the year ended December 31, 2012, the City adopted the new accounting guidance of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

Report on Partial Comparative Information

We have previously audited the City's 2011 financial statements, and we expressed unmodified audit opinions on those audited financial statements in our report dated June 14, 2012. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The statements and schedules as listed in the table of contents as supplementary information and the Elected and Appointed Officials section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The Elected and Appointed Officials section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on the information presented.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 11, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Cosmos' internal control over financial reporting and compliance.

Conway, Deuth & Schmiesing, PLLP

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

July 11, 2013

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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, 2012. 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 \$2.6 million. Of this amount, \$0.7 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 position increased by \$39,876 mostly due to additional FEMA funding received to cover prior year's storm clean up costs.
- The City's governmental funds reported combined ending fund balances of \$306,411. Of this total amount, 58% 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 \$176,513, or 46% of total General Fund expenditures of \$383,544.

Using This Annual Report

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

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

Our analysis of the City of Cosmos begins with the Statement of Net Position and the Statement of Activities. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities both report information about the City as a whole and about its activities in a way that helps answer this question. The Statement of Net Position includes *all* assets and 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 position* and changes in them. You can think of the City's net position—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 position are one indicator of whether the City's financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, to assess the overall health of the City of Cosmos.

CITY OF COSMOS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

Governmental Activities - Most of the City's basic services are reported here, including public safety, public works, sanitation, culture and recreation and general government. Property taxes, and state and federal grants finance most of these activities.

Business-Type Activities - The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's 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 Position and the Statement of Activities) and governmental *funds* in a reconciliation after the fund financial statements.

The governmental fund financial statements can be found on pages 14-20 of this report.

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

The proprietary fund financial statements can be found on pages 21-24 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 25-40 of this report.

CITY OF COSMOS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Net Position

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

Table 1 Comparative Condensed Statement of Net Position			
	Governmental Activities		Change
	2012	2011	
Current and Other Assets	\$ 365,314	\$ 362,061	\$ 3,253
Net Capital Assets	504,118	593,739	(89,621)
Total Assets	\$ 869,432	\$ 955,800	\$ (86,368)
Current and Other Liabilities	\$ 14,311	\$ 27,841	\$ (13,530)
Long-Term Liabilities	180,075	207,491	(27,416)
Total Liabilities	194,386	235,332	(40,946)
Net Position			
Net Investment in Capital Assets	326,118	389,939	(63,821)
Restricted	131,364	143,566	(12,202)
Unrestricted	217,564	186,963	30,601
Total Net Position	675,046	720,468	(45,422)
Total Liabilities and Net Position	\$ 869,432	\$ 955,800	\$ (86,368)

Table 2 Comparative Condensed Statement of Net Position			
	Business-Type Activities		Change
	2012	2011	
Current and Other Assets	\$ 413,018	\$ 500,555	\$ (87,537)
Net Capital Assets	2,744,755	2,648,496	96,259
Total Assets	\$ 3,157,773	\$ 3,149,051	\$ 8,722
Current and Other Liabilities	\$ 28,427	\$ 24,003	\$ 4,424
Long-Term Liabilities	1,233,247	1,314,247	(81,000)
Total Liabilities	1,261,674	1,338,250	(76,576)
Net Position			
Net Investment in Capital Assets	1,511,508	1,334,249	177,259
Unrestricted	384,591	476,552	(91,961)
Total Net Position	1,896,099	1,810,801	85,298
Total Liabilities and Net Position	\$ 3,157,773	\$ 3,149,051	\$ 8,722

CITY OF COSMOS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities

Net position of the City's governmental activities decreased by \$45,422. Table 3 presents the key elements of the decrease.

Business-Type Activities

The net position of our business-type activities increased by \$85,298. The increase was due to the following funds change in net position: Fire - \$8,835, Sewer - \$34,951, and Water - \$41,512. Most of the change in the Sewer and Water Funds resulted from capital contributions (transfers - \$80,045) from the 2011 Street Improvements Capital Project Fund.

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

	Governmental Activities		Change
	2012	2011	
REVENUES			
Program Revenues			
Fees, Fines, and Charges for Services	\$ 55,646	\$ 112,217	\$ (56,571)
Operating Grants and Contributions	27,467	29,977	(2,510)
General Revenues			
Property Taxes	251,780	207,543	44,237
Grants and Contributions Not Restricted	140,483	149,902	(9,419)
Interest Income	2,296	4,008	(1,712)
Gain on Asset Disposal	11,348		11,348
Other	5,389	48,309	(42,920)
Total Revenues	<u>494,409</u>	<u>551,956</u>	<u>(57,547)</u>
EXPENSES			
General Government	111,288	101,380	9,908
Public Safety	120,300	124,507	(4,207)
Public Works	139,094	268,927	(129,833)
Sanitation	37,213	36,702	511
Culture and Recreation	46,062	114,516	(68,454)
Interest on Long-Term Debt	5,829	1,007	4,822
Total Expenses	<u>459,786</u>	<u>647,039</u>	<u>(187,253)</u>
Change in Net Position before Transfers	34,623	(95,083)	129,706
TRANSFERS	<u>(80,045)</u>		<u>(80,045)</u>
Change in Net Position	(45,422)	(95,083)	49,661
NET POSITION, BEGINNING OF YEAR	<u>720,468</u>	<u>815,551</u>	<u>(95,083)</u>
NET POSITION, END OF YEAR	<u>\$ 675,046</u>	<u>\$ 720,468</u>	<u>\$ (45,422)</u>

CITY OF COSMOS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

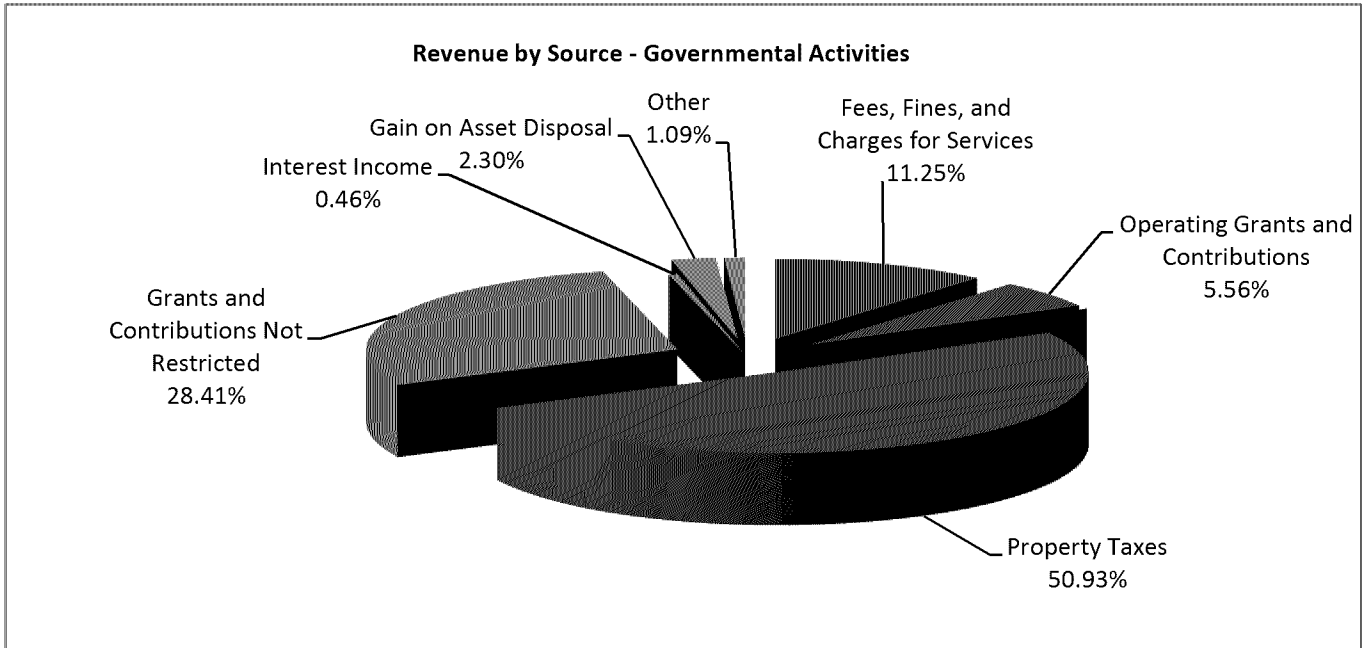
	Business-Type Activities		Change
	2012	2011	
REVENUES			
Program Revenues			
Fees, Fines, and Charges for Services	\$ 310,531	\$ 270,364	\$ 40,167
Operating Grants and Contributions	15,419	31,775	(16,356)
Capital Grants and Contributions	740	2,500	(1,760)
General Revenues			
Interest Income	3,555	5,341	(1,786)
Gain on Asset Disposal	6,377		6,377
Other	2,780		2,780
Total Revenues	<u>339,402</u>	<u>309,980</u>	<u>29,422</u>
EXPENSES			
Fire	118,562	94,614	23,948
Sewer	55,114	59,617	(4,503)
Water	160,473	146,423	14,050
Total Expenses	<u>334,149</u>	<u>300,654</u>	<u>33,495</u>
Change in Net Position before Transfers	5,253	9,326	(4,073)
TRANSFERS			
Change in Net Position	<u>80,045</u>	<u>9,326</u>	<u>80,045</u>
NET POSITION, BEGINNING OF YEAR	<u>1,810,801</u>	<u>1,801,475</u>	<u>9,326</u>
NET POSITION, END OF YEAR	<u>\$ 1,896,099</u>	<u>\$ 1,810,801</u>	<u>\$ 85,298</u>

CITY OF COSMOS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities

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



Financial Analysis of the City's Funds

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$306,411, an increase of \$30,981. Approximately 58 percent of this total (\$176,513) constitutes unassigned fund balance. The remainder of the fund balance (\$129,898) is not available for new spending because it is either 1) restricted (\$105,455) or 2) assigned (\$24,443).

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 \$176,513. As a measure of the General Fund's liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures. Unassigned fund balance represents 46 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 position in the respective proprietary funds are Fire - \$102,410, Sewer - \$270,291, and Water - \$11,890.

CITY OF COSMOS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 FEMA funding received to cover prior year's storm clean up costs resulted in a fund balance increase of \$17,015.

Capital Assets

At the end of 2012, the City of Cosmos had \$5,622,711 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 \$1,413,322 in long-term debt. Refer to Note 7 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 2013 budget, rates, and fees that will be charged by the funds of the City. The major factor accounted for when adopting the General Fund budget was to hold all line items as much as possible to the 2012 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 POSITION

DECEMBER 31, 2012

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2011

	Governmental Activities	Business-Type Activities	Totals	
			2012	2011
ASSETS				
Cash	\$ 287,015	\$ 368,036	\$ 655,051	\$ 720,268
Receivables				
Accounts	7,565	44,982	52,547	49,830
Interest				1,021
Loans	6,451		6,451	8,731
Delinquent Taxes	11,844		11,844	8,915
Special Assessments	23,531		23,531	38,351
Due from Other Governmental Units	25,741		25,741	31,790
Deferred Charges	3,167		3,167	3,710
Capital Assets				
Assets Not Being Depreciated	25,767	77,405	103,172	285,423
Other Capital Assets, Net of Depreciation	478,351	2,667,350	3,145,701	2,956,812
Total Assets	\$ 869,432	\$ 3,157,773	\$ 4,027,205	\$ 4,104,851
LIABILITIES AND NET POSITION				
Liabilities				
Accounts Payable	\$ 4,757	\$ 16,581	\$ 21,338	\$ 13,593
Contracts Payable	1,916		1,916	8,986
Salaries Payable	470	101	571	2,651
Due to Other Governmental Units	1,439		1,439	8,281
Accrued Interest Payable	401	5,696	6,097	6,956
Customer Deposits	3,878	6,049	9,927	9,927
Unearned Revenue	1,450		1,450	1,450
Noncurrent Liabilities				
Due Within One Year	28,000	83,541	111,541	106,800
Due in More Than One Year	152,075	1,149,706	1,301,781	1,414,938
Total Liabilities	194,386	1,261,674	1,456,060	1,573,582
Net Position				
Net Investment in Capital Assets	326,118	1,511,508	1,837,626	1,724,188
Restricted for				
Debt Service	25,909		25,909	39,073
Capital Improvements	99,064		99,064	98,102
Revolving Loan	6,391		6,391	6,391
Unrestricted	217,564	384,591	602,155	663,515
Total Net Position	675,046	1,896,099	2,571,145	2,531,269
Total Liabilities and Net Position	\$ 869,432	\$ 3,157,773	\$ 4,027,205	\$ 4,104,851

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF ACTIVITIES
 YEAR ENDED DECEMBER 31, 2012
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2011

Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals	
						2012	2011
GOVERNMENTAL ACTIVITIES							
General Government	\$ 111,288	\$ 4,533	\$	\$	\$ (106,755)	\$ (106,755)	\$ (91,872)
Public Safety	120,300		6,473		(113,827)	(113,827)	(117,476)
Public Works	139,094	1,300	20,994		(116,800)	(116,800)	(190,572)
Sanitation	37,213	39,520			2,307	2,307	2,470
Culture and Recreation	46,062	8,069			(37,993)	(37,993)	(106,388)
Interest on Long-Term Debt	5,829	2,224			(3,605)	(3,605)	(1,007)
Total Governmental Activities	459,786	55,646	27,467	0	(376,673)	0	(376,673)
BUSINESS-TYPE ACTIVITIES							
Fire	118,562	104,432	15,419	740		2,029	2,029
Sewer	55,114	59,398				4,284	4,284
Water	160,473	146,701				(13,772)	(13,772)
Total Business-Type Activities	334,149	310,531	15,419	740	0	(7,459)	(7,459)
Total	\$ 793,935	\$ 366,177	\$ 42,886	\$ 740	(376,673)	(7,459)	(384,132)
GENERAL REVENUES							
Property Taxes					251,780	251,780	207,543
Grants and Contributions not Restricted to Specific Programs					140,483	140,483	149,902
Interest Income					2,296	3,555	5,851
Gain on Asset Disposal					11,348	6,377	17,725
Other					5,389	2,780	8,169
TRANSFERS					(80,045)	80,045	
Total General Revenues and Transfers					331,251	92,757	415,103
Change in Net Position					(45,422)	85,298	(85,757)
NET POSITION, BEGINNING OF YEAR					720,468	1,810,801	2,531,269
NET POSITION, END OF YEAR					\$ 675,046	\$ 1,896,099	\$ 2,531,269

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2011

	General	Trash Collection	Redevelopment Revolving Loan	2011A G.O. Improvement	Public Works Reserve	2011 Street and Utility Improvements	Totals	
							2012	2011
ASSETS								
Cash	\$ 155,856	\$ 23,788	\$ 6,391	\$	\$ 99,064	\$ 1,916	\$ 287,015	\$ 259,231
Receivables								
Accounts	3,032	4,533					7,565	10,466
Interest								1,021
Loans			6,451				6,451	8,731
Delinquent Taxes	11,844						11,844	8,915
Special Assessments	388			23,143			23,531	38,351
Due from Other Governmental Units	25,741						25,741	31,636
Total Assets	\$ 196,861	\$ 28,321	\$ 12,842	\$ 23,143	\$ 99,064	\$ 1,916	\$ 362,147	\$ 358,351
LIABILITIES AND FUND BALANCE								
Liabilities								
Accounts Payable	\$ 4,757	\$	\$	\$	\$	\$	\$ 4,757	\$ 8,693
Contracts Payable						1,916	1,916	8,986
Salaries Payable	470						470	2,261
Due to Other Governmental Units	1,439						1,439	1,656
Deferred Revenue								
Licenses	1,450						1,450	1,450
Loans			6,451				6,451	8,731
Delinquent Taxes	11,844						11,844	8,915
Special Assessments	388			23,143			23,531	38,351
Customer Deposits		3,878					3,878	3,878
Total Liabilities	20,348	3,878	6,451	23,143	0	1,916	55,736	82,921
Fund Balance								
Restricted								
Capital Improvements					99,064		99,064	98,102
Revolving Loan			6,391				6,391	6,391
Assigned for Fund Operations		24,443					24,443	21,908
Unassigned	176,513						176,513	149,029
Total Fund Balance	176,513	24,443	6,391	0	99,064	0	306,411	275,430
Total Liabilities and Fund Balance	\$ 196,861	\$ 28,321	\$ 12,842	\$ 23,143	\$ 99,064	\$ 1,916	\$ 362,147	\$ 358,351

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2012
WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2011

	<u>2012</u>	<u>2011</u>
Total Fund Balances - Governmental Funds	\$ 306,411	\$ 275,430
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.</p>		
Capital Assets	1,480,237	1,545,664
Less: Accumulated Depreciation	(976,119)	(951,925)
<p>Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.</p>		
Loans	6,451	8,731
Delinquent Taxes	11,844	8,915
Special Assessments	23,531	38,351
<p>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.</p>		
Note Payable	(178,000)	(203,800)
Compensated Absences	(2,075)	(3,691)
Accrued Interest Payable	(401)	(917)
Deferred Charges	<u>3,167</u>	<u>3,710</u>
Total Net Position - Governmental Activities	<u>\$ 675,046</u>	<u>\$ 720,468</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 YEAR ENDED DECEMBER 31, 2012
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2011

	General	Trash Collection	Redevelopment Revolving Loan	2011A G.O. Improvement	Public Works Reserve	2011 Street and Utility Improvements	Totals	
							2012	2011
REVENUES								
Taxes	\$ 248,851	\$	\$	\$	\$	\$	\$ 248,851	\$ 207,226
Special Assessments	1,784			15,260			17,044	18,594
Licenses and Permits	4,226						4,226	8,716
Intergovernmental	167,950						167,950	179,879
Charges for Services	9,369	39,520					48,889	49,906
Fines and Forfeits	307						307	480
Interest Income	1,106	228			962		2,296	4,008
Refunds and Reimbursements	311						311	38,515
Donations	1,500						1,500	325
Miscellaneous	5,858						5,858	9,781
Total Revenues	441,262	39,748	0	15,260	962	0	497,232	517,430
EXPENDITURES								
Current								
General Government	111,313						111,313	100,271
Public Safety	112,621						112,621	114,363
Public Works	99,791						99,791	212,770
Sanitation		37,213					37,213	36,702
Culture and Recreation	36,323						36,323	77,933
Capital Outlay								
General Government	2,170						2,170	
Public Safety	4,317						4,317	11,309
Public Works	7,569					13,892	21,461	260,593
Culture and Recreation	9,440						9,440	
Debt Service								
Principal				25,800			25,800	
Interest and Fiscal Charges				5,802			5,802	3,800
Total Expenditures	383,544	37,213	0	31,602	0	13,892	466,251	817,741
Excess (Deficiency) of Revenues Over (Under) Expenditures	57,718	2,535	0	(16,342)	962	(13,892)	30,981	(300,311)
OTHER FINANCING SOURCES (USES)								
G.O. Improvement Note Proceeds								203,800
Transfers In				16,342		24,361	40,703	
Transfers Out	(40,703)						(40,703)	
Total Other Financing Sources (Uses)	(40,703)	0	0	16,342	0	24,361	0	203,800
Net Change in Fund Balances	17,015	2,535	0	0	962	10,469	30,981	(96,511)
FUND BALANCE, BEGINNING OF YEAR	159,498	21,908	6,391		98,102	(10,469)	275,430	371,941
FUND BALANCE, END OF YEAR	\$ 176,513	\$ 24,443	\$ 6,391	\$ 0	\$ 99,064	\$ 0	\$ 306,411	\$ 275,430

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, 2012
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>2012</u>	<u>2011</u>
Total Net Change in Fund Balances - Governmental Funds	\$ 30,981	\$ (96,511)
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	25,835	254,001
Depreciation Expense	(46,759)	(47,215)
Gain (Loss) on Asset Disposals	11,348	(38,282)
Assets Contributed to Enterprise Funds	(80,045)	
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	41,826	55,997
Deferred Revenue, Beginning of Year	(55,997)	(21,471)
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	1,616	(595)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		
Long-Term Debt Proceeds		(203,800)
Issuance Costs		3,800
Principal Retirement of Long-Term Debt	25,800	
Change in Accrued Interest Payable	516	(917)
Amortization of Bond Issuance Costs	(543)	(90)
Change in Net Position - Governmental Activities	<u>\$ (45,422)</u>	<u>\$ (95,083)</u>

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2012
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2011

	2012			Over (Under) Final Budget	2011
	Budgeted Amounts		Actual		Actual
	Original	Final			
REVENUES					
Taxes	\$ 246,966	\$ 246,966	\$ 248,851	\$ 1,885	\$ 207,226
Special Assessments			1,784	1,784	2,314
Licenses and Permits	4,000	4,000	4,226	226	8,716
Intergovernmental	128,351	128,351	167,950	39,599	179,879
Charges for Services	7,000	7,000	9,369	2,369	10,734
Fines and Forfeits	500	500	307	(193)	480
Interest Income	2,500	2,500	1,106	(1,394)	1,865
Refunds and Reimbursements	1,000	1,000	311	(689)	38,515
Donations			1,500	1,500	325
Miscellaneous	4,000	4,000	5,858	1,858	9,781
Total Revenues	<u>394,317</u>	<u>394,317</u>	<u>441,262</u>	<u>46,945</u>	<u>459,835</u>
EXPENDITURES					
Current					
General Government	99,530	99,530	111,313	11,783	100,271
Public Safety	125,788	125,788	112,621	(13,167)	114,363
Public Works	86,233	86,233	99,791	13,558	212,770
Culture and Recreation	29,450	29,450	36,323	6,873	77,933
Capital Outlay					
General Government	3,100	3,100	2,170	(930)	
Public Safety	10,000	10,000	4,317	(5,683)	11,309
Public Works	27,716	27,716	7,569	(20,147)	33,844
Culture and Recreation	12,500	12,500	9,440	(3,060)	
Total Expenditures	<u>394,317</u>	<u>394,317</u>	<u>383,544</u>	<u>(10,773)</u>	<u>550,490</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	0	57,718	57,718	(90,655)
OTHER FINANCING SOURCES (USES)					
Transfers Out			(40,703)	(40,703)	
Net Change in Fund Balances	<u>\$ 0</u>	<u>\$ 0</u>	<u>17,015</u>	<u>\$ 17,015</u>	<u>(90,655)</u>
FUND BALANCE, BEGINNING OF YEAR			<u>159,498</u>		<u>250,153</u>
FUND BALANCE, END OF YEAR			<u>\$ 176,513</u>		<u>\$ 159,498</u>

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 TRASH COLLECTION SPECIAL REVENUE FUND
 YEAR ENDED DECEMBER 31, 2012
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2011

	2012			Over (Under) Final Budget	2011
	Budgeted Amounts		Actual		Actual
	Original	Final			
REVENUES					
Charges for Services	\$ 39,000	\$ 39,000	\$ 39,520	\$ 520	\$ 39,172
Interest Income			228	228	241
Total Revenues	<u>39,000</u>	<u>39,000</u>	<u>39,748</u>	<u>748</u>	<u>39,413</u>
EXPENDITURES					
Current					
Sanitation	<u>39,000</u>	<u>39,000</u>	<u>37,213</u>	<u>(1,787)</u>	<u>36,702</u>
Net Change in Fund Balances	<u>\$ 0</u>	<u>\$ 0</u>	2,535	<u>\$ 2,535</u>	2,711
FUND BALANCE, BEGINNING OF YEAR			<u>21,908</u>		<u>19,197</u>
FUND BALANCE, END OF YEAR			<u>\$ 24,443</u>		<u>\$ 21,908</u>

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, 2012
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2011

	2012			Over (Under) Final Budget	2011
	Budgeted Amounts		Actual		Actual
	Original	Final			
REVENUES					
CDBG Loan Repayments	\$	\$	\$	\$	\$
EXPENDITURES					
Net Change in Fund Balances	<u>\$ 0</u>	<u>\$ 0</u>	0	<u>\$ 0</u>	0
FUND BALANCE, BEGINNING OF YEAR			<u>6,391</u>		<u>6,391</u>
FUND BALANCE, END OF YEAR			<u>\$ 6,391</u>		<u>\$ 6,391</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 DECEMBER 31, 2012

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2011

	Business-Type Activities - Enterprise Funds				
	Fire	Sewer	Water	Totals	
				2012	2011
ASSETS					
Current Assets					
Cash	\$ 95,992	\$ 270,706	\$ 1,338	\$ 368,036	\$ 461,037
Accounts Receivable	7,407	5,838	31,737	44,982	39,364
Due from Other Governmental Units					154
Total Current Assets	<u>103,399</u>	<u>276,544</u>	<u>33,075</u>	<u>413,018</u>	<u>500,555</u>
Noncurrent Assets					
Capital Assets					
Assets Not Being Depreciated			77,405	77,405	33,507
Other Capital Assets, Net of Depreciation	401,424	201,841	2,064,085	2,667,350	2,614,989
Total Noncurrent Assets	<u>401,424</u>	<u>201,841</u>	<u>2,141,490</u>	<u>2,744,755</u>	<u>2,648,496</u>
Total Assets	<u>\$ 504,823</u>	<u>\$ 478,385</u>	<u>\$ 2,174,565</u>	<u>\$ 3,157,773</u>	<u>\$ 3,149,051</u>
LIABILITIES AND NET POSITION					
Liabilities					
Current Liabilities					
Accounts Payable	\$ 989	\$ 4,038	\$ 11,554	\$ 16,581	\$ 4,900
Salaries Payable		40	61	101	390
Due to Other Governmental Units					6,625
Accrued Interest Payable			5,696	5,696	6,039
Customer Deposits		2,175	3,874	6,049	6,049
Current Portion of Note Payable			83,541	83,541	81,000
Total Current Liabilities	<u>989</u>	<u>6,253</u>	<u>104,726</u>	<u>111,968</u>	<u>105,003</u>
Noncurrent Liabilities					
Note Payable, Net of Current Portion			1,149,706	1,149,706	1,233,247
Total Liabilities	<u>989</u>	<u>6,253</u>	<u>1,254,432</u>	<u>1,261,674</u>	<u>1,338,250</u>
Net Position					
Net Investment in Capital Assets	401,424	201,841	908,243	1,511,508	1,334,249
Unrestricted	102,410	270,291	11,890	384,591	476,552
Total Net Position	<u>503,834</u>	<u>472,132</u>	<u>920,133</u>	<u>1,896,099</u>	<u>1,810,801</u>
Total Liabilities and Net Position	<u>\$ 504,823</u>	<u>\$ 478,385</u>	<u>\$ 2,174,565</u>	<u>\$ 3,157,773</u>	<u>\$ 3,149,051</u>

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 PROPRIETARY FUNDS
 YEAR ENDED DECEMBER 31, 2012
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-Type Activities - Enterprise Funds				
	Fire	Sewer	Water	Totals	
				2012	2011
OPERATING REVENUES					
Fire Contracts/Calls	\$ 53,960	\$	\$	\$ 53,960	\$ 52,648
Ambulance Charges	50,472			50,472	34,704
Sewer Charges		59,398		59,398	46,693
Water Charges			146,701	146,701	136,319
Total Operating Revenues	<u>104,432</u>	<u>59,398</u>	<u>146,701</u>	<u>310,531</u>	<u>270,364</u>
OPERATING EXPENSES					
Salaries and Benefits	13,225	12,943	19,274	45,442	40,815
Insurance	4,112	1,405	2,835	8,352	9,917
Supplies	16,358	23,075	6,201	45,634	41,786
Maintenance and Repair	2,466	2,517	22,577	27,560	34,672
Gas, Oil and Fuel	4,225			4,225	4,655
Testing		1,843		1,843	4,207
Electricity	1,994	1,342	8,355	11,691	13,533
Firemen's Relief	7,619			7,619	7,981
Telephone	1,632		652	2,284	1,958
Education and Conferences	18,044			18,044	2,421
Miscellaneous	3,047	988	3,090	7,125	6,674
Depreciation	45,840	11,001	79,651	136,492	112,594
Total Operating Expenses	<u>118,562</u>	<u>55,114</u>	<u>142,635</u>	<u>316,311</u>	<u>281,213</u>
Operating Income (Loss)	<u>(14,130)</u>	<u>4,284</u>	<u>4,066</u>	<u>(5,780)</u>	<u>(10,849)</u>
NONOPERATING REVENUES (EXPENSES)					
Intergovernmental	15,419			15,419	31,775
Interest Income	429	2,600	526	3,555	5,341
Gain on Asset Disposal	6,377			6,377	
Other Income	740		2,780	3,520	2,500
Interest Expense			(17,838)	(17,838)	(19,441)
Total Nonoperating					
Revenues (Expenses)	<u>22,965</u>	<u>2,600</u>	<u>(14,532)</u>	<u>11,033</u>	<u>20,175</u>
Income (Loss) Before Contributions	<u>8,835</u>	<u>6,884</u>	<u>(10,466)</u>	<u>5,253</u>	<u>9,326</u>
CAPITAL CONTRIBUTIONS					
Change in Net Position	<u>8,835</u>	<u>34,951</u>	<u>41,512</u>	<u>85,298</u>	<u>9,326</u>
NET POSITION, BEGINNING OF YEAR	<u>494,999</u>	<u>437,181</u>	<u>878,621</u>	<u>1,810,801</u>	<u>1,801,475</u>
NET POSITION, END OF YEAR	<u>\$ 503,834</u>	<u>\$ 472,132</u>	<u>\$ 920,133</u>	<u>\$ 1,896,099</u>	<u>\$ 1,810,801</u>

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2012

WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-Type Activities - Enterprise Funds				
	Fire	Sewer	Water	Totals	
				2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers	\$ 104,235	\$ 58,384	\$ 142,294	\$ 304,913	\$ 263,343
Payments to Suppliers	(18,824)	(21,458)	(6,201)	(46,483)	(39,679)
Payments to Other Sources	(46,814)	(8,095)	(27,929)	(82,838)	(81,341)
Payments to Employees	(13,225)	(13,059)	(19,447)	(45,731)	(40,905)
Net Cash Provided (Used) by Operating Activities	25,372	15,772	88,717	129,861	101,418
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Intergovernmental Revenue	15,419		154	15,573	59,180
Other Receipts	7,117		2,780	9,897	2,500
Proceeds from Note Payable					2,923
Principal Payments on Note Payable			(81,000)	(81,000)	(80,299)
Interest Payments on Note Payable			(18,181)	(18,181)	(19,083)
Acquisition of Capital Assets	(73,481)	(1,820)	(77,405)	(152,706)	(131,921)
Net Cash Provided (Used) by Capital and Related Financing Activities	(50,945)	(1,820)	(173,652)	(226,417)	(166,700)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest Income	429	2,600	526	3,555	5,341
Net Increase (Decrease) in Cash and Cash Equivalents	(25,144)	16,552	(84,409)	(93,001)	(59,941)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	121,136	254,154	85,747	461,037	520,978
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 95,992	\$ 270,706	\$ 1,338	\$ 368,036	\$ 461,037

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 YEAR ENDED DECEMBER 31, 2012

WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-Type Activities - Enterprise Funds				
	Fire	Sewer	Water	Totals	
				2012	2011
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES					
Operating Income (Loss)	\$ (14,130)	\$ 4,284	\$ 4,066	\$ (5,780)	\$ (10,849)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Depreciation	45,840	11,001	79,651	136,492	112,594
(Increase) Decrease in Assets					
Accounts Receivable	(197)	(1,014)	(4,407)	(5,618)	(7,021)
Increase (Decrease) in Liabilities					
Accounts Payable	484	1,617	9,580	11,681	159
Due to Other Governmental Units	(6,625)			(6,625)	6,625
Salaries Payable		(116)	(173)	(289)	(90)
Net Cash Provided (Used) by Operating Activities	<u>\$ 25,372</u>	<u>\$ 15,772</u>	<u>\$ 88,717</u>	<u>\$ 129,861</u>	<u>\$ 101,418</u>

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CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

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 component unit definition criteria above, one organization has been defined and is presented in this report as follows:

Blended Component Unit - Reported as if they were part of the City.

From the category above, the specific entity is identified as follows.

Blended Component Unit

The Cosmos Economic Development Authority (EDA) is a legal entity separate from the City. Although legally separate, the Cosmos EDA is reported as if it were part of the primary government because it provides services exclusively for the City. Separate financial statements are not prepared for the Cosmos EDA.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Cont'd)

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

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

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

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

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

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

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund and accounts for all financial resources except those required to be accounted for in another fund.

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.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

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

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

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

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 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's sewer utility.

The Water Fund accounts for the operations of the City's water utility.

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

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

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

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.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

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

D. DEPOSITS AND INVESTMENTS (Cont'd)

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.

Cash and investments at December 31, 2012, 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. The City does not have an investment policy that addresses custodial credit risk.

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."

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

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

E. RECEIVABLES AND PAYABLES (Cont'd)

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

The City levies its property tax for the subsequent year during the month of December. December 30th is the last day the City can certify a tax levy to the County Auditor for collection the following year. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. The property tax is recorded as revenue when it becomes measurable and available. Meeker County is the collecting agency for the levy and remits the collections to the City three times a year. The tax levy notice is mailed in March with the first half payment due on May 15 and the second half payment due on October 15. Taxes not collected as of December 31 each year are shown as delinquent taxes receivable.

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

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

F. 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 machinery and equipment.

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

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

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

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. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

J. LONG-TERM OBLIGATIONS

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Position.

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

K. FUND BALANCE

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

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

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

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

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

K. 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 the remaining governmental funds.

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

L. NET POSITION

The City adopted the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* for the year ended December 31, 2012. This standard changed net asset classifications within the government-wide and proprietary fund financial statements.

M. USE OF ESTIMATES

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

N. PRIOR YEAR INFORMATION

The basic financial statements include certain prior-year partial comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended December 31, 2011, from which the partial information was derived.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

The City Council adopts an annual budget. The amounts shown in the financial statements as "budget" represent to original budgeted amounts and all the revisions made during the year. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. 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 budget is legally enacted through passage of a resolution after obtaining taxpayer comments. The budget resolution adopted by the City Council sets forth the budgets at the function level for the General and Special Revenue Funds.
4. 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.
5. 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.
6. 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.

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, 2012, the City's bank balances were exposed to custodial credit risk because they were not fully insured through the FDIC as well as not fully collateralized with securities held by the pledging financial institution's trust department or agent and in the City's name.

As of December 31, 2012, \$2,156 of the City's bank balance of \$654,988 was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	<u>\$ 2,156</u>
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CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 3. DEPOSITS (Cont'd)

Cash as of December 31, 2012, is as follows:

	<u>Book Balance</u>
Pooled Cash in Checking Account	\$ 94,256
Pooled Cash in Savings Account	155,189
Non-Negotiable Certificates of Deposit	211,912
Special Purpose Bank Accounts	
Fire-Checking	12,322
Fire-Money Market Savings	81,923
Library Donation-Checking	322
Public Works Reserve Non-Negotiable Certificate of Deposit	99,064
Petty Cash	<u>63</u>
Total Cash	<u><u>\$ 655,051</u></u>

NOTE 4. RECEIVABLES

Receivables as of December 31, 2012, are as follows:

	<u>Total Receivables</u>	<u>Amounts not Scheduled for Collection During the Subsequent Year</u>
Governmental Activities		
Accounts	\$ 7,565	\$
Loans	6,451	
Delinquent Taxes	11,844	
Special Assessments	<u>23,531</u>	<u>19,286</u>
Total Governmental Activities	<u><u>\$ 49,391</u></u>	<u><u>\$ 19,286</u></u>
Business-Type Activities		
Accounts	<u><u>\$ 44,982</u></u>	<u><u>\$ 0</u></u>

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012, 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	13,892	(240,041)	
Total Capital Assets, Not Being Depreciated	251,916	13,892	(240,041)	25,767
Capital Assets, Being Depreciated				
Buildings	69,625	3,885		73,510
Improvements Other than Buildings	1,098,154	159,996	(5,712)	1,252,438
Machinery and Equipment	125,969	19,406	(16,853)	128,522
Total Capital Assets Being Depreciated	1,293,748	183,287	(22,565)	1,454,470
Less Accumulated Depreciation for				
Buildings	47,259	3,323		50,582
Improvements Other than Buildings	804,411	34,122	(5,712)	832,821
Machinery and Equipment	100,255	9,314	(16,853)	92,716
Total Accumulated Depreciation	951,925	46,759	(22,565)	976,119
Total Capital Assets, Being Depreciated, Net	341,823	136,528	0	478,351
Governmental Activities Net Capital Assets	<u>\$ 367,590</u>	<u>\$ 136,528</u>	<u>\$ 0</u>	<u>\$ 504,118</u>

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 5. CAPITAL ASSETS (Cont'd)

Business-Type Activities	Beginning Balance	Increase	Decrease	Ending Balance
Capital Assets, Not Being Depreciated				
Construction in Progress	\$ 33,507	\$ 146,749	\$ (102,851)	\$ 77,405
Capital Assets, Being Depreciated				
Buildings	1,397,577			1,397,577
Improvements Other than Buildings	1,809,503	80,044		1,889,547
Machinery and Equipment	674,636	108,809	(5,500)	777,945
Total Capital Assets, Being Depreciated	3,881,716	188,853	(5,500)	4,065,069
Less Accumulated Depreciation for				
Buildings	459,476	39,805		499,281
Improvements Other than Buildings	454,222	51,347		505,569
Machinery and Equipment	353,029	45,340	(5,500)	392,869
Total Accumulated Depreciation	1,266,727	136,492	(5,500)	1,397,719
Total Capital Assets, Being Depreciated, Net	2,614,989	52,361	0	2,667,350
Business-Type Activities Net Capital Assets	<u>\$ 2,648,496</u>	<u>\$ 199,110</u>	<u>\$ (102,851)</u>	<u>\$ 2,744,755</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
General Government	\$ 511
Public Safety	7,969
Public Works	37,530
Culture and Recreation	749
Total Depreciation Expense - Governmental Activities	<u>\$ 46,759</u>
Business-Type Activities	
Fire	\$ 45,840
Sewer	11,001
Water	79,651
Total Depreciation Expense - Business-Type Activities	<u>\$ 136,492</u>

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 6. INTERFUND TRANSFERS

The composition of interfund transfers for the year ended December 31, 2012, is as follows:

	Transfer In		Total
	2011A G.O. Improvement	2011 Street and Utility Improvements	
Transfer Out General	\$ 16,342	\$ 24,361	\$ 40,703

The purpose of the above transfers was to eliminate deficits in the project fund and to cover costs of debt service payments.

NOTE 7. LONG-TERM DEBT

A. GENERAL OBLIGATION BONDS

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

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

B. COMPONENTS OF LONG-TERM DEBT

	Interest Rates	Final Maturity Date	Balance Outstanding
<u>Governmental Activities</u>			
G.O. Improvement Note, Series 2011A	2.70%	12/01/2018	\$ 178,000
Compensated Absences			2,075
Total Governmental Activities			<u>\$ 180,075</u>
<u>Business-Type Activities</u>			
G.O. Revenue Note - Water Treatment Plant	1.720%	08/20/2024	\$ 607,706
G.O. Revenue Note - Water Tower	1.092%	08/20/2027	413,000
G.O. Revenue Note - Looping	1.00%	08/20/2029	212,541
Total Business-Type Activities			<u>\$ 1,233,247</u>

Debt service funds are used to liquidate the governmental activities outstanding note payable. The General Fund has historically been used to liquidate the outstanding governmental activities compensated absences.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

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

C. MINIMUM DEBT PAYMENTS

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

Year Ending December 31	Governmental Activities G.O. Improvement Note		
	Principal	Interest	Total
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	31,000	1,498	32,498
2018	32,000	648	32,648
	<u>\$ 178,000</u>	<u>\$ 16,038</u>	<u>\$ 194,038</u>

Year Ending December 31	Business-Type Activities G.O. Revenue Notes		
	Principal	Interest	Total
2013	\$ 83,541	\$ 17,088	\$ 100,629
2014	85,000	15,898	100,898
2015	86,000	14,686	100,686
2016	86,000	13,456	99,456
2017	88,000	12,227	100,227
2018-2022	459,000	41,893	500,893
2023-2027	319,706	10,889	330,595
2028-2029	26,000	390	26,390
	<u>\$ 1,233,247</u>	<u>\$ 126,527</u>	<u>\$ 1,359,774</u>

D CHANGES IN LONG-TERM LIABILITIES

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
G.O. Improvement Note	\$ 203,800	\$	\$ (25,800)	\$ 178,000	\$ 28,000
Compensated Absences	3,691	2,962	(4,578)	2,075	
Total Governmental Activities	<u>\$ 207,491</u>	<u>\$ 2,962</u>	<u>\$ (30,378)</u>	<u>\$ 180,075</u>	<u>\$ 28,000</u>
<u>Business-Type Activities</u>					
G.O. Revenue Notes	<u>\$ 1,314,247</u>	<u>\$ 0</u>	<u>\$ (81,000)</u>	<u>\$ 1,233,247</u>	<u>\$ 83,541</u>

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 8. RISK MANAGEMENT

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

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

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for 2012 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2012, there are no other claims liabilities reported in the funds based on the requirements of accounting standards, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

NOTE 9. 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.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 9. 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 2012. PEPFF members were required to contribute 9.6% of their annual covered salary in 2012.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 9. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

B. FUNDING POLICY (Cont'd)

In 2012, 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, 2012, 2011, and 2010, were \$6,745, \$6,132, and \$5,051, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2012, 2011, and 2010, were \$7,498, \$7,031, and \$7,131, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 10. 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, 2012, 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 11. RECLASSIFICATIONS

Certain immaterial prior year amounts have been reclassified to conform to the current year's presentation. There was no effect on total net position or fund balance.

SUPPLEMENTARY INFORMATION

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CITY OF COSMOS, MINNESOTA

BALANCE SHEET
GENERAL FUND
DECEMBER 31, 2012

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash	\$ 155,856	\$ 130,108
Receivables		
Accounts	3,032	5,697
Interest		1,000
Delinquent Taxes	11,844	8,915
Special Assessments	388	2,071
Due from Other Governmental Units	<u>25,741</u>	<u>31,636</u>
Total Assets	<u>\$ 196,861</u>	<u>\$ 179,427</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts Payable	\$ 4,757	\$ 3,576
Salaries Payable	470	2,261
Due to Other Governmental Units	1,439	1,656
Deferred Revenue		
Licenses	1,450	1,450
Delinquent Taxes	11,844	8,915
Special Assessments	<u>388</u>	<u>2,071</u>
Total Liabilities	<u>20,348</u>	<u>19,929</u>
Fund Balance		
Unassigned	<u>176,513</u>	<u>159,498</u>
Total Liabilities and Fund Balance	<u>\$ 196,861</u>	<u>\$ 179,427</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2012
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2011

	2012		2011	
	Final Budget	Actual	Over (Under) Final Budget	Actual
REVENUES				
Property Taxes	\$ 246,966	\$ 248,851	\$ 1,885	\$ 207,226
Special Assessments		1,784	1,784	2,314
Licenses and Permits	4,000	4,226	226	8,716
Intergovernmental				
Local Government Aid	128,232	128,232		128,232
Market Value Credit Aid	119	119		19,605
Police State Aid		6,473	6,473	7,031
FEMA Grant		20,994	20,994	22,946
Other State Aid		12,132	12,132	2,065
Total Intergovernmental	<u>128,351</u>	<u>167,950</u>	<u>39,599</u>	<u>179,879</u>
Charges for Services	7,000	9,369	2,369	10,734
Fines and Forfeits	500	307	(193)	480
Interest Income	2,500	1,106	(1,394)	1,865
Refunds and Reimbursements	1,000	311	(689)	38,515
Donations		1,500	1,500	325
Miscellaneous				
Finance Charges	3,000	5,688	2,688	5,469
Other	1,000	170	(830)	4,312
Total Miscellaneous	<u>4,000</u>	<u>5,858</u>	<u>1,858</u>	<u>9,781</u>
Total Revenues	<u>394,317</u>	<u>441,262</u>	<u>46,945</u>	<u>459,835</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2012
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2011

	2012		2011	
	Final Budget	Actual	Over (Under) Final Budget	Actual
EXPENDITURES				
Current				
General Government				
Mayor and Council				
Salaries and Benefits	\$ 6,300	\$ 5,571	\$ (729)	\$ 5,409
Legal Service	3,000	8,118	5,118	2,024
Building/Health Inspector	3,600	3,200	(400)	7,191
Consulting Fees	2,100	6,690	4,590	2,080
Insurance	2,000	1,907	(93)	2,499
Advertising and Printing	2,000	1,824	(176)	1,132
Miscellaneous	3,000	4,936	1,936	3,752
Total Mayor and Council	22,000	32,246	10,246	24,087
Elections		1,409	1,409	
City Hall				
Utilities	1,500	1,333	(167)	1,360
Telephone	2,000	2,387	387	2,324
Repairs	300	140	(160)	205
Supplies	3,400	3,488	88	2,834
Rentals	130	30	(100)	
Total City Hall	7,330	7,378	48	6,723
Clerk and Secretary				
Salaries	35,000	35,589	589	33,886
Benefits	5,100	5,382	282	5,025
Insurance	11,200	11,141	(59)	11,164
Auditing and Accounting	14,500	14,450	(50)	14,050
Miscellaneous	1,400	961	(439)	2,508
Total Clerk and Secretary	67,200	67,523	323	66,633
Assessor	3,000	2,757	(243)	2,828
Total General Government	99,530	111,313	11,783	100,271

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2012
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2011

	2012		2011	
	Final Budget	Actual	Over (Under) Final Budget	Actual
EXPENDITURES (Cont'd)				
Current (Cont'd)				
Public Safety				
Police Protection				
Salaries	\$ 61,000	\$ 52,239	\$ (8,761)	\$ 54,637
Benefits	8,800	8,275	(525)	8,464
Telephone	1,900	2,239	339	1,630
Insurance	15,000	13,389	(1,611)	14,158
Repairs	1,500	245	(1,255)	420
Supplies	2,500	1,518	(982)	1,562
Gas and Oil	6,000	5,778	(222)	5,101
Miscellaneous	3,800	3,650	(150)	3,103
Total Police Protection	100,500	87,333	(13,167)	89,075
Fire Protection	25,288	25,288		25,288
Total Public Safety	125,788	112,621	(13,167)	114,363
Public Works				
Salaries	15,000	16,521	1,521	14,929
Benefits	1,950	2,726	776	2,222
Utilities	2,000	786	(1,214)	1,050
Telephone	800	803	3	661
Street Lighting	13,000	13,330	330	13,940
Repairs	24,483	48,000	23,517	160,610
Supplies	10,000	6,729	(3,271)	5,622
Gas and Oil	2,700	2,604	(96)	2,820
Snow Removal	12,000	4,319	(7,681)	6,508
Insurance	4,100	3,654	(446)	4,060
Miscellaneous	200	319	119	348
Total Public Works	86,233	99,791	13,558	212,770

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2012
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2011

	2012		2011	
	Final Budget	Actual	Over (Under) Final Budget	Actual
EXPENDITURES (Cont'd)				
Current (Cont'd)				
Culture and Recreation				
Library				
Salaries	\$	\$	\$	\$ 198
Utilities				190
Telephone	500	154	(346)	307
Electricity				163
Insurance				707
Repairs				50
Supplies		675	675	670
Professional Fees				25,997
Miscellaneous		120	120	667
Total Library	<u>500</u>	<u>949</u>	<u>449</u>	<u>28,949</u>
Parks				
Salaries	12,000	16,289	4,289	13,720
Benefits	1,500	1,744	244	1,579
Electricity	1,500	898	(602)	1,334
Insurance	2,200	2,057	(143)	2,224
Repairs	1,500	3,036	1,536	1,403
Supplies	8,000	8,960	960	8,158
Miscellaneous	2,250	2,279	29	4,756
Total Parks	<u>28,950</u>	<u>35,263</u>	<u>6,313</u>	<u>33,174</u>
Community Center				
Fuel				353
Electricity				412
Supplies		111	111	245
Professional Fees				14,800
Total Community Center	<u>0</u>	<u>111</u>	<u>111</u>	<u>15,810</u>
Total Culture and Recreation	<u>29,450</u>	<u>36,323</u>	<u>6,873</u>	<u>77,933</u>
Total Current	<u>341,001</u>	<u>360,048</u>	<u>19,047</u>	<u>505,337</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2012
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2011

	2012		2011	
	Final Budget	Actual	Over (Under) Final Budget	Actual
EXPENDITURES (Cont'd)				
Capital Outlay				
General Government	\$ 3,100	\$ 2,170	\$ (930)	\$
Public Safety	10,000	4,317	(5,683)	11,309
Public Works	27,716	7,569	(20,147)	33,844
Culture and Recreation	12,500	9,440	(3,060)	
Total Capital Outlay	<u>53,316</u>	<u>23,496</u>	<u>(29,820)</u>	<u>45,153</u>
Total Expenditures	<u>394,317</u>	<u>383,544</u>	<u>(10,773)</u>	<u>550,490</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	57,718	57,718	(90,655)
OTHER FINANCING SOURCES (USES)				
Transfers Out		(40,703)	(40,703)	
Net Change in Fund Balances	<u>\$ 0</u>	<u>17,015</u>	<u>\$ 17,015</u>	<u>(90,655)</u>
FUND BALANCE, BEGINNING OF YEAR		<u>159,498</u>		<u>250,153</u>
FUND BALANCE, END OF YEAR		<u>\$ 176,513</u>		<u>\$ 159,498</u>

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, 2012
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2011

	2012		2011	
	Final Budget	Actual	Over (Under) Final Budget	Actual
REVENUES				
Charges for Services	\$ 39,000	\$ 39,520	\$ 520	\$ 39,172
Interest Income		228	228	241
Total Revenues	<u>39,000</u>	<u>39,748</u>	<u>748</u>	<u>39,413</u>
EXPENDITURES				
Current				
Sanitation				
Insurance	500	392	(108)	473
Collection Contract	38,500	36,821	(1,679)	36,229
Total Expenditures	<u>39,000</u>	<u>37,213</u>	<u>(1,787)</u>	<u>36,702</u>
Net Change in Fund Balances	<u>\$ 0</u>	2,535	<u>\$ 2,535</u>	2,711
FUND BALANCE, BEGINNING OF YEAR		<u>21,908</u>		<u>19,197</u>
FUND BALANCE, END OF YEAR		<u>\$ 24,443</u>		<u>\$ 21,908</u>

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, 2012
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2011

	2012		2011	
	Final Budget	Actual	Over (Under) Final Budget	Actual
REVENUES				
CDBG Loan Repayments	\$	\$	\$	\$
EXPENDITURES				
Net Change in Fund Balances	<u>\$ 0</u>	0	<u>\$ 0</u>	0
FUND BALANCE, BEGINNING OF YEAR		<u>6,391</u>		<u>6,391</u>
FUND BALANCE, END OF YEAR		<u>\$ 6,391</u>		<u>\$ 6,391</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF NET POSITION
 FIRE ENTERPRISE FUND
 DECEMBER 31, 2012

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current Assets		
Cash	\$ 95,992	\$ 121,136
Accounts Receivable	7,407	7,210
Total Current Assets	<u>103,399</u>	<u>128,346</u>
Noncurrent Assets		
Capital Assets		
Assets Not Being Depreciated		33,507
Other Capital Assets, Net of Depreciation	401,424	340,276
Total Noncurrent Assets	<u>401,424</u>	<u>373,783</u>
Total Assets	<u>\$ 504,823</u>	<u>\$ 502,129</u>
LIABILITIES AND NET POSITION		
Liabilities		
Current Liabilities		
Accounts Payable	\$ 989	\$ 505
Due to Other Governmental Units		6,625
Total Current Liabilities	<u>989</u>	<u>7,130</u>
Net Position		
Net Investment in Capital Assets	401,424	373,783
Unrestricted	102,410	121,216
Total Net Position	<u>503,834</u>	<u>494,999</u>
Total Liabilities and Net Position	<u>\$ 504,823</u>	<u>\$ 502,129</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 FIRE ENTERPRISE FUND
 YEAR ENDED DECEMBER 31, 2012
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Fire Contracts/Calls	\$ 53,960	\$ 52,648
Ambulance Charges	50,472	34,704
Total Operating Revenues	<u>104,432</u>	<u>87,352</u>
OPERATING EXPENSES		
Fire		
Salaries and Benefits	6,498	6,110
Insurance	3,456	4,441
Supplies	8,936	6,081
Maintenance and Repair	2,466	4,949
Gas, Oil and Fuel	3,043	3,615
Education and Conferences	3,938	590
Electricity	1,994	2,434
Firemen's Relief	7,619	7,981
Telephone	1,632	1,378
Miscellaneous	99	
Depreciation	45,840	40,472
Total Fire	<u>85,521</u>	<u>78,051</u>
Ambulance		
Salaries and Benefits	6,727	5,952
Insurance	656	828
Supplies	7,422	4,294
Gas, Oil and Fuel	1,182	1,040
Education and Conferences	14,106	1,831
Miscellaneous	2,948	2,618
Total Ambulance	<u>33,041</u>	<u>16,563</u>
Total Operating Expenses	<u>118,562</u>	<u>94,614</u>
Operating Income (Loss)	<u>(14,130)</u>	<u>(7,262)</u>
NONOPERATING REVENUES (EXPENSES)		
Intergovernmental	15,419	31,775
Interest Income	429	947
Gain on Asset Disposal	6,377	
Other Income	740	2,500
Total Nonoperating Revenues (Expenses)	<u>22,965</u>	<u>35,222</u>
Change in Net Position	<u>8,835</u>	<u>27,960</u>
NET POSITION, BEGINNING OF YEAR	<u>494,999</u>	<u>467,039</u>
NET POSITION, END OF YEAR	<u>\$ 503,834</u>	<u>\$ 494,999</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF NET POSITION
SEWER ENTERPRISE FUND
DECEMBER 31, 2012

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current Assets		
Cash	\$ 270,706	\$ 254,154
Accounts Receivable	5,838	4,824
Total Current Assets	<u>276,544</u>	<u>258,978</u>
Noncurrent Assets		
Capital Assets		
Other Capital Assets, Net of Depreciation	<u>201,841</u>	<u>182,955</u>
Total Assets	<u>\$ 478,385</u>	<u>\$ 441,933</u>
LIABILITIES AND NET POSITION		
Liabilities		
Current Liabilities		
Accounts Payable	\$ 4,038	\$ 2,421
Salaries Payable	40	156
Customer Deposits	2,175	2,175
Total Liabilities	<u>6,253</u>	<u>4,752</u>
Net Position		
Net Investment in Capital Assets	201,841	182,955
Unrestricted	<u>270,291</u>	<u>254,226</u>
Total Net Position	<u>472,132</u>	<u>437,181</u>
Total Liabilities and Net Position	<u>\$ 478,385</u>	<u>\$ 441,933</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 SEWER ENTERPRISE FUND
 YEAR ENDED DECEMBER 31, 2012
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Sewer Charges	\$ 59,398	\$ 46,693
OPERATING EXPENSES		
Salaries and Benefits	12,943	11,334
Insurance	1,405	1,527
Supplies	23,075	26,105
Maintenance and Repair	2,517	3,191
Testing	1,843	4,207
Electricity	1,342	1,985
Miscellaneous	988	418
Depreciation	11,001	10,850
Total Operating Expenses	<u>55,114</u>	<u>59,617</u>
Operating Income (Loss)	4,284	(12,924)
NONOPERATING REVENUES (EXPENSES)		
Interest Income	<u>2,600</u>	<u>3,081</u>
Income (Loss) Before Contributions	6,884	(9,843)
CAPITAL CONTRIBUTIONS	<u>28,067</u>	
Change in Net Position	34,951	(9,843)
NET POSITION, BEGINNING OF YEAR	<u>437,181</u>	<u>447,024</u>
NET POSITION, END OF YEAR	<u>\$ 472,132</u>	<u>\$ 437,181</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF NET POSITION
 WATER ENTERPRISE FUND
 DECEMBER 31, 2012

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current Assets		
Cash	\$ 1,338	\$ 85,747
Accounts Receivable	31,737	27,330
Due from Other Governmental Units		154
Total Current Assets	<u>33,075</u>	<u>113,231</u>
Noncurrent Assets		
Capital Assets		
Assets Not Being Depreciated	77,405	
Other Capital Assets, Net of Depreciation	2,064,085	2,091,758
Total Noncurrent Assets	<u>2,141,490</u>	<u>2,091,758</u>
Total Assets	<u>\$ 2,174,565</u>	<u>\$ 2,204,989</u>
LIABILITIES AND NET POSITION		
Liabilities		
Current Liabilities		
Accounts Payable	\$ 11,554	\$ 1,974
Salaries Payable	61	234
Accrued Interest Payable	5,696	6,039
Customer Deposits	3,874	3,874
Current Portion of Note Payable	83,541	81,000
Total Current Liabilities	<u>104,726</u>	<u>93,121</u>
Noncurrent Liabilities		
Note Payable, Net of Current Portion	1,149,706	1,233,247
Total Liabilities	<u>1,254,432</u>	<u>1,326,368</u>
Net Position		
Net Investment in Capital Assets	908,243	777,511
Unrestricted	11,890	101,110
Total Net Position	<u>920,133</u>	<u>878,621</u>
Total Liabilities and Net Position	<u>\$ 2,174,565</u>	<u>\$ 2,204,989</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 WATER ENTERPRISE FUND
 YEAR ENDED DECEMBER 31, 2012
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Water Charges	\$ 146,701	\$ 136,319
OPERATING EXPENSES		
Salaries and Benefits	19,274	17,419
Insurance	2,835	3,121
Supplies	6,201	5,306
Maintenance and Repair	22,577	26,532
Electricity	8,355	9,114
Telephone	652	580
Miscellaneous	3,090	3,638
Depreciation	79,651	61,272
Total Operating Expenses	<u>142,635</u>	<u>126,982</u>
Operating Income (Loss)	4,066	9,337
NONOPERATING REVENUES (EXPENSES)		
Interest Income	526	1,313
Other Income	2,780	
Interest Expense	<u>(17,838)</u>	<u>(19,441)</u>
Total Nonoperating Revenues (Expenses)	<u>(14,532)</u>	<u>(18,128)</u>
Income (Loss) Before Contributions	(10,466)	(8,791)
CAPITAL CONTRIBUTIONS	<u>51,978</u>	
Change in Net Position	41,512	(8,791)
NET POSITION, BEGINNING OF YEAR	<u>878,621</u>	<u>887,412</u>
NET POSITION, END OF YEAR	<u>\$ 920,133</u>	<u>\$ 878,621</u>

COMPLIANCE SECTION

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements of the governmental activities, business-type activities, and each major fund of the City of Cosmos, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, and have issued our report thereon dated July 11, 2013.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the City does not have any tax increment financing.

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

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Conway, Deuth & Schmiessing, PLLP

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

July 11, 2013

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

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

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Cosmos, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 11, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items 2007-01 and 2007-02 to be material weaknesses.

Table with 5 columns: Willmar Office, Benson Office, Morris Office, Litchfield Office, St. Cloud Office. Each column contains address, phone numbers, and website information.

Compliance and Other Matters

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

City's Response to Findings

The City's response to the findings identified in our audit are described in the accompanying Schedule of Findings. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Conway, Deuth & Schmiesing, PLLP

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

July 11, 2013

CITY OF COSMOS, MINNESOTA

SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2012

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

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

FINDING 2007-01 AUDITOR PREPARED FINANCIAL STATEMENTS

Condition: The City does not have an internal control system designed to provide for the preparation of the financial statements and the related notes being audited. However, based on the degree of complexity and level of detail needed to prepare the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), the City has requested the auditors to prepare them.

Criteria: The preparation of the financial statements and the related notes are the responsibility of management.

Effect: This could result in a material misstatement to the financial statements and related notes that would not be prevented, or detected and corrected as a result of the City's current internal control.

Cause: There are a limited number of office employees and resources available to allow for the adequate preparation of the financial statements and the related notes by the City.

Recommendation: The City should continue to request the assistance to draft the financial statements and related notes and thoroughly review these financial statements after they have been prepared so the City can take responsibility for them.

MANAGEMENT'S RESPONSE

The City is aware of this; however, due to significant cost and a limited number of employees, it is in the City's best financial interest to contract for the preparation of the financial statements.

CITY OF COSMOS, MINNESOTA

SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2012

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

PREVIOUSLY REPORTED ITEMS NOT RESOLVED (Cont'd)

FINDING 2007-02 LIMITED SEGREGATION OF DUTIES

Condition: There is an absence of appropriate segregation of duties consistent with appropriate control objectives due to a limited number of employees.

Criteria: The basic premise is that no one person should have access to both physical assets and the related accounting records or to all phases of a transaction. The lack of such controls could result in the occurrence of a material error or fraud in relation to the financial statements not being detected by management.

Effect: The lack of adequate segregation of duties could adversely affect the City's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Cause: The City has assigned duties to staff based on a cost-benefit relationship to the City and the practicality of the level of staffing the City maintains.

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

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