

CITY OF COSMOS, MINNESOTA
AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2013

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

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CITY OF COSMOS, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2013

		<u>Term Expires</u>
Mayor	Rich Gieser	12/31/2014
Council Member	Terry Anderson	12/31/2014
Council Member	Tom Rennecke	12/31/2014
Council Member	Jody Fruetel	12/31/2016
Council Member	Ronald Tusha	12/31/2016
City Clerk/Treasurer	Kathy Blackwell	Appointed

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and 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, 2013, 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, 2013, 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 14 to the basic financial statements, for the year ended December 31, 2013, the City adopted the new accounting guidance of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets & Liabilities*. Our opinion is not modified with respect to this matter.

Report on Partial Comparative Information

We have previously audited the City's 2012 financial statements, and we expressed unmodified audit opinions on those audited financial statements in our report dated July 11, 2013. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2012 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 Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

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 10, 2014, 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's internal control over financial reporting and compliance.

Conway, Deuth & Schmiesing, PLLP

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

July 10, 2014

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF COSMOS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013

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, 2013. 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 \$4.0 million. Of this amount, \$742,366 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 \$1,477,762 mostly due to additional special assessments associated with the 2013 Improvement Project.
- The City's governmental funds reported combined ending fund balances of \$541,790. Of this total amount, 50% 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 \$153,474, or 34% of total General Fund expenditures of \$452,758.

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
DECEMBER 31, 2013

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 25-44 of this report.

CITY OF COSMOS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013

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.

	Governmental Activities		Change
	2013	2012	
Current and Other Assets	\$ 1,250,093	\$ 370,423	\$ 879,670
Net Capital Assets	817,015	504,118	312,897
Total Assets	\$ 2,067,108	\$ 874,541	\$ 1,192,567
Current and Other Liabilities	\$ 23,466	\$ 14,311	\$ 9,155
Long-Term Liabilities	639,132	180,075	459,057
Total Liabilities	662,598	194,386	468,212
Net Position			
Net Investment in Capital Assets	179,015	326,118	(147,103)
Restricted	913,386	131,364	782,022
Unrestricted	312,109	222,673	89,436
Total Net Position	1,404,510	680,155	724,355
Total Liabilities and Net Position	\$ 2,067,108	\$ 874,541	\$ 1,192,567

	Business-Type Activities		Change
	2013	2012	
Current and Other Assets	\$ 454,426	\$ 414,936	\$ 39,490
Net Capital Assets	3,453,958	2,744,755	709,203
Total Assets	\$ 3,908,384	\$ 3,159,691	\$ 748,693
Current and Other Liabilities	\$ 24,169	\$ 28,427	\$ (4,258)
Long-Term Liabilities	1,232,791	1,233,247	(456)
Total Liabilities	1,256,960	1,261,674	(4,714)
Net Position			
Net Investment in Capital Assets	2,221,167	1,511,508	709,659
Unrestricted	430,257	386,509	43,748
Total Net Position	2,651,424	1,898,017	753,407
Total Liabilities and Net Position	\$ 3,908,384	\$ 3,159,691	\$ 748,693

CITY OF COSMOS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013

Governmental Activities

Net position of the City's governmental activities increased by \$724,355. Table 3 presents the key elements of the increase.

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

	Governmental Activities		Change
	2013	2012	
REVENUES			
Program Revenues			
Fees, Fines, and Charges for Services	\$ 777,966	\$ 55,646	\$ 722,320
Operating Grants and Contributions	13,573	27,467	(13,894)
Capital Grants and Contributions	20,000		20,000
General Revenues			
Property Taxes	258,808	251,780	7,028
Grants and Contributions Not Restricted	135,897	140,483	(4,586)
Interest Income	1,897	2,296	(399)
Gain on Asset Disposal	14,184	11,348	2,836
Other	7,516	5,389	2,127
Total Revenues	<u>1,229,841</u>	<u>494,409</u>	<u>735,432</u>
EXPENSES			
General Government	141,683	111,430	30,253
Public Safety	108,354	120,300	(11,946)
Public Works	114,289	139,094	(24,805)
Sanitation	37,180	37,227	(47)
Culture and Recreation	65,522	46,062	19,460
Interest on Long-Term Debt	18,458	5,286	13,172
Total Expenses	<u>485,486</u>	<u>459,399</u>	<u>26,087</u>
Change in Net Position before Transfers	744,355	35,010	709,345
TRANSFERS			
Change in Net Position	<u>(20,000)</u>	<u>(80,045)</u>	<u>60,045</u>
	724,355	(45,035)	769,390
NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY STATED			
	680,155	720,468	(40,313)
PRIOR PERIOD ADJUSTMENT			
		4,722	(4,722)
NET POSITION, BEGINNING OF YEAR, AS RESTATED			
	<u>680,155</u>	<u>725,190</u>	<u>(45,035)</u>
NET POSITION, END OF YEAR			
	<u>\$ 1,404,510</u>	<u>\$ 680,155</u>	<u>\$ 724,355</u>

CITY OF COSMOS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013

Business-Type Activities

The net position of our business-type activities increased by \$753,407. The increase was due to the following funds change in net position: Fire - \$4,645, Sewer - \$690, and Water - \$748,072.

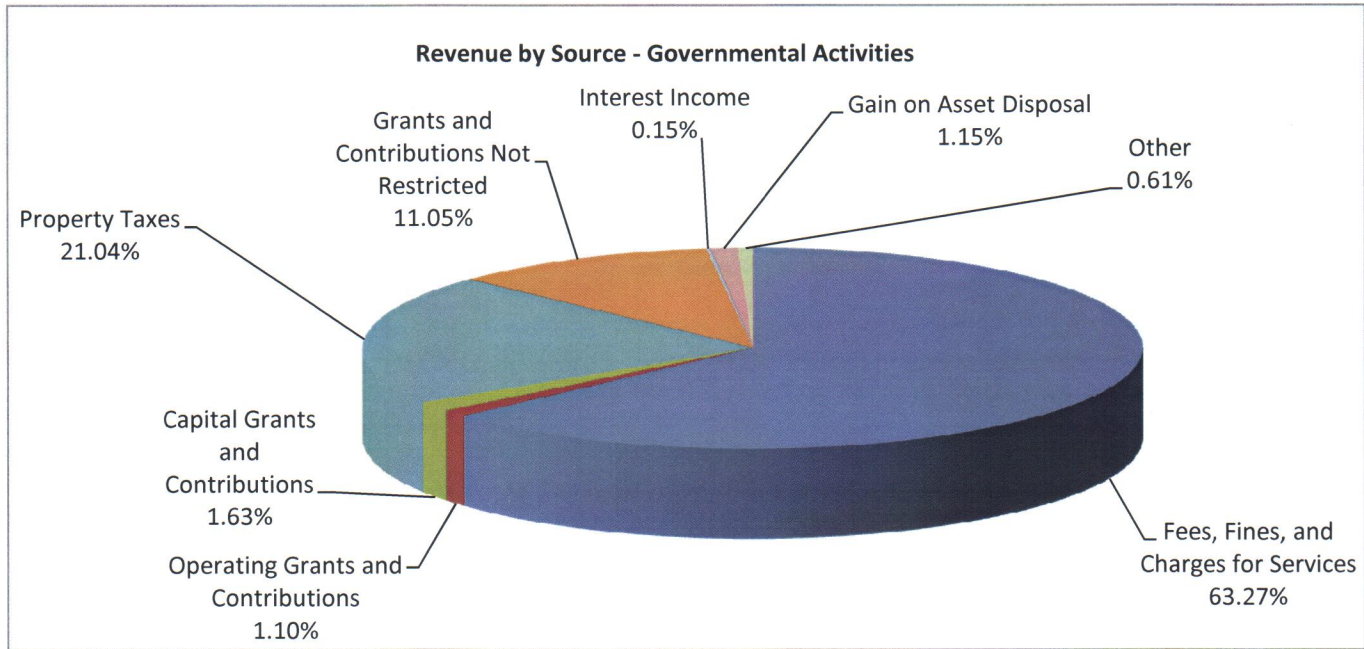
	<u>Business-Type Activities</u>		Change
	<u>2013</u>	<u>2012</u>	
REVENUES			
Program Revenues			
Fees, Fines, and Charges for Services	\$ 305,528	\$ 310,531	\$ (5,003)
Operating Grants and Contributions	17,584	15,419	2,165
Capital Grants and Contributions	805,012	740	804,272
General Revenues			
Interest Income	1,302	3,555	(2,253)
Gain on Asset Disposal		6,377	(6,377)
Other	792	2,780	(1,988)
Total Revenues	<u>1,130,218</u>	<u>339,402</u>	<u>790,816</u>
EXPENSES			
Fire	120,402	118,778	1,624
Sewer	58,552	55,329	3,223
Water	217,857	160,500	57,357
Total Expenses	<u>396,811</u>	<u>334,607</u>	<u>62,204</u>
Change in Net Position before Transfers and Contributions	733,407	4,795	728,612
TRANSFERS	20,000		20,000
CAPITAL CONTRIBUTION		80,045	(80,045)
Change in Net Position	<u>753,407</u>	<u>84,840</u>	<u>668,567</u>
NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY STATED	1,898,017	1,810,801	87,216
PRIOR PERIOD ADJUSTMENT		<u>2,376</u>	<u>(2,376)</u>
NET POSITION, BEGINNING OF YEAR, AS RESTATED	<u>1,898,017</u>	<u>1,813,177</u>	<u>84,840</u>
NET POSITION, END OF YEAR	<u>\$ 2,651,424</u>	<u>\$ 1,898,017</u>	<u>\$ 753,407</u>

CITY OF COSMOS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013

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 \$541,790, an increase of \$227,103. Approximately 24 percent of this total (\$131,735) constitutes unassigned fund balance. The remainder of the fund balance (\$410,055) is not available for new spending because it is either 1) nonspendable (\$10,368), 2) restricted (\$258,122) or 3) assigned (\$141,565).

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 \$153,474. 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 34 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 - \$178,999, Sewer - \$263,514, and Water - \$(12,256).

CITY OF COSMOS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013

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 general government and culture and recreation spending in addition to excess capital outlay expenditures in public works and culture and recreation resulted in a decrease in fund balance of \$20,967.

Capital Assets

At the end of 2013, the City of Cosmos had \$6,818,053 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 \$1,871,923 in long-term debt, which includes \$1,132 in compensated absences. 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 2014 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 2013 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, 2013
 WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2012

	Governmental Activities	Business-Type Activities	Totals	
			2013	2012
ASSETS				
Cash	\$ 521,207	\$ 395,728	\$ 916,935	\$ 655,051
Receivables				
Accounts	8,290	38,886	47,176	52,547
Interest	679		679	
Loans	6,451		6,451	6,451
Delinquent Taxes	10,124		10,124	11,844
Special Assessments	670,064		670,064	23,531
Due from Other Governmental Units	22,910	16,425	39,335	25,741
Prepaid Items	10,368	3,387	13,755	10,194
Capital Assets				
Assets Not Being Depreciated	272,634	896,481	1,169,115	103,172
Other Capital Assets, Net of Depreciation	544,381	2,557,477	3,101,858	3,145,701
Total Assets	\$ 2,067,108	\$ 3,908,384	\$ 5,975,492	\$ 4,034,232
LIABILITIES AND NET POSITION				
Liabilities				
Accounts Payable	\$ 8,950	\$ 11,592	\$ 20,542	\$ 21,338
Contracts Payable	4,730		4,730	1,916
Salaries Payable	710	305	1,015	571
Due to Other Governmental Units	1,946	527	2,473	1,439
Accrued Interest Payable	1,802	5,696	7,498	6,097
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	85,000	113,000	111,541
Due in More Than One Year	611,132	1,147,791	1,758,923	1,301,781
Total Liabilities	662,598	1,256,960	1,919,558	1,456,060
Net Position				
Net Investment in Capital Assets	179,015	2,221,167	2,400,182	1,837,626
Restricted for				
Debt Service	725,473		725,473	25,909
Capital Improvements	175,071		175,071	99,064
Revolving Loan	12,842		12,842	12,842
Unrestricted	312,109	430,257	742,366	602,731
Total Net Position	1,404,510	2,651,424	4,055,934	2,578,172
Total Liabilities and Net Position	\$ 2,067,108	\$ 3,908,384	\$ 5,975,492	\$ 4,034,232

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF ACTIVITIES
 YEAR ENDED DECEMBER 31, 2013
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2012

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	
						2013	2012
GOVERNMENTAL ACTIVITIES							
General Government	\$ 141,683	\$ 6,161	\$	\$	\$ (135,522)	\$ (135,522)	\$ (106,897)
Public Safety	108,354		11,315		(97,039)	(97,039)	(113,827)
Public Works	114,289	727,519	2,258	20,000	635,488	635,488	(116,800)
Sanitation	37,180	39,839			2,659	2,659	2,091
Culture and Recreation	65,522	4,447			(61,075)	(61,075)	(37,993)
Interest on Long-Term Debt	18,458				(18,458)	(18,458)	(2,860)
Total Governmental Activities	485,486	777,966	13,573	20,000	326,053	0	326,053
							(376,286)
BUSINESS-TYPE ACTIVITIES							
Fire	120,402	105,561	17,584	1,500		4,243	4,243
Sewer	58,552	57,845				(707)	(707)
Water	217,857	142,122		803,512		727,777	727,777
Total Business-Type Activities	396,811	305,528	17,584	805,012	0	731,313	731,313
							(13,988)
							(7,917)
Total	\$ 882,297	\$ 1,083,494	\$ 31,157	\$ 825,012	326,053	731,313	1,057,366
							(384,203)
GENERAL REVENUES							
Property Taxes					258,808		258,808
Grants and Contributions not Restricted to Specific Programs					135,897		135,897
Interest Income					1,897	1,302	3,199
Gain on Asset Disposal					14,184		14,184
Other					7,516	792	8,308
TRANSFERS					(20,000)	20,000	
Total General Revenues and Transfers					398,302	22,094	420,396
Change in Net Position					724,355	753,407	1,477,762
							39,805
NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY STATED							
					680,155	1,898,017	2,578,172
							2,531,269
PRIOR PERIOD ADJUSTMENT							
							7,098
NET POSITION, BEGINNING OF YEAR, AS RESTATED							
					680,155	1,898,017	2,578,172
							2,538,367
NET POSITION, END OF YEAR							
	\$ 1,404,510	\$ 2,651,424	\$ 4,055,934	\$ 2,578,172			

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2012

	General	Trash Collection	Redevelopment Revolving Loan	2011A G.O. Improvement	2013A G.O. Improvement	Public Works Reserve	Building Reserve	2013 Improvement Project	Totals	
									2013	2012
ASSETS										
Cash	\$ 117,527	\$ 6,365	\$ 6,391	\$	\$ 76,660	\$ 100,055	\$ 34,408	\$ 179,801	\$ 521,207	\$ 287,015
Receivables									8,290	7,565
Accounts	3,675	4,615							679	
Interest	679								6,451	6,451
Loans			6,451						10,124	11,844
Delinquent Taxes	10,124								670,064	23,531
Special Assessments	163			19,286	650,615				21,739	
Due from Other Funds	21,739								22,910	25,741
Due from Other Governmental Units	22,910								10,368	8,276
Prepaid Items	10,249	119								
Total Assets	\$ 187,066	\$ 11,099	\$ 12,842	\$ 19,286	\$ 727,275	\$ 100,055	\$ 34,408	\$ 179,801	\$ 1,271,832	\$ 370,423
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE										
Liabilities										
Accounts Payable	\$ 8,950	\$	\$	\$	\$	\$	\$	\$	\$ 8,950	\$ 4,757
Contracts Payable								4,730	4,730	1,916
Salaries Payable	710								710	470
Due to Other Funds				21,739					21,739	
Due to Other Governmental Units	1,946								1,946	1,439
Customer Deposits		3,878							3,878	3,878
Unearned Revenue	1,450								1,450	1,450
Total Liabilities	13,056	3,878	0	21,739	0	0	0	4,730	43,403	13,910
Deferred Inflows of Resources										
Unavailable Revenue										
Loans			6,451						6,451	6,451
Delinquent Taxes	10,124								10,124	11,844
Special Assessments	163			19,286	650,615				670,064	23,531
Total Deferred Inflows of Resources	10,287	0	6,451	19,286	650,615	0	0	0	686,639	41,826
Fund Balance										
Nonspendable	10,249	119							10,368	8,276
Restricted								175,071	175,071	99,064
Capital Improvements					76,660				76,660	
Debt Service									6,391	6,391
Revolving Loan			6,391						141,565	24,443
Assigned for Fund Operations		7,102				100,055	34,408		131,735	176,513
Unassigned	153,474			(21,739)					541,790	314,687
Total Fund Balance	163,723	7,221	6,391	(21,739)	76,660	100,055	34,408	175,071	541,790	314,687
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 187,066	\$ 11,099	\$ 12,842	\$ 19,286	\$ 727,275	\$ 100,055	\$ 34,408	\$ 179,801	\$ 1,271,832	\$ 370,423

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, 2013
WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2012

	<u>2013</u>	<u>2012</u>
Total Fund Balances - Governmental Funds	\$ 541,790	\$ 314,687
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.		
Capital Assets	1,842,705	1,480,237
Less: Accumulated Depreciation	(1,025,690)	(976,119)
Certain receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds:		
Loans Receivable	6,451	6,451
Delinquent Taxes	10,124	11,844
Special Assessments	670,064	23,531
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Note Payable	(638,000)	(178,000)
Compensated Absences	(1,132)	(2,075)
Accrued Interest Payable	(1,802)	(401)
Total Net Position - Governmental Activities	<u>\$ 1,404,510</u>	<u>\$ 680,155</u>

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 YEAR ENDED DECEMBER 31, 2013
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2012

	General	Trash Collection	Redevelopment Revolving Loan	2011A	2013A	Public Works Reserve	Building Reserve	2013	Totals	
				G.O. Improvement	G.O. Improvement			Improvement Project	2013	2012
REVENUES										
Taxes	\$ 260,261	\$	\$	\$ 10,878	\$ 67,101	\$	\$	\$	\$ 260,261	\$ 248,851
Special Assessments	267								78,246	17,044
Licenses and Permits	6,161								6,161	4,226
Intergovernmental	146,484								146,484	167,950
Charges for Services	4,447	39,839							44,286	48,889
Fines and Forfeits	467								467	307
Interest Income	886	20				991			1,897	2,296
Refunds and Reimbursements	6,025								6,025	311
Donations	340								340	1,500
Miscellaneous	26,677								26,677	5,858
Total Revenues	452,015	39,859	0	10,878	67,101	991	0	0	570,844	497,232
EXPENDITURES										
Current									139,733	111,313
General Government	139,733								99,916	112,621
Public Safety	99,916								86,459	99,933
Public Works	86,459								37,180	37,227
Sanitation		37,180							52,919	36,323
Culture and Recreation	52,919									
Capital Outlay									2,121	2,170
General Government	2,121								1,388	4,317
Public Safety	1,388							290,930	321,138	21,461
Public Works	30,208								40,014	9,440
Culture and Recreation	40,014									
Debt Service				28,000					28,000	25,800
Principal				4,617				12,440	17,057	5,902
Interest and Fiscal Charges				32,617				303,370	825,925	466,407
Total Expenditures	452,758	37,180	0	32,617	0	0	0	303,370	825,925	466,407
Excess (Deficiency) of Revenues Over (Under) Expenditures	(743)	2,679	0	(21,739)	67,101	991	0	(303,370)	(255,081)	30,825
OTHER FINANCING SOURCES (USES)										
G.O. Improvement Note Proceeds					9,559				478,441	488,000
Transfers In							34,408		34,408	40,703
Transfers Out	(34,408)	(20,000)							(54,408)	(40,703)
Sale of Assets	14,184								14,184	
Total Other Financing Sources (Uses)	(20,224)	(20,000)	0	0	9,559	0	34,408	478,441	482,184	0
Net Change in Fund Balances	(20,967)	(17,321)	0	(21,739)	76,660	991	34,408	175,071	227,103	30,825
FUND BALANCE, BEGINNING OF YEAR, AS ORIGINALLY STATED	184,690	24,542	6,391			99,064			314,687	275,430
PRIOR PERIOD ADJUSTMENT										8,432
FUND BALANCE, BEGINNING OF YEAR, AS RESTATED	184,690	24,542	6,391	0	0	99,064	0	0	314,687	283,862
FUND BALANCE, END OF YEAR	\$ 163,723	\$ 7,221	\$ 6,391	\$ (21,739)	\$ 76,660	\$ 100,055	\$ 34,408	\$ 175,071	\$ 541,790	\$ 314,687

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, 2013
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>2013</u>	<u>2012</u>
Total Net Change in Fund Balances - Governmental Funds	\$ 227,103	\$ 30,825
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	366,440	25,835
Depreciation Expense	(53,543)	(46,759)
Gain (Loss) on Asset Disposals		11,348
Assets Contributed to Enterprise Funds		(80,045)
Certain receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		
Loans Receivable		(2,280)
Delinquent Taxes	(1,720)	2,929
Special Assessments	646,533	(14,820)
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	943	1,616
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on the net position. In the current period these amounts are:		
Proceeds from Issuance of Long-Term Debt	(488,000)	
Principal Retirement of Long-Term Debt	28,000	25,800
Change in Accrued Interest Payable	(1,401)	516
Change in Net Position - Governmental Activities	<u>\$ 724,355</u>	<u>\$ (45,035)</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, 2013
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2012

	2013			Over (Under) Final Budget	2012
	Budgeted Amounts		Actual		Actual
	Original	Final			
REVENUES					
Taxes	\$ 264,380	\$ 264,380	\$ 260,261	\$ (4,119)	\$ 248,851
Special Assessments			267	267	1,784
Licenses and Permits	4,000	4,000	6,161	2,161	4,226
Intergovernmental	134,632	134,632	146,484	11,852	167,950
Charges for Services	7,000	7,000	4,447	(2,553)	9,369
Fines and Forfeits	500	500	467	(33)	307
Interest Income	2,500	2,500	886	(1,614)	1,106
Refunds and Reimbursements	1,850	1,850	6,025	4,175	311
Donations			340	340	1,500
Miscellaneous	7,000	7,000	26,677	19,677	5,858
Total Revenues	<u>421,862</u>	<u>421,862</u>	<u>452,015</u>	<u>30,153</u>	<u>441,262</u>
EXPENDITURES					
Current					
General Government	103,080	103,080	139,733	36,653	111,313
Public Safety	120,287	120,287	99,916	(20,371)	112,621
Public Works	92,623	92,623	86,459	(6,164)	99,933
Culture and Recreation	36,260	36,260	52,919	16,659	36,323
Capital Outlay					
General Government	3,100	3,100	2,121	(979)	2,170
Public Safety	10,000	10,000	1,388	(8,612)	4,317
Public Works	19,304	19,304	30,208	10,904	7,569
Culture and Recreation	12,500	12,500	40,014	27,514	9,440
Total Expenditures	<u>397,154</u>	<u>397,154</u>	<u>452,758</u>	<u>55,604</u>	<u>383,686</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	24,708	24,708	(743)	(25,451)	57,576
OTHER FINANCING SOURCES (USES)					
Transfers Out	(24,708)	(24,708)	(34,408)	(9,700)	(40,703)
Sale of Assets			14,184	14,184	
Total Other Financing Sources (Uses)	<u>(24,708)</u>	<u>(24,708)</u>	<u>(20,224)</u>	<u>4,484</u>	<u>(40,703)</u>
Net Change in Fund Balances	<u>\$ 0</u>	<u>\$ 0</u>	<u>(20,967)</u>	<u>\$ (20,967)</u>	<u>16,873</u>
FUND BALANCE, BEGINNING OF YEAR, AS ORIGINALLY STATED			184,690		159,498
PRIOR PERIOD ADJUSTMENT					8,319
FUND BALANCE, BEGINNING OF YEAR, AS RESTATED			184,690		167,817
FUND BALANCE, END OF YEAR			<u>\$ 163,723</u>		<u>\$ 184,690</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, 2013
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2012

	2013			Over (Under) Final Budget	2012
	Budgeted Amounts		Actual		Actual
	Original	Final			
REVENUES					
Charges for Services	\$ 39,000	\$ 39,000	\$ 39,839	\$ 839	\$ 39,520
Interest Income			20	20	228
Total Revenues	<u>39,000</u>	<u>39,000</u>	<u>39,859</u>	<u>859</u>	<u>39,748</u>
EXPENDITURES					
Current					
Sanitation	<u>39,000</u>	<u>39,000</u>	<u>37,180</u>	<u>(1,820)</u>	<u>37,227</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	0	2,679	2,679	2,521
OTHER FINANCING SOURCES (USES)					
Transfers Out			<u>(20,000)</u>	<u>20,000</u>	
Net Change in Fund Balances	<u>\$ 0</u>	<u>\$ 0</u>	<u>(17,321)</u>	<u>\$ (17,321)</u>	<u>2,521</u>
FUND BALANCE, BEGINNING OF YEAR, AS ORIGINALLY STATED			24,542		21,908
PRIOR PERIOD ADJUSTMENT					113
FUND BALANCE, BEGINNING OF YEAR, AS RESTATED			<u>24,542</u>		<u>22,021</u>
FUND BALANCE, END OF YEAR			<u>\$ 7,221</u>		<u>\$ 24,542</u>

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 REDEVELOPMENT REVOLVING LOAN SPECIAL REVENUE FUND
 YEAR ENDED DECEMBER 31, 2013
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2012

	2013			Over (Under) Final Budget	2012
	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>

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2013

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2012

	Business-Type Activities - Enterprise Funds				
	Fire	Sewer	Water	Totals	
				2013	2012
ASSETS					
Current Assets					
Cash	\$ 172,834	\$ 222,894	\$	\$ 395,728	\$ 368,036
Accounts Receivable	4,352	6,424	28,110	38,886	44,982
Due from Other Governmental Units	1,000		15,425	16,425	
Due from Other Funds		37,993		37,993	
Prepaid Items	1,340	750	1,297	3,387	1,918
Total Current Assets	<u>179,526</u>	<u>268,061</u>	<u>44,832</u>	<u>492,419</u>	<u>414,936</u>
Noncurrent Assets					
Capital Assets					
Assets Not Being Depreciated			896,481	896,481	77,405
Other Capital Assets, Net of Depreciation	330,526	209,459	2,017,492	2,557,477	2,667,350
Total Noncurrent Assets	<u>330,526</u>	<u>209,459</u>	<u>2,913,973</u>	<u>3,453,958</u>	<u>2,744,755</u>
Total Assets	<u>\$ 510,052</u>	<u>\$ 477,520</u>	<u>\$ 2,958,805</u>	<u>\$ 3,946,377</u>	<u>\$ 3,159,691</u>
LIABILITIES AND NET POSITION					
Liabilities					
Current Liabilities					
Accounts Payable	\$	\$ 2,250	\$ 9,342	\$ 11,592	\$ 16,581
Salaries Payable		122	183	305	101
Due to Other Funds			37,993	37,993	
Due to Other Governmental Units	527			527	
Accrued Interest Payable			5,696	5,696	5,696
Customer Deposits		2,175	3,874	6,049	6,049
Current Portion of Note Payable			85,000	85,000	83,541
Total Current Liabilities	<u>527</u>	<u>4,547</u>	<u>142,088</u>	<u>147,162</u>	<u>111,968</u>
Noncurrent Liabilities					
Note Payable, Net of Current Portion			1,147,791	1,147,791	1,149,706
Total Liabilities	<u>527</u>	<u>4,547</u>	<u>1,289,879</u>	<u>1,294,953</u>	<u>1,261,674</u>
Net Position					
Net Investment in Capital Assets	330,526	209,459	1,681,182	2,221,167	1,511,508
Unrestricted	178,999	263,514	(12,256)	430,257	386,509
Total Net Position	<u>509,525</u>	<u>472,973</u>	<u>1,668,926</u>	<u>2,651,424</u>	<u>1,898,017</u>
Total Liabilities and Net Position	<u>\$ 510,052</u>	<u>\$ 477,520</u>	<u>\$ 2,958,805</u>	<u>\$ 3,946,377</u>	<u>\$ 3,159,691</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, 2013
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2012

	Business-Type Activities - Enterprise Funds				
	Fire	Sewer	Water	Totals	
				2013	2012
OPERATING REVENUES					
Fire Contracts/Calls	\$ 59,210	\$	\$	\$ 59,210	\$ 53,960
Ambulance Charges	46,351			46,351	50,472
Sewer Charges		57,845		57,845	59,398
Water Charges			142,122	142,122	146,701
Total Operating Revenues	105,561	57,845	142,122	305,528	310,531
OPERATING EXPENSES					
Salaries and Benefits	14,231	15,894	23,843	53,968	45,442
Insurance	4,902	2,309	4,452	11,663	8,810
Supplies	23,367	20,566	5,416	49,349	45,634
Maintenance and Repair	1,552	4,126	70,805	76,483	27,560
Gas, Oil and Fuel	3,666			3,666	4,225
Testing		1,633		1,633	1,843
Electricity	1,618	1,481	9,796	12,895	11,691
Firemen's Relief	9,211			9,211	7,619
Telephone	1,413		605	2,018	2,284
Education and Conferences	8,397			8,397	18,044
Miscellaneous	5,647	394	5,072	11,113	7,125
Depreciation	46,303	12,149	80,779	139,231	136,492
Total Operating Expenses	120,307	58,552	200,768	379,627	316,769
Operating Income (Loss)	(14,746)	(707)	(58,646)	(74,099)	(6,238)
NONOPERATING REVENUES (EXPENSES)					
Intergovernmental	17,584		803,512	821,096	15,419
Interest Income	402	605	295	1,302	3,555
Gain (Loss) on Asset Disposal	(95)			(95)	6,377
Other Income	1,500	792		2,292	3,520
Interest Expense			(17,089)	(17,089)	(17,838)
Total Nonoperating Revenues (Expenses)	19,391	1,397	786,718	807,506	11,033
Income (Loss) Before Transfers and Other Items	4,645	690	728,072	733,407	4,795
TRANSFERS AND OTHER ITEMS					
Transfers In			20,000	20,000	
Capital Contributions					80,045
Total Transfers and Other Items	0	0	20,000	20,000	80,045
Change in Net Position	4,645	690	748,072	753,407	84,840
NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY STATED	504,880	472,283	920,854	1,898,017	1,810,801
PRIOR PERIOD ADJUSTMENT					2,376
NET POSITION, BEGINNING OF YEAR, AS RESTATED	504,880	472,283	920,854	1,898,017	1,813,177
NET POSITION, END OF YEAR	\$ 509,525	\$ 472,973	\$ 1,668,926	\$ 2,651,424	\$ 1,898,017

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2013

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

	Business-Type Activities - Enterprise Funds				
	Fire	Sewer	Water	Totals	
				2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers	\$ 107,616	\$ 57,259	\$ 130,324	\$ 295,199	\$ 304,913
Payments to Suppliers	(24,919)	(26,480)	(78,433)	(129,832)	(46,483)
Payments to Other Sources	(35,610)	(6,416)	(20,501)	(62,527)	(82,838)
Payments to Employees	(14,231)	(15,812)	(23,721)	(53,764)	(45,731)
Net Cash Provided (Used) by Operating Activities	32,856	8,551	7,669	49,076	129,861
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers In (Out)			20,000	20,000	
Interfund Loans		(37,993)	37,993		
Net Cash Provided (Used) by Noncapital Financing Activities	0	(37,993)	57,993	20,000	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Intergovernmental Revenue	17,584		803,512	821,096	15,573
Other Receipts	26,000	792		26,792	9,897
Proceeds from Note Payable			83,085	83,085	
Principal Payments on Note Payable			(83,541)	(83,541)	(81,000)
Interest Payments on Note Payable			(17,088)	(17,088)	(18,181)
Acquisition of Capital Assets		(19,767)	(853,263)	(873,030)	(152,706)
Net Cash Provided (Used) by Capital and Related Financing Activities	43,584	(18,975)	(67,295)	(42,686)	(226,417)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest Income	402	605	295	1,302	3,555
Net Increase (Decrease) in Cash and Cash Equivalents	76,842	(47,812)	(1,338)	27,692	(93,001)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>95,992</u>	<u>270,706</u>	<u>1,338</u>	<u>368,036</u>	<u>461,037</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 172,834</u>	<u>\$ 222,894</u>	<u>\$ 0</u>	<u>\$ 395,728</u>	<u>\$ 368,036</u>

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2013

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

	Business-Type Activities - Enterprise Funds				
	Fire	Sewer	Water	Totals	
				2013	2012
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES					
Operating Income (Loss)	\$ (14,746)	\$ (707)	\$ (58,646)	\$ (74,099)	\$ (6,238)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Depreciation	46,303	12,149	80,779	139,231	136,492
(Increase) Decrease in Assets					
Accounts Receivable	3,055	(586)	3,627	6,096	(5,618)
Due from Other Governments	(1,000)		(15,425)	(16,425)	
Prepaid Items	(294)	(599)	(576)	(1,469)	458
Increase (Decrease) in Liabilities					
Accounts Payable	(989)	(1,788)	(2,212)	(4,989)	11,681
Due to Other Governmental Units	527			527	(6,625)
Salaries Payable		82	122	204	(289)
Net Cash Provided (Used) by Operating Activities	<u>\$ 32,856</u>	<u>\$ 8,551</u>	<u>\$ 7,669</u>	<u>\$ 49,076</u>	<u>\$ 129,861</u>

See Accompanying Notes to the Financial Statements

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CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The City of Cosmos, Minnesota, 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, organizations, institutions, agencies, departments and offices that are not legally separate from such. Component units are legally separate entities for which the City is financially accountable, or for which the exclusion of the component unit would render the financial statements of the City misleading.

The criteria used to determine if the City is financially accountable for a component unit includes whether or not 1) the City appoints the voting majority of the potential component unit's governing body and is able to impose its will on the potential component unit or is in a relationship of financial benefit or burden with the potential component unit, or 2) the potential component unit is fiscally dependent on and there is a potential for the potential component unit 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, 2013

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. This fund accounts for all financial resources of the general City, 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, 2013

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 2013A 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 Building Reserve Capital Projects Fund is used to account for the financial resources to be used for building rehabilitation, construction, and demolition.

The 2013 Improvement Project Capital Projects Fund is used to account for the financial resources to be used for the construction of the street, watermain and sewermain 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.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

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

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.

The City may invest in the following types of investments as authorized by Minn. Stat. §§118A.04 and 118A.05:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. §118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) time deposits that are fully insured by the Federal Deposit Insurance Corporation or bankers acceptances of United States bank;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Cash at December 31, 2013, was comprised of deposits and non-negotiable certificates of deposits.

The City does not have an investment policy in place.

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 all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent.

Authorized collateral includes the 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, futures contracts, repurchase and reverse repurchase agreements, and commercial paper of the highest quality with a maturity of no longer than 270 days, as well as certain first mortgage notes, and certain other state or local government obligations. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the City treasurer or in a financial institution other than that furnishing the collateral.

The City does not have a policy that further limits its collateral choices.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

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

D. DEPOSITS AND INVESTMENTS (Cont'd)

Interest Rate Risk: This is the risk that market values of securities in a portfolio would decrease due to changes in market interest rates.

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.

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.

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.

E. RECEIVABLES AND PAYABLES

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

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

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.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

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

F. PREPAID ITEMS

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

G. 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. Capital assets are defined by the City 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.

H. UNEARNED REVENUE

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and certain other payments received before eligibility requirements are met are also recorded as unearned revenue.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

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

I. COMPENSATED ABSENCES

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated compensatory time balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability for compensated absences is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are accrued when incurred in the government-wide financial statements. The government-wide Statement of Net Position reports both current and noncurrent portions of compensated absences using full accrual accounting. The current portion consists of an amount based on expected or known retirements coming in the next fiscal year. The noncurrent portion consists of the remaining amount of total compensatory time.

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 compensatory time. Employees are compensated for unused compensatory time upon termination of employment.

J. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Employees of the City pay health care premiums based on their age and level of coverage. Since the insurance rate is based on age, the City does not have an implicit rate subsidy factor in postemployment health care expenses. Additionally, Minnesota Statutes require the City to allow retired employees to stay on the health care plan with the retiree responsible to pay the entire premium for continuation coverage. The City's personnel policy does not provide for any contributions upon employee retirement.

K. 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.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

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

L. 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.

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 City 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.

M. NET POSITION

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources in the government-wide and proprietary fund financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide and proprietary fund financial statements when there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted net position consists of all other net position that does not meet the definition of restricted or net investment in capital assets.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

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

N. 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.

O. 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, 2012, from which the partial information was derived.

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. Budget requests are submitted by all department heads to the City Clerk. The City Clerk compiles the budget requests into an overall preliminary City budget. The City Clerk presents the proposed budget to the City Council.
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. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Expenditures may not legally exceed budgeted appropriations at the department level. No fund's budget can be increased without City Council approval. The City Council may authorize transfer of budgeted amounts between departments within any fund. Management may amend budgets within a department level, so long as the total department budget is not changed.
6. Annual appropriated budgets are adopted during the year for the General and Special Revenue Funds. Annual appropriated budgets are not adopted for Debt Service Funds because effective budgetary control is alternatively achieved through bond indenture provisions. Budgetary control for Capital Projects Funds is accomplished through the use of project controls and formal appropriated budgets are not adopted.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Cont'd)

A. BUDGETARY INFORMATION (Cont'd)

7. Budgeted amounts are as originally adopted or as amended by the City Council. Individual amendments were not material in relation to the original amounts budgeted. Budgeted expenditure appropriations lapse at year-end.

Encumbrances outstanding at year-end expire and outstanding purchase orders are canceled and not reported in the financial statements.

B. DEFICIT FUND BALANCES

The following fund had a deficit balance at December 31, 2013:

2011A G.O. Improvement Debt Service \$ (21,739)

C. EXPENDITURES EXCEEDING APPROPRIATIONS

For the year ended December 31, 2013, the following fund had expenditures that exceeded appropriations:

	<u>Expenditure</u>	<u>Appropriations</u>
General Fund	\$ 452,758	\$ 397,154

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, 2013, the City's bank balances were not exposed to custodial credit risk because they were fully insured through the FDIC as well as collateralized with securities held by the pledging financial institution's trust department or agent and in the City's name.

Cash as of December 31, 2013, is as follows:

	<u>Book Balance</u>
Pooled Cash in Checking Account	\$ 169,041
Pooled Cash in Savings Account	363,383
Non-Negotiable Certificates of Deposit	211,978
Special Purpose Bank Accounts	
Fire-Checking	10,225
Fire-Money Market Savings	161,923
Library Donation-Checking	322
Petty Cash	63
	<hr/>
Total Cash	\$ 916,935

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 4. RECEIVABLES

Receivables as of December 31, 2013, are as follows:

	Total Receivables	Amounts not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Accounts	\$ 8,290	\$
Interest	679	
Loans	6,451	
Delinquent Taxes	10,124	
Special Assessments	670,064	633,513
Total Governmental Activities	<u>\$ 695,608</u>	<u>\$ 633,513</u>
Business-Type Activities		
Accounts	<u>\$ 38,886</u>	<u>\$ 0</u>

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013, was as follows:

Governmental Activities	Beginning Balance	Increase	Decrease	Ending Balance
Capital Assets, Not Being Depreciated				
Land	\$ 25,767	\$ 29,399	\$	\$ 55,166
Construction in Progress		217,468		217,468
Total Capital Assets, Not Being Depreciated	25,767	246,867	0	272,634
Capital Assets, Being Depreciated				
Buildings	73,510			73,510
Improvements Other than Buildings	1,252,438	94,459		1,346,897
Machinery and Equipment	128,522	25,114	(3,972)	149,664
Total Capital Assets Being Depreciated	1,454,470	119,573	(3,972)	1,570,071

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 5. CAPITAL ASSETS (Cont'd)

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less Accumulated Depreciation for				
Buildings	\$ 50,582	\$ 3,507	\$	\$ 54,089
Improvements Other than Buildings	832,821	38,146		870,967
Machinery and Equipment	92,716	11,890	(3,972)	100,634
Total Accumulated Depreciation	<u>976,119</u>	<u>53,543</u>	<u>(3,972)</u>	<u>1,025,690</u>
Total Capital Assets, Being Depreciated, Net	<u>478,351</u>	<u>66,030</u>	<u>0</u>	<u>544,381</u>
Governmental Activities Net Capital Assets	<u>\$ 504,118</u>	<u>\$ 312,897</u>	<u>\$ 0</u>	<u>\$ 817,015</u>
<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated				
Construction in Progress	\$ 77,405	\$ 819,076	\$	\$ 896,481
Capital Assets, Being Depreciated				
Buildings	1,397,577			1,397,577
Improvements Other than Buildings	1,889,547	50,707		1,940,254
Machinery and Equipment	777,945	3,246	(40,155)	741,036
Total Capital Assets, Being Depreciated	<u>4,065,069</u>	<u>53,953</u>	<u>(40,155)</u>	<u>4,078,867</u>
Less Accumulated Depreciation for				
Buildings	499,281	39,804		539,085
Improvements Other than Buildings	505,569	53,411		558,980
Machinery and Equipment	392,869	46,016	(15,560)	423,325
Total Accumulated Depreciation	<u>1,397,719</u>	<u>139,231</u>	<u>(15,560)</u>	<u>1,521,390</u>
Total Capital Assets, Being Depreciated, Net	<u>2,667,350</u>	<u>(85,278)</u>	<u>(24,595)</u>	<u>2,557,477</u>
Business-Type Activities Net Capital Assets	<u>\$ 2,744,755</u>	<u>\$ 733,798</u>	<u>\$ (24,595)</u>	<u>\$ 3,453,958</u>

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 5. CAPITAL ASSETS (Cont'd)

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
General Government	\$ 765
Public Safety	8,401
Public Works	43,769
Culture and Recreation	608
	<hr/>
Total Depreciation Expense - Governmental Activities	\$ 53,543
	<hr/>
Business-Type Activities	
Fire	\$ 46,303
Sewer	12,149
Water	80,779
	<hr/>
Total Depreciation Expense - Business-Type Activities	\$ 139,231
	<hr/>

NOTE 6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of December 31, 2013, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Sewer	Water	\$ 37,993
General	2011A G.O. Improvement Debt Service	21,739
		<hr/>
Total Interfund Balances		\$ 59,732
		<hr/>

The purpose of the above interfund loans was to provide financing for operating purposes and to cover deficit cash balances.

B. INTERFUND TRANSFERS

The composition of interfund transfers for the year ended December 31, 2013, is as follows:

	<u>Transfer In</u>		<u>Total</u>
	<u>Building Reserve</u>	<u>Water</u>	
Transfer Out			
General	\$ 34,408	\$	\$ 34,408
Trash Collection		20,000	20,000

The purpose of the above transfers was to eliminate deficits caused by project cost overruns and to cover prior costs incurred on demolition projects.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

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

	<u>Interest Rates</u>	<u>Final Maturity Date</u>	<u>Balance Outstanding</u>
<u>Governmental Activities</u>			
G.O. Improvement Note, Series 2011A	2.70%	12/01/2018	\$ 150,000
G.O. Improvement Note, Series 2013A	*	*	488,000
Compensated Absences			1,132
			<u>639,132</u>
Total Governmental Activities			<u>\$ 639,132</u>
<u>Business-Type Activities</u>			
G.O. Revenue Note - Water Treatment Plant	1.720%	08/20/2024	\$ 561,706
G.O. Revenue Note - Water Tower	1.092%	08/20/2027	388,000
G.O. Revenue Note - Looping	1.00%	08/20/2029	200,000
G.O. Improvement Note, Series 2013A	*	*	83,085
			<u>1,232,791</u>
Total Business-Type Activities			<u>\$ 1,232,791</u>

* - Final details not known until the related project is complete.

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

The G.O. Revenue Notes were issued to finance the construction of infrastructure for water and wastewater treatment. Revenues of the Water and Sewer Funds are pledged to cover repayment of the G.O. Revenue Notes.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

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, Series 2011A		
	Principal	Interest	Total
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>\$ 150,000</u>	<u>\$ 11,421</u>	<u>\$ 161,421</u>

Year Ending December 31	Governmental Activities		
	G.O. Improvement Note, Series 2013A		
	Principal	Interest	Total
2014	\$	\$ 17,568	\$ 17,568
2015	26,000	17,100	43,100
2016	26,000	16,164	42,164
2018	27,000	15,210	42,210
2018	28,000	14,220	42,220
2019-2023	155,000	54,990	209,990
2024-2028	185,000	24,534	209,534
2029	41,000	738	41,738
	<u>\$ 488,000</u>	<u>\$ 160,524</u>	<u>\$ 648,524</u>

Year Ending December 31	Business-Type Activities		
	G.O. Revenue Notes*		
	Principal	Interest	Total
2014	\$ 85,000	\$ 15,898	\$ 100,898
2015	86,000	14,686	100,686
2016	86,000	13,458	99,458
2018	88,000	12,228	100,228
2018	89,000	10,968	99,968
2019-2023	465,000	35,304	500,304
2024-2028	237,706	6,768	244,474
2029	13,000	130	13,130
	<u>\$ 1,149,706</u>	<u>\$ 109,440</u>	<u>\$ 1,259,146</u>

* - Does not include certain notes since final details are not known.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

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

D. CHANGES IN LONG-TERM LIABILITIES

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
G.O. Improvement Notes	\$ 178,000	\$ 488,000	\$ (28,000)	\$ 638,000	\$ 28,000
Compensated Absences	2,075	3,320	(4,263)	1,132	
Total Governmental Activities	<u>\$ 180,075</u>	<u>\$ 491,320</u>	<u>\$ (32,263)</u>	<u>\$ 639,132</u>	<u>\$ 28,000</u>
<u>Business-Type Activities</u>					
G.O. Revenue Notes	\$ 1,233,247	\$	\$ (83,541)	\$ 1,149,706	\$ 85,000
G.O. Improvement Note		83,085		83,085	
Total Business-Type Activities	<u>\$ 1,233,247</u>	<u>\$ 83,085</u>	<u>\$ (83,541)</u>	<u>\$ 1,232,791</u>	<u>\$ 85,000</u>

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 2013 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2013, 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.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 9. CITY OF COSMOS FIRE RELIEF ASSOCIATION

The City contributes to the City of Cosmos' Fireman's Relief Association, a single employer retirement system that acts as a common investment and administrator for the City's firefighters. All active members of the fire department are members of the Association.

The Association provides retirement benefits based on years of active service. The City may be required to make contributions to fund relief association pension benefits. The City may levy property taxes for the discretion of, and for the benefit of, the fire relief association. State aids allocated to the Association are passed through the City in accordance with State statutes.

NOTE 10. 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 five 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.

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.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 10. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

A. PLAN DESCRIPTION (Cont'd)

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 GERP 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. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2013. PEPFF members were required to contribute 9.6% of their annual covered salary in 2013.

In 2013, 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, 2013, 2012, and 2011 were \$7,559, \$6,745, and \$6,132, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2013, 2012, and 2011, were \$4,482, \$7,498, and \$7,031, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 11. FUND BALANCE

The following is a summary of fund balance components at December 31, 2013:

	General	Trash Collection	Redevelopment Revolving Loan	2011A G.O. Improvement	2013A G.O. Improvement
Nonspendable Prepaid Items	\$ 10,249	\$ 119	\$	\$	\$
Restricted for Revolving Loan Debt Service			6,391		76,660
Total Restricted	<u>0</u>	<u>0</u>	<u>6,391</u>	<u>0</u>	<u>76,660</u>
Assigned Fund Operations		7,102			
Unassigned	<u>153,474</u>			<u>(21,739)</u>	
	<u>\$ 163,723</u>	<u>\$ 7,221</u>	<u>\$ 6,391</u>	<u>\$ (21,739)</u>	<u>\$ 76,660</u>
		Public Works Reserve	Building Reserve	2013 Improvement Project	Total
Nonspendable Prepaid Items		\$	\$	\$	\$ 10,368
Restricted for Revolving Loan Debt Service Capital Projects				175,071	76,660
Total Restricted		<u>0</u>	<u>0</u>	<u>175,071</u>	<u>258,122</u>
Assigned Fund Operations		100,055	34,408		141,565
Unassigned					<u>131,735</u>
	<u>\$ 100,055</u>	<u>\$ 34,408</u>	<u>\$ 175,071</u>	<u>\$ 175,071</u>	<u>\$ 541,790</u>

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 12. 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, 2013, 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 13. 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.

NOTE 14. PRIOR PERIOD ADJUSTMENT

The beginning fund balance of the General Fund and the Trash Collection Special Revenue Fund have been increased to reflect a change in accounting principle associated with the recording of prepaid items. The beginning fund balance of the General Fund was increased by \$8,319. The beginning fund balance of the Trash Collection Special Revenue Fund was increased by \$113. The related change in General Fund fund balance for the year ended December 31, 2012 has been decreased from \$17,015 to \$16,873 (a decrease of \$142). The related change in Trash Collection Special Revenue Fund fund balance for the year ended December 31, 2012 has been decreased from \$2,535 to \$2,521 (a decrease of \$14). The beginning net position of the business-type activities has been increased to reflect the recording of prepaid insurance at December 31, 2012. Beginning net position has been increased from \$1,810,801 to \$1,813,177 (an increase of \$2,376). The Water Fund net position was increased from \$878,621 to \$879,369 (an increase of \$748). The Sewer Fund was increased from \$437,181 to \$437,547 (an increase of \$366). The Fire Fund was increased from \$494,999 to \$496,261 (an increase of \$1,262). The related change in business-type net position was decreased from \$85,298 to \$84,840 (a decrease of \$458). The change in the Water Fund decreased from \$41,512 to \$41,485 (a decrease of \$27). The change in the Sewer Fund decreased from \$34,951 to \$34,736 (a decrease of \$215). The change in the Fire Fund decreased from \$8,835 to \$8,619 (a decrease of \$216).

In addition to the above change, the beginning net position of the governmental activities has been decreased to reflect a change in accounting principle. The City implemented GASB 65, *Items Previously Reported as Assets and Liabilities* which reclassifies deferred charges as outflows of resources. Beginning governmental activities net position for the year ended 2012 has been restated from \$675,016 to \$680,155, of which a decrease of \$3,710 was associated with the implementation of GASB 65. The net change in beginning governmental activities net position for the year ended 2012 was an increase of \$3,597.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 14. PRIOR PERIOD ADJUSTMENT (Cont'd)

In addition, the related change in net position for the year ended December 31, 2012, of the governmental activities has been increased to reflect the change in accounting principle. The 2012 change in net position for the governmental activities was adjusted from \$(45,422) to \$(45,035) (an increase of \$387).

In addition, the 2012 balance of \$41,826 was reclassified from Deferred Revenues to Deferred Inflows of Resources to conform to the current year's presentation with the implementation of GASB 65.

NOTE 15. SUBSEQUENT EVENTS

In May 2014, the City received a grant award of \$600,000 from the State of Minnesota to be used for the rebuilding of the city library and construction of a city hall. The City is required to match the grant proceeds to finance the construction.

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SUPPLEMENTARY INFORMATION

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CITY OF COSMOS, MINNESOTA

BALANCE SHEET
GENERAL FUND
DECEMBER 31, 2013

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash	\$ 117,527	\$ 155,856
Receivables		
Accounts	3,675	3,032
Interest	679	
Delinquent Taxes	10,124	11,844
Special Assessments	163	388
Due from Other Funds	21,739	
Due from Other Governmental Units	22,910	25,741
Prepaid Items	10,249	8,177
	<u>187,066</u>	<u>205,038</u>
Total Assets	<u>\$ 187,066</u>	<u>\$ 205,038</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE		
Liabilities		
Accounts Payable	\$ 8,950	\$ 4,757
Salaries Payable	710	470
Due to Other Governmental Units	1,946	1,439
Unearned Revenue	1,450	1,450
Total Liabilities	<u>13,056</u>	<u>8,116</u>
Deferred Inflows of Resources		
Unavailable Revenue		
Delinquent Taxes	10,124	11,844
Special Assessments	163	388
Total Deferred Inflows of Resources	<u>10,287</u>	<u>12,232</u>
Fund Balance		
Nonspendable	10,249	8,177
Unassigned	153,474	176,513
Total Fund Balance	<u>163,723</u>	<u>184,690</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 187,066</u>	<u>\$ 205,038</u>

CITY OF COSMOS, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2013
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2012

	2013		Over (Under) Final Budget	2012
	Final Budget	Actual		Actual
REVENUES				
Property Taxes	\$ 264,380	\$ 260,261	\$ (4,119)	\$ 248,851
Special Assessments		267	267	1,784
Licenses and Permits	4,000	6,161	2,161	4,226
Intergovernmental				
Local Government Aid	128,232	128,232		128,232
Market Value Credit Aid		218	218	119
Police State Aid	6,400	7,580	1,180	6,473
FEMA Grant				20,994
Other State Aid		10,454	10,454	12,132
Total Intergovernmental	<u>134,632</u>	<u>146,484</u>	<u>11,852</u>	<u>167,950</u>
Charges for Services	7,000	4,447	(2,553)	9,369
Fines and Forfeits	500	467	(33)	307
Interest Income	2,500	886	(1,614)	1,106
Refunds and Reimbursements	1,850	6,025	4,175	311
Donations		340	340	1,500
Miscellaneous				
Finance Charges	4,000	5,579	1,579	5,688
Other	3,000	21,098	18,098	170
Total Miscellaneous	<u>7,000</u>	<u>26,677</u>	<u>19,677</u>	<u>5,858</u>
Total Revenues	<u>421,862</u>	<u>452,015</u>	<u>30,153</u>	<u>441,262</u>

CITY OF COSMOS, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2013
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2012

	2013		2012	
	Final Budget	Actual	Over (Under) Final Budget	Actual
EXPENDITURES				
Current				
General Government				
Mayor and Council				
Salaries and Benefits	\$ 6,300	\$ 4,979	\$ (1,321)	\$ 5,571
Legal Service	3,000	22,764	19,764	8,118
Building/Health Inspector	3,600	4,440	840	3,200
Consulting Fees	2,100	15,052	12,952	6,690
Insurance	2,000	2,253	253	1,907
Advertising and Printing	2,000	2,348	348	1,824
Miscellaneous	3,000	8,890	5,890	4,936
Total Mayor and Council	22,000	60,726	38,726	32,246
Elections				1,409
City Hall				
Utilities	1,000	1,176	176	1,333
Telephone	2,000	2,274	274	2,387
Repairs	300	483	183	140
Supplies	3,400	2,983	(417)	3,488
Rentals	130		(130)	30
Total City Hall	6,830	6,916	86	7,378
Clerk and Secretary				
Salaries	37,750	35,788	(1,962)	35,589
Benefits	5,900	5,195	(705)	5,382
Insurance	11,200	11,378	178	11,141
Auditing and Accounting	14,500	15,450	950	14,450
Miscellaneous	1,900	1,523	(377)	961
Total Clerk and Secretary	71,250	69,334	(1,916)	67,523
Assessor	3,000	2,757	(243)	2,757
Total General Government	103,080	139,733	36,653	111,313

CITY OF COSMOS, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2013
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2012

	2013		2012	
	Final Budget	Actual	Over (Under) Final Budget	Actual
EXPENDITURES (Cont'd)				
Current (Cont'd)				
Public Safety				
Police Protection				
Salaries	\$ 55,500	\$ 40,050	\$ (15,450)	\$ 52,239
Benefits	8,800	5,320	(3,480)	8,275
Telephone	1,900	1,901	1	2,239
Insurance	15,000	13,929	(1,071)	13,389
Repairs	1,500	4,342	2,842	245
Supplies	2,500	1,047	(1,453)	1,518
Gas and Oil	6,000	3,647	(2,353)	5,778
Miscellaneous	3,800	4,393	593	3,650
Total Police Protection	95,000	74,629	(20,371)	87,333
Fire Protection	25,287	25,287		25,288
Total Public Safety	120,287	99,916	(20,371)	112,621
Public Works				
Salaries	20,340	20,946	606	16,521
Benefits	2,500	3,172	672	2,726
Utilities	2,000	1,131	(869)	786
Telephone	800	1,071	271	803
Street Lighting	14,000	14,368	368	13,330
Repairs	23,983	13,486	(10,497)	48,000
Supplies	10,000	11,874	1,874	6,729
Gas and Oil	2,700	3,082	382	2,604
Snow Removal	12,000	10,504	(1,496)	4,319
Insurance	4,100	6,386	2,286	3,796
Miscellaneous	200	439	239	319
Total Public Works	92,623	86,459	(6,164)	99,933

CITY OF COSMOS, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2013
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2012

	2013		Over (Under) Final Budget	2012
	Final Budget	Actual		Actual
EXPENDITURES (Cont'd)				
Current (Cont'd)				
Culture and Recreation				
Library				
Telephone	\$	\$	\$	\$ 154
Supplies				675
Miscellaneous				120
Total Library	0	0	0	949
Parks				
Salaries	19,310	19,496	186	16,289
Benefits	1,500	2,205	705	1,744
Electricity	1,500	934	(566)	898
Insurance	2,200	3,455	1,255	2,057
Repairs	1,500	18,717	17,217	3,036
Supplies	8,000	4,471	(3,529)	8,960
Miscellaneous	2,250	3,641	1,391	2,279
Total Parks	36,260	52,919	16,659	35,263
Community Center				
Supplies				111
Total Culture and Recreation	36,260	52,919	16,659	36,323
Total Current	352,250	379,027	26,777	360,190

CITY OF COSMOS, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2013
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2012

	2013		2012	
	Final Budget	Actual	Over (Under) Final Budget	Actual
EXPENDITURES (Cont'd)				
Capital Outlay				
General Government	\$ 3,100	\$ 2,121	\$ (979)	\$ 2,170
Public Safety	10,000	1,388	(8,612)	4,317
Public Works	19,304	30,208	10,904	7,569
Culture and Recreation	12,500	40,014	27,514	9,440
Total Capital Outlay	<u>44,904</u>	<u>73,731</u>	<u>28,827</u>	<u>23,496</u>
Total Expenditures	<u>397,154</u>	<u>452,758</u>	<u>55,604</u>	<u>383,686</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	24,708	(743)	(25,451)	57,576
OTHER FINANCING SOURCES (USES)				
Transfers Out	(24,708)	(34,408)	(9,700)	(40,703)
Sale of Assets		14,184	14,184	
Total Other Financing Sources (Uses)	<u>(24,708)</u>	<u>(20,224)</u>	<u>4,484</u>	<u>(40,703)</u>
Net Change in Fund Balances	<u>\$ 0</u>	<u>(20,967)</u>	<u>\$ (20,967)</u>	<u>16,873</u>
FUND BALANCE, BEGINNING OF YEAR, AS ORIGINALLY STATED		184,690		159,498
PRIOR PERIOD ADJUSTMENT				<u>8,319</u>
FUND BALANCE, BEGINNING OF YEAR, AS RESTATED		<u>184,690</u>		<u>167,817</u>
FUND BALANCE, END OF YEAR		<u>\$ 163,723</u>		<u>\$ 184,690</u>

CITY OF COSMOS, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 TRASH COLLECTION SPECIAL REVENUE FUND
 YEAR ENDED DECEMBER 31, 2013
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2012

	2013		2012	
	Final Budget	Actual	Over (Under) Final Budget	Actual
REVENUES				
Charges for Services	\$ 39,000	\$ 39,839	\$ 839	\$ 39,520
Interest Income		20	20	228
Total Revenues	<u>39,000</u>	<u>39,859</u>	<u>859</u>	<u>39,748</u>
EXPENDITURES				
Current				
Sanitation				
Insurance	500	444	(56)	406
Collection Contract	<u>38,500</u>	<u>36,736</u>	<u>(1,764)</u>	<u>36,821</u>
Total Expenditures	<u>39,000</u>	<u>37,180</u>	<u>(1,820)</u>	<u>37,227</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	2,679	2,679	2,521
OTHER FINANCING SOURCES (USES)				
Transfers Out		<u>(20,000)</u>	<u>20,000</u>	
Net Change in Fund Balances	<u>\$ 0</u>	<u>(17,321)</u>	<u>\$ (17,321)</u>	<u>2,521</u>
FUND BALANCE, BEGINNING OF YEAR, AS ORIGINALLY STATED		24,542		21,908
PRIOR PERIOD ADJUSTMENT				<u>113</u>
FUND BALANCE, BEGINNING OF YEAR, AS RESTATED		<u>24,542</u>		<u>22,021</u>
FUND BALANCE, END OF YEAR		<u>\$ 7,221</u>		<u>\$ 24,542</u>

CITY OF COSMOS, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 REDEVELOPMENT REVOLVING LOAN SPECIAL REVENUE FUND
 YEAR ENDED DECEMBER 31, 2013
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2012

	2013		2012	
	Final Budget	Actual	Over (Under) Final Budget	Actual
REVENUES				
CDBG Loan Repayments	\$	\$	\$	\$
EXPENDITURES				
Net Change in Fund Balances	<u>\$ 0</u>	<u>0</u>	<u>\$ 0</u>	<u>0</u>
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, 2013

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current Assets		
Cash	\$ 172,834	\$ 95,992
Accounts Receivable	4,352	7,407
Due from Other Governmental Units	1,000	
Prepaid Items	1,340	1,046
Total Current Assets	<u>179,526</u>	<u>104,445</u>
Noncurrent Assets		
Capital Assets		
Other Capital Assets, Net of Depreciation	<u>330,526</u>	<u>401,424</u>
Total Assets	<u>\$ 510,052</u>	<u>\$ 505,869</u>
LIABILITIES AND NET POSITION		
Liabilities		
Current Liabilities		
Accounts Payable	\$ 527	\$ 989
Due to Other Governmental Units	<u>527</u>	<u>989</u>
Total Current Liabilities	<u>527</u>	<u>989</u>
Net Position		
Net Investment in Capital Assets	330,526	401,424
Unrestricted	<u>178,999</u>	<u>103,456</u>
Total Net Position	<u>509,525</u>	<u>504,880</u>
Total Liabilities and Net Position	<u>\$ 510,052</u>	<u>\$ 505,869</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 FIRE ENTERPRISE FUND
 YEAR ENDED DECEMBER 31, 2013
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2012

	2013	2012
OPERATING REVENUES		
Fire Contracts/Calls	\$ 59,210	\$ 53,960
Ambulance Charges	46,351	50,472
Total Operating Revenues	<u>105,561</u>	<u>104,432</u>
OPERATING EXPENSES		
Fire		
Salaries and Benefits	6,039	6,498
Insurance	4,155	3,672
Supplies	14,350	8,936
Maintenance and Repair	1,552	2,466
Gas, Oil and Fuel	2,384	3,043
Education and Conferences	4,830	3,938
Electricity	1,618	1,994
Firemen's Relief	9,211	7,619
Telephone	1,413	1,632
Miscellaneous	2,876	99
Depreciation	46,303	45,840
Total Fire	<u>94,731</u>	<u>85,737</u>
Ambulance		
Salaries and Benefits	8,192	6,727
Insurance	747	656
Supplies	9,017	7,422
Gas, Oil and Fuel	1,282	1,182
Education and Conferences	3,567	14,106
Miscellaneous	2,771	2,948
Total Ambulance	<u>25,576</u>	<u>33,041</u>
Total Operating Expenses	<u>120,307</u>	<u>118,778</u>
Operating Income (Loss)	<u>(14,746)</u>	<u>(14,346)</u>
NONOPERATING REVENUES (EXPENSES)		
Intergovernmental	17,584	15,419
Interest Income	402	429
Gain (Loss) on Asset Disposal	(95)	6,377
Other Income	1,500	740
Total Nonoperating Revenues (Expenses)	<u>19,391</u>	<u>22,965</u>
Change in Net Position	4,645	8,619
NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY STATED	504,880	494,999
PRIOR PERIOD ADJUSTMENT		1,262
NET POSITION, BEGINNING OF YEAR, AS RESTATED	<u>504,880</u>	<u>496,261</u>
NET POSITION, END OF YEAR	<u>\$ 509,525</u>	<u>\$ 504,880</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF NET POSITION
SEWER ENTERPRISE FUND
DECEMBER 31, 2013

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current Assets		
Cash	\$ 222,894	\$ 270,706
Accounts Receivable	6,424	5,838
Due from Other Funds	37,993	
Prepaid Items	750	151
Total Current Assets	<u>268,061</u>	<u>276,695</u>
Noncurrent Assets		
Capital Assets		
Other Capital Assets, Net of Depreciation	<u>209,459</u>	<u>201,841</u>
Total Assets	<u>\$ 477,520</u>	<u>\$ 478,536</u>
LIABILITIES AND NET POSITION		
Liabilities		
Current Liabilities		
Accounts Payable	\$ 2,250	\$ 4,038
Salaries Payable	122	40
Customer Deposits	<u>2,175</u>	<u>2,175</u>
Total Liabilities	4,547	6,253
Net Position		
Net Investment in Capital Assets	209,459	201,841
Unrestricted	<u>263,514</u>	<u>270,442</u>
Total Net Position	<u>472,973</u>	<u>472,283</u>
Total Liabilities and Net Position	<u>\$ 477,520</u>	<u>\$ 478,536</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 SEWER ENTERPRISE FUND
 YEAR ENDED DECEMBER 31, 2013
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Sewer Charges	\$ 57,845	\$ 59,398
OPERATING EXPENSES		
Salaries and Benefits	15,894	12,943
Insurance	2,309	1,620
Supplies	20,566	23,075
Maintenance and Repair	4,126	2,517
Testing	1,633	1,843
Electricity	1,481	1,342
Miscellaneous	394	988
Depreciation	12,149	11,001
Total Operating Expenses	<u>58,552</u>	<u>55,329</u>
Operating Income (Loss)	(707)	4,069
NONOPERATING REVENUES (EXPENSES)		
Interest Income	605	2,600
Other Income	792	
Total Nonoperating Revenues (Expenses)	<u>1,397</u>	<u>2,600</u>
Income (Loss) Before Contributions	690	6,669
CAPITAL CONTRIBUTIONS		28,067
Change in Net Position	690	<u>34,736</u>
NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY STATED	472,283	437,181
PRIOR PERIOD ADJUSTMENT		<u>366</u>
NET POSITION, BEGINNING OF YEAR, AS RESTATED	<u>472,283</u>	<u>437,547</u>
NET POSITION, END OF YEAR	<u>\$ 472,973</u>	<u>\$ 472,283</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF NET POSITION
 WATER ENTERPRISE FUND
 DECEMBER 31, 2013

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current Assets		
Cash	\$	\$ 1,338
Accounts Receivable	28,110	31,737
Due from Other Governmental Units	15,425	
Prepaid Items	1,297	721
Total Current Assets	<u>44,832</u>	<u>33,796</u>
Noncurrent Assets		
Capital Assets		
Assets Not Being Depreciated	896,481	77,405
Other Capital Assets, Net of Depreciation	2,017,492	2,064,085
Total Noncurrent Assets	<u>2,913,973</u>	<u>2,141,490</u>
Total Assets	<u>\$ 2,958,805</u>	<u>\$ 2,175,286</u>
LIABILITIES AND NET POSITION		
Liabilities		
Current Liabilities		
Accounts Payable	\$ 9,342	\$ 11,554
Due to Other Funds	37,993	
Salaries Payable	183	61
Accrued Interest Payable	5,696	5,696
Customer Deposits	3,874	3,874
Current Portion of Note Payable	85,000	83,541
Total Current Liabilities	<u>142,088</u>	<u>104,726</u>
Noncurrent Liabilities		
Note Payable, Net of Current Portion	1,147,791	1,149,706
Total Liabilities	<u>1,289,879</u>	<u>1,254,432</u>
Net Position		
Net Investment in Capital Assets	1,681,182	908,243
Unrestricted	(12,256)	12,611
Total Net Position	<u>1,668,926</u>	<u>920,854</u>
Total Liabilities and Net Position	<u>\$ 2,958,805</u>	<u>\$ 2,175,286</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 WATER ENTERPRISE FUND
 YEAR ENDED DECEMBER 31, 2013
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Water Charges	\$ 142,122	\$ 146,701
OPERATING EXPENSES		
Salaries and Benefits	23,843	19,274
Insurance	4,452	2,862
Supplies	5,416	6,201
Maintenance and Repair	70,805	22,577
Electricity	9,796	8,355
Telephone	605	652
Miscellaneous	5,072	3,090
Depreciation	80,779	79,651
Total Operating Expenses	<u>200,768</u>	<u>142,662</u>
Operating Income (Loss)	(58,646)	4,039
NONOPERATING REVENUES (EXPENSES)		
Intergovernmental	803,512	
Interest Income	295	526
Other Income		2,780
Interest Expense	(17,089)	(17,838)
Total Nonoperating Revenues (Expenses)	<u>786,718</u>	<u>(14,532)</u>
Income (Loss) Before Transfers and Contributions	728,072	(10,493)
TRANSFERS AND OTHER ITEMS		
Transfers In	20,000	
Capital Contributions		51,978
Total Transfers and Other Items	<u>20,000</u>	<u>51,978</u>
Change in Net Position	748,072	41,485
NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY STATED	920,854	878,621
PRIOR PERIOD ADJUSTMENT		748
NET POSITION, BEGINNING OF YEAR, AS RESTATED	<u>920,854</u>	<u>879,369</u>
NET POSITION, END OF YEAR	<u>\$ 1,668,926</u>	<u>\$ 920,854</u>

REQUIRED REPORTS

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CITY OF COSMOS, MINNESOTA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2013

<u>Federal Grantor/ Pass Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>Expenditures</u>
Environmental Protection Agency Minnesota Public Facilities Authority Capitalization Grants for Drinking Water State Revolving Funds	66.468	N/A	\$ 887,194

See Accompanying Notes to Schedule of Expenditures of Federal Awards

CITY OF COSMOS, MINNESOTA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2013

NOTE 1. REPORTING ENTITY

The Schedule of Expenditures of Federal Awards presents the federal awards programs expended by the City of Cosmos, Minnesota. The City's reporting entity is defined in Note 1 to the financial statements.

NOTE 2. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the City under programs of the federal government for the year ended December 31, 2013. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in financial position, or cash flows of the City.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

NOTE 4. SUBRECIPIENTS

During the year ended December 31, 2013, the City did not pass any federal money to subrecipients.

COMPLIANCE SECTION

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and 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 to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements of the governmental activities, business-type activities, and each major fund of the City of Cosmos, Minnesota, as of and for the year ended December 31, 2013, and the related notes to the financial statements, and have issued our report thereon dated July 10, 2014.

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 & Schmiesing, PLLP

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

July 10, 2014

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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 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, 2013, 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 10, 2014.

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 2007-001 and 2007-002 to be material weaknesses.

331 Third Street SW, Ste. 2 P.O. Box 570 Willmar, MN 56201 Phone: (320) 235-3311 Toll Free: (888) 388-1040	1209 Pacific Avenue Ste. 3 Benson, MN 56215 Phone: (320) 843-2302	401 Atlantic Avenue Morris, MN 56267 Phone: (320) 589-2602	820 Sibley Avenue N Litchfield, MN 55355 Phone: (320) 693-7975	2351 Connecticut Avenue Ste. 110 Sartell, MN 56377 Phone: (320) 252-7565 Toll Free: (800) 862-1337
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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 Responses to Findings

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

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 10, 2014



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Honorable Mayor and City Council
City of Cosmos
Cosmos, Minnesota

Report on Compliance for Each Major Federal Program

We have audited the City's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended December 31, 2013. The City's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

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Opinion on Each Major Federal Program

In our opinion, the City of Cosmos, Minnesota, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of the City of Cosmos, Minnesota, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Conway, Deuth & Schmiesing, PLLP

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

July 10, 2014

CITY OF COSMOS, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013

I. SUMMARY OF AUDITOR'S RESULTS

A. FINANCIAL STATEMENTS

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
- Material weakness(es) identified?	Yes
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None Reported
Noncompliance material to financial statements noted?	No

B. FEDERAL AWARDS

Type of auditor's report issued on compliance for major program(s):	Unmodified
Internal control over major programs:	
- Material weakness(es) identified?	No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None Reported
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

C. IDENTIFICATION OF MAJOR PROGRAMS

CFDA No.:	
Capitalization Grants for Drinking Water	
State Revolving Funds	66.468
Dollar threshold used to distinguish between Types A and B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

CITY OF COSMOS, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013

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

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

FINDING 2007-001 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.

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.

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.

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 AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013

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

PREVIOUSLY REPORTED ITEMS NOT RESOLVED (Cont'd)

FINDING 2007-002 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.

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.

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.

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.

