

CITY OF COSMOS, MINNESOTA
AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2014

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

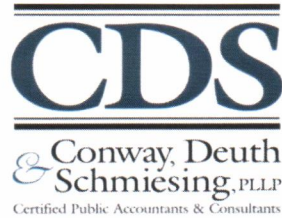
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CITY OF COSMOS, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2014

		<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 Administrator/Clerk	John Douville	Appointed

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Cosmos, Minnesota, as of and for the year ended December 31, 2014, 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, 2014, 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.

Report on Partial Comparative Information

We have previously audited the City's 2013 financial statements, and we expressed unmodified audit opinions on those audited financial statements in our report dated July 10, 2014. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2015, 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 21, 2015

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF COSMOS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014

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, 2014. 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 \$4.1 million. Of this amount, \$729,876 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 \$80,850 due to a decrease in capital spending and a charges for services increase in the Proprietary Funds.
- The City's governmental funds reported combined ending fund balances of \$628,282. Of this total amount, 24% 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 \$163,767, or 48% of total General Fund expenditures of \$336,766

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, 2014

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, 2014

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
	2014	2013	
Current and Other Assets	\$ 1,322,596	\$ 1,250,093	\$ 72,503
Net Capital Assets	788,292	817,015	(28,723)
Total Assets	\$ 2,110,888	\$ 2,067,108	\$ 43,780
Current and Other Liabilities	\$ 28,929	\$ 23,466	\$ 5,463
Long-Term Liabilities	611,581	639,132	(27,551)
Total Liabilities	640,510	662,598	(22,088)
Net Position			
Net Investment in Capital Assets	178,292	179,015	(723)
Restricted	916,136	913,386	2,750
Unrestricted	375,950	312,109	63,841
Total Net Position	1,470,378	1,404,510	65,868
Total Liabilities and Net Position	\$ 2,110,888	\$ 2,067,108	\$ 43,780

	Business-Type Activities		Change
	2014	2013	
Current and Other Assets	\$ 370,731	\$ 454,426	\$ (83,695)
Net Capital Assets	3,474,583	3,453,958	20,625
Total Assets	\$ 3,845,314	\$ 3,908,384	\$ (63,070)
Current and Other Liabilities	\$ 16,805	\$ 24,169	\$ (7,364)
Long-Term Liabilities	1,162,103	1,232,791	(70,688)
Total Liabilities	1,178,908	1,256,960	(78,052)
Net Position			
Net Investment in Capital Assets	2,312,480	2,221,167	91,313
Unrestricted	353,926	430,257	(76,331)
Total Net Position	2,666,406	2,651,424	14,982
Total Liabilities and Net Position	\$ 3,845,314	\$ 3,908,384	\$ (63,070)

CITY OF COSMOS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014

Governmental Activities

Net position of the City's governmental activities increased by \$65,868. 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:

Table 3 Comparative Condensed Statement of Activities			
	<u>Governmental Activities</u>		Change
	<u>2014</u>	<u>2013</u>	
REVENUES			
Program Revenues			
Fees, Fines, and Charges for Services	\$ 75,508	\$ 777,966	\$ (702,458)
Operating Grants and Contributions	5,391	13,573	(8,182)
Capital Grants and Contributions	48,480	20,000	28,480
General Revenues			
Property Taxes	254,537	258,808	(4,271)
Grants and Contributions Not Restricted	141,232	135,897	5,335
Interest Income	2,614	1,897	717
Gain on Asset Disposal	11,949	14,184	(2,235)
Other	21,471	7,516	13,955
Total Revenues	<u>561,182</u>	<u>1,229,841</u>	<u>(668,659)</u>
EXPENSES			
General Government	102,703	141,683	(38,980)
Public Safety	67,352	108,354	(41,002)
Public Works	155,300	114,289	41,011
Sanitation	39,176	37,180	1,996
Culture and Recreation	64,709	65,522	(813)
Interest on Long-Term Debt	21,366	18,458	2,908
Total Expenses	<u>450,606</u>	<u>485,486</u>	<u>(34,880)</u>
Change in Net Position before Transfers	110,576	744,355	(633,779)
TRANSFERS	<u>(44,708)</u>	<u>(20,000)</u>	<u>(24,708)</u>
Change in Net Position	65,868	724,355	(658,487)
NET POSITION, BEGINNING OF YEAR	<u>1,404,510</u>	<u>680,155</u>	<u>724,355</u>
NET POSITION, END OF YEAR	<u>\$ 1,470,378</u>	<u>\$ 1,404,510</u>	<u>\$ 65,868</u>

CITY OF COSMOS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014

Business-Type Activities

The net position of our business-type activities increased by \$14,982. The increase was due to the following funds change in net position: Fire - (\$6,940), Sewer - (67,753), and Water - \$89,675.

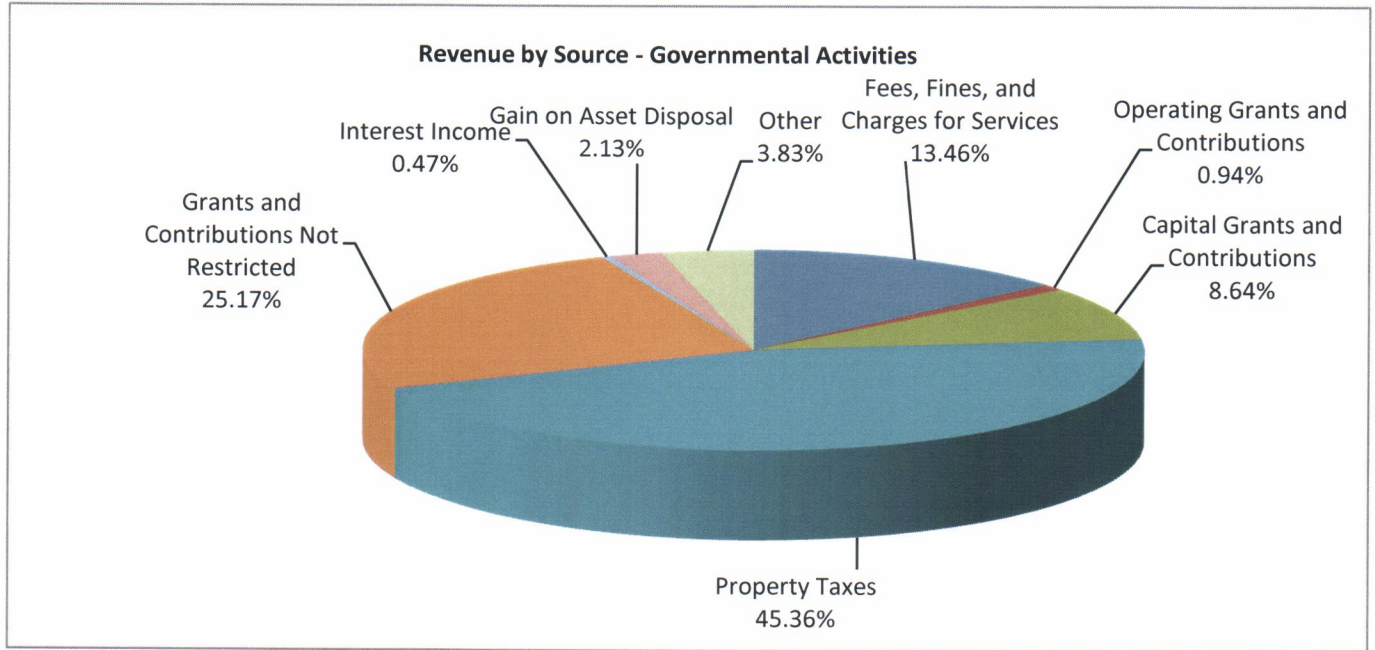
	<u>Business-Type Activities</u>		Change
	<u>2014</u>	<u>2013</u>	
REVENUES			
Program Revenues			
Fees, Fines, and Charges for Services	\$ 322,373	\$ 305,528	\$ 16,845
Operating Grants and Contributions	17,403	17,584	(181)
Capital Grants and Contributions	150	805,012	(804,862)
General Revenues			
Interest Income	316	1,302	(986)
Other		792	(792)
Total Revenues	<u>340,242</u>	<u>1,130,218</u>	<u>(789,976)</u>
EXPENSES			
Fire	124,806	120,402	4,404
Sewer	68,485	58,552	9,933
Water	176,677	217,857	(41,180)
Total Expenses	<u>369,968</u>	<u>396,811</u>	<u>(26,843)</u>
Change in Net Position before Transfers and Contributions	(29,726)	733,407	(763,133)
TRANSFERS			
Change in Net Position	<u>44,708</u>	<u>20,000</u>	<u>24,708</u>
	14,982	753,407	(738,425)
NET POSITION, BEGINNING OF YEAR	<u>2,651,424</u>	<u>1,898,017</u>	<u>753,407</u>
NET POSITION, END OF YEAR	<u>\$ 2,666,406</u>	<u>\$ 2,651,424</u>	<u>\$ 14,982</u>

CITY OF COSMOS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014

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 \$628,282, an increase of \$86,492. Approximately 24 percent of this total (\$149,937) constitutes unassigned fund balance. The remainder of the fund balance (\$478,345) is not available for new spending because it is either 1) nonspendable (\$7,870), 2) restricted (\$292,159) or 3) assigned (\$178,316).

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 \$163,767. 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 48 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 - \$131,802, Sewer - \$142,510, and Water - \$79,614.

CITY OF COSMOS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014

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. Less than expected general government and culture and recreation spending in addition to a decrease in capital outlay expenditures in public works and culture and recreation resulted in a increase in fund balance of \$7,736.

Capital Assets

At the end of 2014, the City of Cosmos had \$7,047,200 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 \$1,773,684 in long-term debt, which includes \$1,581 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 2015 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 2014 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, 2014

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2013

	Governmental	Business-Type	Totals	
	Activities	Activities	2014	2013
ASSETS				
Cash	\$ 612,247	\$ 316,523	\$ 928,770	\$ 916,935
Receivables				
Accounts	8,400	47,408	55,808	47,176
Interest	679		679	679
Loans	6,451		6,451	6,451
Delinquent Taxes	19,052		19,052	10,124
Special Assessments	641,620		641,620	670,064
Due from Other Governmental Units	26,277	1,500	27,777	39,335
Prepaid Items	7,870	5,300	13,170	13,755
Capital Assets				
Assets Not Being Depreciated	79,292		79,292	1,169,115
Other Capital Assets, Net of Depreciation	709,000	3,474,583	4,183,583	3,101,858
Total Assets	\$ 2,110,888	\$ 3,845,314	\$ 5,956,202	\$ 5,975,492
LIABILITIES AND NET POSITION				
Liabilities				
Accounts Payable	\$ 18,062	\$ 4,525	\$ 22,587	\$ 20,542
Contracts Payable				4,730
Salaries Payable	2,739	672	3,411	1,015
Due to Other Governmental Units	2,512		2,512	2,473
Accrued Interest Payable	1,738	5,559	7,297	7,498
Customer Deposits	3,878	6,049	9,927	9,927
Unearned Revenue				1,450
Noncurrent Liabilities				
Due Within One Year	55,000	92,000	147,000	113,000
Due in More Than One Year	556,581	1,070,103	1,626,684	1,758,923
Total Liabilities	640,510	1,178,908	1,819,418	1,919,558
Net Position				
Net Investment in Capital Assets	178,292	2,312,480	2,490,772	2,400,182
Restricted for				
Debt Service	728,223		728,223	725,473
Capital Improvements	175,071		175,071	175,071
Revolving Loan	12,842		12,842	12,842
Unrestricted	375,950	353,926	729,876	742,366
Total Net Position	1,470,378	2,666,406	4,136,784	4,055,934
Total Liabilities and Net Position	\$ 2,110,888	\$ 3,845,314	\$ 5,956,202	\$ 5,975,492

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2014

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

	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals	
							2014	2013
GOVERNMENTAL ACTIVITIES								
General Government	\$ 102,703	\$ 4,214	\$	\$	\$ (98,489)	\$	\$ (98,489)	\$ (135,522)
Public Safety	67,352		3,808		(63,544)		(63,544)	(97,039)
Public Works	155,300	23,161	1,583		(130,556)		(130,556)	635,488
Sanitation	39,176	41,913			2,737		2,737	2,659
Culture and Recreation	64,709	6,220		48,480	(10,009)		(10,009)	(61,075)
Interest on Long-Term Debt	21,366				(21,366)		(21,366)	(18,458)
Total Governmental Activities	450,606	75,508	5,391	48,480	(321,227)	0	(321,227)	326,053
BUSINESS-TYPE ACTIVITIES								
Fire	124,806	100,047	17,403	100		(7,256)	(7,256)	4,243
Sewer	68,485	58,675		50		(9,760)	(9,760)	(707)
Water	176,677	163,651				(13,026)	(13,026)	727,777
Total Business-Type Activities	369,968	322,373	17,403	150	0	(30,042)	(30,042)	731,313
Total	\$ 820,574	\$ 397,881	\$ 22,794	\$ 48,630	(321,227)	(30,042)	(351,269)	1,057,366
GENERAL REVENUES								
Property Taxes					254,537		254,537	258,808
Grants and Contributions not Restricted to Specific Programs					141,232		141,232	135,897
Interest Income					2,614	316	2,930	3,199
Gain on Asset Disposal					11,949		11,949	14,184
Other					21,471		21,471	8,308
TRANSFERS					(44,708)	44,708		
Total General Revenues and Transfers					387,095	45,024	432,119	420,396
Change in Net Position					65,868	14,982	80,850	1,477,762
NET POSITION, BEGINNING OF YEAR					1,404,510	2,651,424	4,055,934	2,578,172
NET POSITION, END OF YEAR					\$ 1,470,378	\$ 2,666,406	\$ 4,136,784	\$ 4,055,934

See Accompanying Notes to the Financial Statements

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CITY OF COSMOS, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2013

	General	Trash Collection	Redevelopment Revolving Loan	2011A G.O. Improvement	2013A G.O. Improvement	Public Works Reserve	Building Reserve	2013 Improvement Project	Totals	
									2014	2013
ASSETS										
Cash	\$ 136,475	\$ 5,273	\$ 6,391	\$	\$ 107,791	\$ 100,055	\$ 81,191	\$ 175,071	\$ 612,247	\$ 521,207
Receivables										
Accounts		8,400							8,400	8,290
Interest	679								679	679
Loans			6,451						6,451	6,451
Delinquent Taxes	19,052								19,052	10,124
Special Assessments	163			19,286	622,171				641,620	670,064
Due from Other Funds	13,830								13,830	21,739
Due from Other Governmental Units	23,371				2,906				26,277	22,910
Prepaid Items	7,692	178							7,870	10,368
Total Assets	\$ 201,262	\$ 13,851	\$ 12,842	\$ 19,286	\$ 732,868	\$ 100,055	\$ 81,191	\$ 175,071	\$ 1,336,426	\$ 1,271,832
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE										
Liabilities										
Accounts Payable	\$ 5,337	\$	\$	\$	\$	\$	\$ 12,725	\$	\$ 18,062	\$ 8,950
Contracts Payable										4,730
Salaries Payable	2,739								2,739	710
Due to Other Funds				13,830					13,830	21,739
Due to Other Governmental Units	2,512								2,512	1,946
Customer Deposits		3,878							3,878	3,878
Unearned Revenue										1,450
Total Liabilities	10,588	3,878	0	13,830	0	0	12,725	0	41,021	43,403
Deferred Inflows of Resources										
Unavailable Revenue										
Loans			6,451						6,451	6,451
Delinquent Taxes	19,052								19,052	10,124
Special Assessments	163			19,286	622,171				641,620	670,064
Total Deferred Inflows of Resources	19,215	0	6,451	19,286	622,171	0	0	0	667,123	686,639
Fund Balance										
Nonspendable	7,692	178							7,870	10,368
Restricted										
Capital Improvements								175,071	175,071	175,071
Debt Service					110,697				110,697	76,660
Revolving Loan			6,391						6,391	6,391
Assigned for Fund Operations		9,795				100,055	68,466		178,316	141,565
Unassigned	163,767			(13,830)					149,937	131,735
Total Fund Balance	171,459	9,973	6,391	(13,830)	110,697	100,055	68,466	175,071	628,282	541,790
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 201,262	\$ 13,851	\$ 12,842	\$ 19,286	\$ 732,868	\$ 100,055	\$ 81,191	\$ 175,071	\$ 1,336,426	\$ 1,271,832

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, 2014

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2013

	<u>2014</u>	<u>2013</u>
Total Fund Balances - Governmental Funds	\$ 628,282	\$ 541,790
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.		
Governmental Capital Assets	1,874,975	1,842,705
Less: Accumulated Depreciation	(1,086,683)	(1,025,690)
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	19,052	10,124
Special Assessments	641,620	670,064
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.		
Bonds and Notes Payable	(610,000)	(638,000)
Compensated Absences	(1,581)	(1,132)
Accrued Interest Payable	(1,738)	(1,802)
	<u> </u>	<u> </u>
Total Net Position - Governmental Activities	<u>\$ 1,470,378</u>	<u>\$ 1,404,510</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, 2014
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2013

	General	Trash Collection	Redevelopment Revolving Loan	2011A	2013A	Public Works Reserve	Building Reserve	2013	Totals	
				G.O. Improvement	G.O. Improvement			Improvement Project	2014	2013
REVENUES										
Taxes	\$ 245,609	\$	\$	\$	\$	\$	\$	\$	\$ 245,609	\$ 260,261
Special Assessments					51,605				51,605	78,246
Licenses and Permits	4,214								4,214	6,161
Intergovernmental	146,831								146,831	146,484
Charges for Services	6,220	41,912							48,132	44,286
Fines and Forfeits	217								217	467
Interest Income	2,594	16					4		2,614	1,897
Refunds and Reimbursements	13,632								13,632	6,025
Donations	25						48,480		48,505	340
Miscellaneous	7,389								7,389	26,677
Total Revenues	426,731	41,928	0	0	51,605	0	48,484	0	568,748	570,844
EXPENDITURES										
Current										
General Government	125,705								125,705	139,733
Public Safety	59,371								59,371	99,916
Public Works	90,869								90,869	86,459
Sanitation		39,176							39,176	37,180
Culture and Recreation	39,868								39,868	52,919
Capital Outlay										
General Government	2,793								2,793	2,121
Public Safety										1,388
Public Works	11,198								11,198	321,138
Culture and Recreation	6,962						24,126		31,088	40,014
Debt Service										
Principal				28,000					28,000	28,000
Interest and Fiscal Charges				3,861	17,568				21,429	17,057
Total Expenditures	336,766	39,176	0	31,861	17,568	0	24,126	0	449,497	825,925
Excess (Deficiency) of Revenues Over (Under) Expenditures	89,965	2,752	0	(31,861)	34,037	0	24,358	0	119,251	(255,081)
OTHER FINANCING SOURCES (USES)										
G.O. Improvement Note Proceeds										488,000
Transfers In				39,770			9,700		49,470	34,408
Transfers Out	(94,178)								(94,178)	(54,408)
Sale of Assets	11,949								11,949	14,184
Total Other Financing Sources (Uses)	(82,229)	0	0	39,770	0	0	9,700	0	(32,759)	482,184
Net Change in Fund Balances	7,736	2,752	0	7,909	34,037	0	34,058	0	86,492	227,103
FUND BALANCE, BEGINNING OF YEAR	163,723	7,221	6,391	(21,739)	76,660	100,055	34,408	175,071	541,790	314,687
FUND BALANCE, END OF YEAR	\$ 171,459	\$ 9,973	\$ 6,391	\$ (13,830)	\$ 110,697	\$ 100,055	\$ 68,466	\$ 175,071	\$ 628,282	\$ 541,790

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, 2014
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>2014</u>	<u>2013</u>
Total Net Change in Fund Balances - Governmental Funds	\$ 86,492	\$ 227,103
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are reported in the governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.		
Capital Outlay	45,079	366,440
Depreciation Expense	(66,330)	(53,543)
Gain (Loss) on Asset Disposals	(7,472)	
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent Taxes	8,928	(1,720)
Special Assessments	(28,444)	646,533
In the Statement of Activities, certain operating expenses - compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).		
Compensated Absences	(449)	943
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position		
Proceeds from Issuance of Long-Term Debt		(488,000)
Principal Retirement of Long-Term Debt	28,000	28,000
Change in Accrued Interest Payable	64	(1,401)
Change in Net Position - Governmental Activities	<u>\$ 65,868</u>	<u>\$ 724,355</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, 2014
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2013

	2014			Over (Under) Final Budget	2013
	Budgeted Amounts		Actual		Actual
	Original	Final			
REVENUES					
Taxes	\$ 251,380	\$ 251,380	\$ 245,609	\$ (5,771)	\$ 260,261
Special Assessments					267
Licenses and Permits	4,000	4,000	4,214	214	6,161
Intergovernmental	147,632	147,632	146,831	(801)	146,484
Charges for Services	7,000	7,000	6,220	(780)	4,447
Fines and Forfeits	500	500	217	(283)	467
Interest Income	2,500	2,500	2,594	94	886
Refunds and Reimbursements	1,850	1,850	13,632	11,782	6,025
Donations			25	25	340
Miscellaneous	7,000	7,000	7,389	389	26,677
Total Revenues	421,862	421,862	426,731	4,869	452,015
EXPENDITURES					
Current					
General Government	105,080	105,080	125,705	20,625	139,733
Public Safety	120,088	120,088	59,371	(60,717)	99,916
Public Works	89,622	89,622	90,869	1,247	86,459
Culture and Recreation	37,260	37,260	39,868	2,608	52,919
Capital Outlay					
General Government	3,100	3,100	2,793	(307)	2,121
Public Safety	10,200	10,200		(10,200)	1,388
Public Works	19,304	19,304	11,198	(8,106)	30,208
Culture and Recreation	12,500	12,500	6,962	(5,538)	40,014
Total Expenditures	397,154	397,154	336,766	(60,388)	452,758
Excess (Deficiency) of Revenues Over (Under) Expenditures	24,708	24,708	89,965	65,257	(743)
OTHER FINANCING SOURCES (USES)					
Transfers Out	(24,708)	(24,708)	(94,178)	(69,470)	(34,408)
Sale of Assets			11,949	11,949	14,184
Total Other Financing Sources (Uses)	(24,708)	(24,708)	(82,229)	(57,521)	(20,224)
Net Change in Fund Balances	\$ 0	\$ 0	7,736	\$ 7,736	(20,967)
FUND BALANCE, BEGINNING OF YEAR			163,723		184,690
FUND BALANCE, END OF YEAR			\$ 171,459		\$ 163,723

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, 2014
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2013

	2014			Over (Under) Final Budget	2013
	Budgeted Amounts		Actual		Actual
	Original	Final			
REVENUES					
Charges for Services	\$ 39,000	\$ 39,000	\$ 41,912	\$ 2,912	\$ 39,839
Interest Income			16	16	20
Total Revenues	<u>39,000</u>	<u>39,000</u>	<u>41,928</u>	<u>2,928</u>	<u>39,859</u>
EXPENDITURES					
Current					
Sanitation	<u>39,000</u>	<u>39,000</u>	<u>39,176</u>	<u>176</u>	<u>37,180</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	0	2,752	2,752	2,679
OTHER FINANCING SOURCES (USES)					
Transfers Out					(20,000)
Net Change in Fund Balances	<u>\$ 0</u>	<u>\$ 0</u>	2,752	<u>\$ 2,752</u>	(17,321)
FUND BALANCE, BEGINNING OF YEAR			<u>7,221</u>		<u>24,542</u>
FUND BALANCE, END OF YEAR			<u>\$ 9,973</u>		<u>\$ 7,221</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, 2014
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2013

	2014			2013	
	Budgeted Amounts		Actual	Over (Under) Final Budget	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, 2014

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2013

	Business-Type Activities - Enterprise Funds				
	Fire	Sewer	Water	Totals	
				2014	2013
ASSETS					
Current Assets					
Cash	\$ 122,172	\$ 135,235	\$ 59,116	\$ 316,523	\$ 395,728
Accounts Receivable	10,020	8,752	28,636	47,408	38,886
Due from Other Governmental Units	1,500			1,500	16,425
Due from Other Funds					37,993
Prepaid Items	2,331	1,096	1,873	5,300	3,387
Total Current Assets	136,023	145,083	89,625	370,731	492,419
Noncurrent Assets					
Capital Assets					
Assets Not Being Depreciated					896,481
Other Capital Assets, Net of Depreciation	370,783	262,710	2,841,090	3,474,583	2,557,477
Total Noncurrent Assets	370,783	262,710	2,841,090	3,474,583	3,453,958
Total Assets	\$ 506,806	\$ 407,793	\$ 2,930,715	\$ 3,845,314	\$ 3,946,377
LIABILITIES AND NET POSITION					
Liabilities					
Current Liabilities					
Accounts Payable	\$ 4,221	\$ 129	\$ 175	\$ 4,525	\$ 11,592
Salaries Payable		269	403	672	305
Due to Other Funds					37,993
Due to Other Governmental Units					527
Accrued Interest Payable			5,559	5,559	5,696
Customer Deposits		2,175	3,874	6,049	6,049
Current Portion of Note Payable			92,000	92,000	85,000
Total Current Liabilities	4,221	2,573	102,011	108,805	147,162
Noncurrent Liabilities					
Note Payable, Net of Current Portion			1,070,103	1,070,103	1,147,791
Total Liabilities	4,221	2,573	1,172,114	1,178,908	1,294,953
Net Position					
Net Investment in Capital Assets	370,783	262,710	1,678,987	2,312,480	2,221,167
Unrestricted	131,802	142,510	79,614	353,926	430,257
Total Net Position	502,585	405,220	1,758,601	2,666,406	2,651,424
Total Liabilities and Net Position	\$ 506,806	\$ 407,793	\$ 2,930,715	\$ 3,845,314	\$ 3,946,377

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, 2014
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2013

	Business-Type Activities - Enterprise Funds				
	Fire	Sewer	Water	Totals	
				2014	2013
OPERATING REVENUES					
Fire Contracts/Calls	\$ 52,393	\$	\$	\$ 52,393	\$ 59,210
Ambulance Charges	47,654			47,654	46,351
Sewer Charges		58,675		58,675	57,845
Water Charges			163,651	163,651	142,122
Total Operating Revenues	100,047	58,675	163,651	322,373	305,528
OPERATING EXPENSES					
Salaries and Benefits	9,339	11,484	17,348	38,171	53,968
Insurance	6,746	3,292	5,641	15,679	11,663
Supplies	12,558	18,593	2,957	34,108	49,349
Maintenance and Repair	4,066	15,119	11,187	30,372	76,483
Gas, Oil and Fuel	7,891			7,891	3,666
Testing		1,959		1,959	1,633
Electricity	183	1,644	7,804	9,631	12,895
Firemen's Relief	15,900			15,900	9,211
Telephone	1,390		463	1,853	2,018
Education and Conferences	7,119			7,119	8,397
Miscellaneous	7,612	1,535	5,547	14,694	11,113
Depreciation	52,002	14,859	109,389	176,250	139,231
Total Operating Expenses	124,806	68,485	160,336	353,627	379,627
Operating Income (Loss)	(24,759)	(9,810)	3,315	(31,254)	(74,099)
NONOPERATING REVENUES (EXPENSES)					
Intergovernmental	17,403			17,403	821,096
Interest Income	316			316	1,302
Gain (Loss) on Asset Disposal					(95)
Other Income	100	50		150	2,292
Interest Expense			(16,341)	(16,341)	(17,089)
Total Nonoperating Revenues (Expenses)	17,819	50	(16,341)	1,528	807,506
Income (Loss) Before Transfers	(6,940)	(9,760)	(13,026)	(29,726)	733,407
TRANSFERS					
Transfers In			102,701	102,701	20,000
Transfers Out		(57,993)		(57,993)	
Total Transfers	0	(57,993)	102,701	44,708	20,000
Change in Net Position	(6,940)	(67,753)	89,675	14,982	753,407
NET POSITION, BEGINNING OF YEAR					
	509,525	472,973	1,668,926	2,651,424	1,898,017
NET POSITION, END OF YEAR					
	\$ 502,585	\$ 405,220	\$ 1,758,601	\$ 2,666,406	\$ 2,651,424

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 YEAR ENDED DECEMBER 31, 2014

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

	Business-Type Activities - Enterprise Funds				
	Fire	Sewer	Water	Totals	
				2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers	\$ 93,879	\$ 56,347	\$ 178,550	\$ 328,776	\$ 295,199
Payments to Suppliers	(15,323)	(35,833)	(23,311)	(74,467)	(129,832)
Payments to Other Sources	(45,439)	(8,776)	(20,031)	(74,246)	(62,527)
Payments to Employees	(9,339)	(11,337)	(17,128)	(37,804)	(53,764)
Net Cash Provided (Used) by Operating Activities	23,778	401	118,080	142,259	49,076
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers In (Out)		(57,993)	102,701	44,708	20,000
Interfund Loans		37,993	(37,993)		
Net Cash Provided (Used) by Noncapital Financing Activities	0	(20,000)	64,708	44,708	20,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Intergovernmental Revenue	17,403			17,403	821,096
Other Receipts	100	50		150	26,792
Proceeds from Note Payable			19,344	19,344	83,085
Principal Payments on Note Payable			(90,032)	(90,032)	(83,541)
Interest Payments on Note Payable			(16,478)	(16,478)	(17,088)
Acquisition of Capital Assets	(92,259)	(68,110)	(36,506)	(196,875)	(873,030)
Net Cash Provided (Used) by Capital and Related Financing Activities	(74,756)	(68,060)	(123,672)	(266,488)	(42,686)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest Income	316			316	1,302
Net Increase (Decrease) in Cash and Cash Equivalents	(50,662)	(87,659)	59,116	(79,205)	27,692
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>172,834</u>	<u>222,894</u>		<u>395,728</u>	<u>368,036</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 122,172</u>	<u>\$ 135,235</u>	<u>\$ 59,116</u>	<u>\$ 316,523</u>	<u>\$ 395,728</u>

See Accompanying Notes to the Financial Statements

CITY OF COSMOS, MINNESOTA

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2014

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

	Business-Type Activities - Enterprise Funds				
	Fire	Sewer	Water	Totals	
				2014	2013
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES					
Operating Income (Loss)	\$ (24,759)	\$ (9,810)	\$ 3,315	\$ (31,254)	\$ (74,099)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Depreciation	52,002	14,859	109,389	176,250	139,231
(Increase) Decrease in Assets					
Accounts Receivable	(5,668)	(2,328)	(526)	(8,522)	6,096
Due from Other Governments	(500)		15,425	14,925	(16,425)
Prepaid Items	(991)	(346)	(576)	(1,913)	(1,469)
Increase (Decrease) in Liabilities					
Accounts Payable	4,221	(2,121)	(9,167)	(7,067)	(4,989)
Due to Other Governmental Units	(527)			(527)	527
Salaries Payable		147	220	367	204
Net Cash Provided (Used) by Operating Activities	<u>\$ 23,778</u>	<u>\$ 401</u>	<u>\$ 118,080</u>	<u>\$ 142,259</u>	<u>\$ 49,076</u>

See Accompanying Notes to the Financial Statements

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CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

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, 2014

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, 2014

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, 2014

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, 2014, 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, 2014

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, 2014

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/DEFERRED INFOWS OF RESOURCES

Unearned revenue/deferred inflows of resources 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/deferred inflows of resources.

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

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, 2014

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, 2014

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, 2013, 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, 2014

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:

2011A G.O. Improvement Debt Service	\$ (13,830)
-------------------------------------	-------------

C. EXPENDITURES EXCEEDING APPROPRIATIONS

The following fund had expenditures that exceeded appropriations:

	<u>Expenditure</u>	<u>Appropriations</u>
Trash Collection	\$ 39,176	\$ 39,000

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, 2014, 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 is as follows:

	<u>Book Balance</u>
Pooled Cash in Checking Account	\$ 141,956
Pooled Cash in Savings Account	301,780
Non-Negotiable Certificates of Deposit	400,000
Special Purpose Bank Accounts	
Fire-Checking	13,261
Fire-Money Market Savings	23,056
Library Donation-Checking	347
Building Fund	48,307
Petty Cash	63
	<hr/>
Total Cash	<u>\$ 928,770</u>

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE 4. RECEIVABLES

Receivables are as follows:

	Total Receivables	Amounts not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Accounts	\$ 8,400	\$
Interest	679	
Loans	6,451	
Delinquent Taxes	19,052	
Special Assessments	641,620	592,346
	<u>641,620</u>	<u>592,346</u>
Total Governmental Activities	<u>\$ 676,202</u>	<u>\$ 592,346</u>
Business-Type Activities		
Accounts	<u>\$ 47,408</u>	<u>\$ 0</u>

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated				
Land	\$ 55,166	\$	\$	\$ 55,166
Construction in Progress	217,468	24,126	(217,468)	24,126
Total Capital Assets, Not Being Depreciated	272,634	24,126	(217,468)	79,292
Capital Assets, Being Depreciated				
Buildings	73,510			73,510
Improvements Other than Buildings	1,346,897	217,468		1,564,365
Machinery and Equipment	149,664	20,953	(12,809)	157,808
Total Capital Assets Being Depreciated	1,570,071	238,421	(12,809)	1,795,683

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

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	\$ 54,089	\$ 3,508	\$	\$ 57,597
Improvements Other than Buildings	870,967	47,660		918,627
Machinery and Equipment	100,634	15,162	(5,337)	110,459
Total Accumulated Depreciation	<u>1,025,690</u>	<u>66,330</u>	<u>(5,337)</u>	<u>1,086,683</u>
 Total Capital Assets, Being Depreciated, Net	<u>544,381</u>	<u>172,091</u>	<u>(7,472)</u>	<u>709,000</u>
 Governmental Activities Net Capital Assets	<u>\$ 817,015</u>	<u>\$ 196,217</u>	<u>\$ (224,940)</u>	<u>\$ 788,292</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	\$ 896,481	\$	\$ (896,481)	\$
Capital Assets, Being Depreciated				
Buildings	1,397,577			1,397,577
Improvements Other than Buildings	1,940,254	948,626		2,888,880
Machinery and Equipment	741,036	144,730		885,766
Total Capital Assets, Being Depreciated	<u>4,078,867</u>	<u>1,093,356</u>	<u>0</u>	<u>5,172,223</u>
Less Accumulated Depreciation for				
Buildings	539,085	39,804		578,889
Improvements Other than Buildings	558,980	82,611		641,591
Machinery and Equipment	423,325	53,835		477,160
Total Accumulated Depreciation	<u>1,521,390</u>	<u>176,250</u>	<u>0</u>	<u>1,697,640</u>
 Total Capital Assets, Being Depreciated, Net	<u>2,557,477</u>	<u>917,106</u>	<u>0</u>	<u>3,474,583</u>
 Business-Type Activities Net Capital Assets	<u>\$ 3,453,958</u>	<u>\$ 917,106</u>	<u>\$ (896,481)</u>	<u>\$ 3,474,583</u>

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE 5. CAPITAL ASSETS (Cont'd)

Depreciation expense was charged to functions/programs as follows:

Governmental Activities		
General Government		\$ 1,045
Public Safety		7,981
Public Works		56,774
Culture and Recreation		530
		<hr/>
Total Depreciation Expense - Governmental Activities		<u>\$ 66,330</u>
Business-Type Activities		
Fire		\$ 52,002
Sewer		14,859
Water		109,389
		<hr/>
Total Depreciation Expense - Business-Type Activities		<u>\$ 176,250</u>

NOTE 6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	2011A G.O. Improvement Debt Service	<u>\$ 13,830</u>

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 is as follows:

	<u>Transfer In</u>			<u>Total</u>
	<u>Building Reserve</u>	<u>Water</u>	<u>2011A G.O. Improvement</u>	
Transfer Out				
General	\$ 9,700	\$ 44,708	\$ 39,770	\$ 94,178
Sewer		57,993		57,993

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, 2014

NOTE 7. LONG-TERM DEBT

A. GENERAL OBLIGATION BONDS

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

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

B. COMPONENTS OF LONG-TERM DEBT

	Interest Rates	Final Maturity Date	Balance Outstanding
<u>Governmental Activities</u>			
G.O. Improvement Note, Series 2011A	2.70%	12/01/2018	\$ 122,000
G.O. Improvement Note, Series 2013A	3.60%	02/01/2029	488,000
Compensated Absences			1,581
			<u>\$ 611,581</u>
<u>Business-Type Activities</u>			
G.O. Revenue Note - Water Treatment Plant	1.720%	08/20/2024	\$ 514,706
G.O. Revenue Note - Water Tower	1.092%	08/20/2027	362,000
G.O. Revenue Note - Looping	1.00%	08/20/2029	188,000
G.O. Improvement Note, Series 2013A	*	*	97,397
			<u>\$ 1,162,103</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, 2014

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
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>\$ 122,000</u>	<u>\$ 7,560</u>	<u>\$ 129,560</u>

Year Ending December 31	Governmental Activities		
	G.O. Improvement Note, Series 2013A		
	Principal	Interest	Total
2015	\$ 26,000	\$ 17,100	\$ 43,100
2016	26,000	16,164	42,164
2017	27,000	15,210	42,210
2018	28,000	14,220	42,220
2019	29,000	13,194	42,194
2020-2024	160,000	49,320	209,320
2025-2029	192,000	17,748	209,748
	<u>\$ 488,000</u>	<u>\$ 142,956</u>	<u>\$ 630,956</u>

Year Ending December 31	Business-Type Activities		
	G.O. Revenue Notes*		
	Principal	Interest	Total
2015	\$ 86,000	\$ 14,686	\$ 100,686
2016	86,000	13,458	99,458
2017	88,000	12,228	100,228
2018	89,000	10,968	99,968
2019	90,000	9,694	99,694
2020-2024	472,700	28,626	501,326
2025-2029	153,006	3,883	156,889
	<u>\$ 1,064,706</u>	<u>\$ 93,543</u>	<u>\$ 1,158,249</u>

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

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

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

D. CHANGES IN LONG-TERM LIABILITIES

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
G.O. Improvement Notes	\$ 150,000	\$	\$ (28,000)	\$ 122,000	\$ 29,000
G.O. Improvement Bonds	488,000			488,000	26,000
Compensated Absences	1,132	3,760	(3,311)	1,581	
Total Governmental Activities	\$ 639,132	\$ 3,760	\$ (31,311)	\$ 611,581	\$ 55,000
<u>Business-Type Activities</u>					
G.O. Revenue Notes	\$ 1,149,706	\$	\$ (85,000)	\$ 1,064,706	\$ 86,000
G.O. Improvement Note	83,085	19,344	(5,032)	97,397	6,000
Total Business-Type Activities	\$ 1,232,791	\$ 19,344	\$ (90,032)	\$ 1,162,103	\$ 92,000

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 2014 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2014, 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, 2014

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, 2014

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 2014. PEPFF members were required to contribute 10.2% of their annual covered salary in 2014.

In 2014, 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 15.3% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2014, 2013, and 2012 were \$6,658, \$7,559, and \$6,745, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2014, 2013, and 2012, were \$1,937, \$4,482, and \$7,498, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute. Contribution rates will increase on January 1, 2015 in the Coordinated Plan (6.5% for members and 7.5% for employers) and the Police and Fire Fund (10.8% for members and 16.2% for employers).

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE 11. FUND BALANCE

The following is a summary of fund balance components at December 31, 2014:

	General	Trash Collection	Redevelopment Revolving Loan	2011A G.O. Improvement	2013A G.O. Improvement
Nonspendable Prepaid Items	\$ 7,692	\$ 178	\$	\$	\$
Restricted for Revolving Loan Debt Service			6,391		110,697
Total Restricted	<u>0</u>	<u>0</u>	<u>6,391</u>	<u>0</u>	<u>110,697</u>
Assigned Fund Operations		9,795			
Unassigned	<u>163,767</u>			<u>(13,830)</u>	
	<u>\$ 171,459</u>	<u>\$ 9,973</u>	<u>\$ 6,391</u>	<u>\$ (13,830)</u>	<u>\$ 110,697</u>
		Public Works Reserve	Building Reserve	2013 Improvement Project	Total
Nonspendable Prepaid Items		\$	\$	\$	\$ 7,870
Restricted for Revolving Loan Debt Service					6,391
Capital Projects				175,071	175,071
Total Restricted		<u>0</u>	<u>0</u>	<u>175,071</u>	<u>292,159</u>
Assigned Fund Operations		100,055	68,466		178,316
Unassigned					<u>149,937</u>
	<u>\$ 100,055</u>	<u>\$ 68,466</u>	<u>\$ 175,071</u>	<u>\$ 175,071</u>	<u>\$ 628,282</u>

CITY OF COSMOS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

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, 2014, 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.

SUPPLEMENTARY INFORMATION

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CITY OF COSMOS, MINNESOTA

BALANCE SHEET
GENERAL FUND
DECEMBER 31, 2014

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash	\$ 136,475	\$ 117,527
Receivables		
Accounts		3,675
Interest	679	679
Delinquent Taxes	19,052	10,124
Special Assessments	163	163
Due from Other Funds	13,830	21,739
Due from Other Governmental Units	23,371	22,910
Prepaid Items	7,692	10,249
	<u>7,692</u>	<u>10,249</u>
Total Assets	<u>\$ 201,262</u>	<u>\$ 187,066</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE		
Liabilities		
Accounts Payable	\$ 5,337	\$ 8,950
Salaries Payable	2,739	710
Due to Other Governmental Units	2,512	1,946
Unearned Revenue		1,450
Total Liabilities	<u>10,588</u>	<u>13,056</u>
Deferred Inflows of Resources		
Unavailable Revenue		
Delinquent Taxes	19,052	10,124
Special Assessments	163	163
Total Deferred Inflows of Resources	<u>19,215</u>	<u>10,287</u>
Fund Balance		
Nonspendable	7,692	10,249
Unassigned	163,767	153,474
Total Fund Balance	<u>171,459</u>	<u>163,723</u>
	<u>171,459</u>	<u>163,723</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 201,262</u>	<u>\$ 187,066</u>

CITY OF COSMOS, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2014
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2013

	2014		2013	
	Final Budget	Actual	Over (Under) Final Budget	Actual
REVENUES				
Property Taxes	\$ 251,380	\$ 245,609	\$ (5,771)	\$ 260,261
Special Assessments				267
Licenses and Permits	4,000	4,214	214	6,161
Intergovernmental				
Local Government Aid	141,232	141,232		128,232
Market Value Credit Aid		207	207	218
Police State Aid	6,400	3,808	(2,592)	7,580
Other State Aid		1,584	1,584	10,454
Total Intergovernmental	<u>147,632</u>	<u>146,831</u>	<u>(801)</u>	<u>146,484</u>
Charges for Services	7,000	6,220	(780)	4,447
Fines and Forfeits	500	217	(283)	467
Interest Income	2,500	2,594	94	886
Refunds and Reimbursements	1,850	13,632	11,782	6,025
Donations		25	25	340
Miscellaneous				
Finance Charges	4,000	7,183	3,183	5,579
Other	3,000	206	(2,794)	21,098
Total Miscellaneous	<u>7,000</u>	<u>7,389</u>	<u>389</u>	<u>26,677</u>
Total Revenues	<u>421,862</u>	<u>426,731</u>	<u>4,869</u>	<u>452,015</u>

CITY OF COSMOS, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2014
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2013

	2014		Over (Under) Final Budget	2013
	Final Budget	Actual		Actual
EXPENDITURES				
Current				
General Government				
Mayor and Council				
Salaries and Benefits	\$ 6,300	\$ 5,480	\$ (820)	\$ 4,979
Legal Service	3,000	1,300	(1,700)	22,764
Building/Health Inspector	3,600		(3,600)	4,440
Consulting Fees	2,100	1,428	(672)	15,052
Insurance	2,000	4,281	2,281	2,253
Advertising and Printing	2,000	874	(1,126)	2,348
Miscellaneous	3,000	6,279	3,279	8,890
Total Mayor and Council	<u>22,000</u>	<u>19,642</u>	<u>(2,358)</u>	<u>60,726</u>
Elections				
City Hall				
Utilities	1,000	338	(662)	1,176
Telephone	2,000	3,193	1,193	2,274
Repairs	300	1,001	701	483
Supplies	3,400	3,641	241	2,983
Total City Hall	<u>6,700</u>	<u>8,173</u>	<u>1,473</u>	<u>6,916</u>
Clerk and Secretary				
Salaries	37,750	60,363	22,613	35,788
Benefits	5,900	8,209	2,309	5,195
Insurance	11,200	6,130	(5,070)	11,378
Auditing and Accounting	16,500	19,150	2,650	15,450
Miscellaneous	2,030	1,210	(820)	1,523
Total Clerk and Secretary	<u>73,380</u>	<u>95,062</u>	<u>21,682</u>	<u>69,334</u>
Assessor				
Total General Government	<u>105,080</u>	<u>125,705</u>	<u>20,625</u>	<u>139,733</u>

CITY OF COSMOS, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED DECEMBER 31, 2014

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

	2014		2013	
	Final Budget	Actual	Over (Under) Final Budget	Actual
EXPENDITURES (Cont'd)				
Current (Cont'd)				
Public Safety				
Police Protection				
Salaries	\$ 55,500	\$ 16,161	\$ (39,339)	\$ 40,050
Benefits	8,800	2,480	(6,320)	5,320
Telephone	1,900	2,198	298	1,901
Insurance	15,000	7,706	(7,294)	13,929
Repairs	1,500	414	(1,086)	4,342
Supplies	2,500	1,243	(1,257)	1,047
Gas and Oil	6,000		(6,000)	3,647
Miscellaneous	3,600	3,555	(45)	4,393
Total Police Protection	94,800	33,757	(61,043)	74,629
Fire Protection	25,288	25,614	326	25,287
Total Public Safety	120,088	59,371	(60,717)	99,916
Public Works				
Salaries	20,340	14,690	(5,650)	20,946
Benefits	2,500	2,527	27	3,172
Utilities	2,000		(2,000)	1,131
Telephone	800	1,292	492	1,071
Street Lighting	14,000	15,719	1,719	14,368
Repairs	20,982	31,064	10,082	13,486
Supplies	10,000	3,741	(6,259)	11,874
Gas and Oil	2,700	2,922	222	3,082
Snow Removal	12,000	4,452	(7,548)	10,504
Insurance	4,100	7,244	3,144	6,386
Miscellaneous	200	7,218	7,018	439
Total Public Works	89,622	90,869	1,247	86,459

CITY OF COSMOS, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2014
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2013

	2014		Over (Under) Final Budget	2013
	Final Budget	Actual		Actual
EXPENDITURES (Cont'd)				
Current (Cont'd)				
Culture and Recreation				
Library				
Supplies	\$	\$ 247	\$ 247	\$
Miscellaneous		450	450	
Total Library	0	697	697	0
Parks				
Salaries	19,310	19,504	194	19,496
Benefits	1,500	1,692	192	2,205
Electricity	1,500	2,480	980	934
Insurance	2,200	3,621	1,421	3,455
Repairs	1,500	969	(531)	18,717
Supplies	8,000	6,492	(1,508)	4,471
Miscellaneous	3,250	4,413	1,163	3,641
Total Parks	37,260	39,171	1,911	52,919
Total Culture and Recreation	37,260	39,868	2,608	52,919
Total Current	352,050	315,813	(36,237)	379,027

CITY OF COSMOS, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED DECEMBER 31, 2014

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

	2014		2013	
	Final Budget	Actual	Over (Under) Final Budget	Actual
EXPENDITURES (Cont'd)				
Capital Outlay				
General Government	\$ 3,100	\$ 2,793	\$ (307)	\$ 2,121
Public Safety	10,200		(10,200)	1,388
Public Works	19,304	11,198	(8,106)	30,208
Culture and Recreation	12,500	6,962	(5,538)	40,014
Total Capital Outlay	<u>45,104</u>	<u>20,953</u>	<u>(24,151)</u>	<u>73,731</u>
Total Expenditures	<u>397,154</u>	<u>336,766</u>	<u>(60,388)</u>	<u>452,758</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	24,708	89,965	65,257	(743)
OTHER FINANCING SOURCES (USES)				
Transfers Out	(24,708)	(94,178)	(69,470)	(34,408)
Sale of Assets		11,949	11,949	14,184
Total Other Financing Sources (Uses)	<u>(24,708)</u>	<u>(82,229)</u>	<u>(57,521)</u>	<u>(20,224)</u>
Net Change in Fund Balances	<u>\$ 0</u>	7,736	<u>\$ 7,736</u>	(20,967)
FUND BALANCE, BEGINNING OF YEAR		<u>163,723</u>		<u>184,690</u>
FUND BALANCE, END OF YEAR		<u>\$ 171,459</u>		<u>\$ 163,723</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, 2014
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2013

	2014		2013	
	Final Budget	Actual	Over (Under) Final Budget	Actual
REVENUES				
Charges for Services	\$ 39,000	\$ 41,912	\$ 2,912	\$ 39,839
Interest Income		16	16	20
Total Revenues	<u>39,000</u>	<u>41,928</u>	<u>2,928</u>	<u>39,859</u>
EXPENDITURES				
Current				
Sanitation				
Insurance	500	532	32	444
Collection Contract	<u>38,500</u>	<u>38,644</u>	<u>144</u>	<u>36,736</u>
Total Expenditures	<u>39,000</u>	<u>39,176</u>	<u>176</u>	<u>37,180</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	2,752	2,752	2,679
OTHER FINANCING SOURCES (USES)				
Transfers Out				<u>(20,000)</u>
Net Change in Fund Balances	<u>\$ 0</u>	<u>2,752</u>	<u>\$ 2,752</u>	<u>(17,321)</u>
FUND BALANCE, BEGINNING OF YEAR		<u>7,221</u>		<u>24,542</u>
FUND BALANCE, END OF YEAR		<u>\$ 9,973</u>		<u>\$ 7,221</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, 2014
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2013

	2014		Over (Under) Final Budget	2013
	Final Budget	Actual		Actual
REVENUES				
CDBG Loan Repayments	\$	\$	\$	\$
EXPENDITURES				
Net Change in Fund Balances	<u>\$ 0</u>	0	<u>\$ 0</u>	0
FUND BALANCE, BEGINNING OF YEAR		<u>6,391</u>		<u>6,391</u>
FUND BALANCE, END OF YEAR		<u>\$ 6,391</u>		<u>\$ 6,391</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF NET POSITION
 FIRE ENTERPRISE FUND
 DECEMBER 31, 2014

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets		
Cash	\$ 122,172	\$ 172,834
Accounts Receivable	10,020	4,352
Due from Other Governmental Units	1,500	1,000
Prepaid Items	2,331	1,340
Total Current Assets	<u>136,023</u>	<u>179,526</u>
Noncurrent Assets		
Capital Assets		
Other Capital Assets, Net of Depreciation	<u>370,783</u>	<u>330,526</u>
Total Assets	<u>\$ 506,806</u>	<u>\$ 510,052</u>
LIABILITIES AND NET POSITION		
Liabilities		
Current Liabilities		
Accounts Payable	\$ 4,221	\$ 527
Due to Other Governmental Units		527
Total Current Liabilities	<u>4,221</u>	<u>527</u>
Net Position		
Net Investment in Capital Assets	370,783	330,526
Unrestricted	<u>131,802</u>	<u>178,999</u>
Total Net Position	<u>502,585</u>	<u>509,525</u>
Total Liabilities and Net Position	<u>\$ 506,806</u>	<u>\$ 510,052</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 FIRE ENTERPRISE FUND
 YEAR ENDED DECEMBER 31, 2014
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Fire Contracts/Calls	\$ 52,393	\$ 59,210
Ambulance Charges	47,654	46,351
Total Operating Revenues	<u>100,047</u>	<u>105,561</u>
OPERATING EXPENSES		
Fire		
Salaries and Benefits	3,104	6,039
Insurance	5,764	4,155
Supplies	6,099	14,350
Maintenance and Repair	2,765	1,552
Gas, Oil and Fuel	6,803	2,384
Education and Conferences	4,845	4,830
Electricity	183	1,618
Firemen's Relief	15,900	9,211
Telephone	1,390	1,413
Miscellaneous	1,698	2,876
Depreciation	52,002	46,303
Total Fire	<u>100,553</u>	<u>94,731</u>
Ambulance		
Salaries and Benefits	6,235	8,192
Insurance	982	747
Supplies	6,459	9,017
Gas, Oil and Fuel	1,088	1,282
Maintenance and Repair	1,301	
Education and Conferences	2,274	3,567
Miscellaneous	5,914	2,771
Total Ambulance	<u>24,253</u>	<u>25,576</u>
Total Operating Expenses	<u>124,806</u>	<u>120,307</u>
Operating Income (Loss)	<u>(24,759)</u>	<u>(14,746)</u>
NONOPERATING REVENUES (EXPENSES)		
Intergovernmental	17,403	17,584
Interest Income	316	402
Gain (Loss) on Asset Disposal		(95)
Other Income	100	1,500
Total Nonoperating Revenues (Expenses)	<u>17,819</u>	<u>19,391</u>
Change in Net Position	<u>(6,940)</u>	<u>4,645</u>
NET POSITION, BEGINNING OF YEAR	<u>509,525</u>	<u>504,880</u>
NET POSITION, END OF YEAR	<u>\$ 502,585</u>	<u>\$ 509,525</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF NET POSITION
SEWER ENTERPRISE FUND
DECEMBER 31, 2014

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets		
Cash	\$ 135,235	\$ 222,894
Accounts Receivable	8,752	6,424
Due from Other Funds		37,993
Prepaid Items	1,096	750
Total Current Assets	<u>145,083</u>	<u>268,061</u>
Noncurrent Assets		
Capital Assets		
Other Capital Assets, Net of Depreciation	<u>262,710</u>	<u>209,459</u>
Total Assets	<u>\$ 407,793</u>	<u>\$ 477,520</u>
LIABILITIES AND NET POSITION		
Liabilities		
Current Liabilities		
Accounts Payable	\$ 129	\$ 2,250
Salaries Payable	269	122
Customer Deposits	2,175	2,175
Total Liabilities	<u>2,573</u>	<u>4,547</u>
Net Position		
Net Investment in Capital Assets	262,710	209,459
Unrestricted	<u>142,510</u>	<u>263,514</u>
Total Net Position	<u>405,220</u>	<u>472,973</u>
Total Liabilities and Net Position	<u>\$ 407,793</u>	<u>\$ 477,520</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 SEWER ENTERPRISE FUND
 YEAR ENDED DECEMBER 31, 2014
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Sewer Charges	\$ 58,675	\$ 57,845
OPERATING EXPENSES		
Salaries and Benefits	11,484	15,894
Insurance	3,292	2,309
Supplies	18,593	20,566
Maintenance and Repair	15,119	4,126
Testing	1,959	1,633
Electricity	1,644	1,481
Miscellaneous	1,535	394
Depreciation	14,859	12,149
Total Operating Expenses	<u>68,485</u>	<u>58,552</u>
Operating Income (Loss)	(9,810)	(707)
NONOPERATING REVENUES (EXPENSES)		
Interest Income		605
Other Income	50	792
Total Nonoperating Revenues (Expenses)	<u>50</u>	<u>1,397</u>
Income (Loss) Before Contributions	(9,760)	690
TRANSFERS AND OTHER ITEMS		
Transfers Out	(57,993)	
Change in Net Position	<u>(67,753)</u>	690
NET POSITION, BEGINNING OF YEAR	<u>472,973</u>	<u>472,283</u>
NET POSITION, END OF YEAR	<u>\$ 405,220</u>	<u>\$ 472,973</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF NET POSITION
 WATER ENTERPRISE FUND
 DECEMBER 31, 2014

WITH PARTIAL COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets		
Cash	\$ 59,116	\$ 28,110
Accounts Receivable	28,636	15,425
Due from Other Governmental Units		1,297
Prepaid Items	1,873	89,625
Total Current Assets	<u>89,625</u>	<u>44,832</u>
Noncurrent Assets		
Capital Assets		
Assets Not Being Depreciated		896,481
Other Capital Assets, Net of Depreciation	2,841,090	2,017,492
Total Noncurrent Assets	<u>2,841,090</u>	<u>2,913,973</u>
Total Assets	<u>\$ 2,930,715</u>	<u>\$ 2,958,805</u>
LIABILITIES AND NET POSITION		
Liabilities		
Current Liabilities		
Accounts Payable	\$ 175	\$ 9,342
Due to Other Funds		37,993
Salaries Payable	403	183
Accrued Interest Payable	5,559	5,696
Customer Deposits	3,874	3,874
Current Portion of Note Payable	92,000	85,000
Total Current Liabilities	<u>102,011</u>	<u>142,088</u>
Noncurrent Liabilities		
Note Payable, Net of Current Portion	1,070,103	1,147,791
Total Liabilities	<u>1,172,114</u>	<u>1,289,879</u>
Net Position		
Net Investment in Capital Assets	1,678,987	1,681,182
Unrestricted	79,614	(12,256)
Total Net Position	<u>1,758,601</u>	<u>1,668,926</u>
Total Liabilities and Net Position	<u>\$ 2,930,715</u>	<u>\$ 2,958,805</u>

CITY OF COSMOS, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 WATER ENTERPRISE FUND
 YEAR ENDED DECEMBER 31, 2014
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Water Charges	\$ 163,651	\$ 142,122
OPERATING EXPENSES		
Salaries and Benefits	17,348	23,843
Insurance	5,641	4,452
Supplies	2,957	5,416
Maintenance and Repair	11,187	70,805
Electricity	7,804	9,796
Telephone	463	605
Miscellaneous	5,547	5,072
Depreciation	109,389	80,779
Total Operating Expenses	<u>160,336</u>	<u>200,768</u>
Operating Income (Loss)	3,315	(58,646)
NONOPERATING REVENUES (EXPENSES)		
Intergovernmental		803,512
Interest Income		295
Interest Expense	(16,341)	(17,089)
Total Nonoperating Revenues (Expenses)	<u>(16,341)</u>	<u>786,718</u>
Income (Loss) Before Transfers	(13,026)	728,072
TRANSFERS		
Transfers In	<u>102,701</u>	<u>20,000</u>
Change in Net Position	89,675	748,072
NET POSITION, BEGINNING OF YEAR	<u>1,668,926</u>	<u>920,854</u>
NET POSITION, END OF YEAR	<u>\$ 1,758,601</u>	<u>\$ 1,668,926</u>

COMPLIANCE SECTION

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to 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, 2014, and the related notes to the financial statements, and have issued our report thereon dated July 21, 2015.

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.

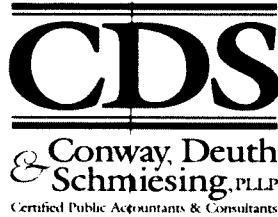
Conway, Deuth & Schmiesing, PLLP

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

July 21, 2015

Table with 5 columns of office addresses and contact information for various locations including Willmar, Benson, Morris, Litchfield, and Sartell, MN.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to 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, 2014, 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 21, 2015.

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.

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 21, 2015

CITY OF COSMOS, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2014

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, 2014

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.