CITY OF ROCKVILLE
ROCKVILLE, MINNESOTA

MANAGEMENT LETTER

YEAR ENDED
DECEMBER 31, 2008

ABDO
EICK &
MEYERS LLP
Certified Public Accountants & Consultants

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11 Civic Center Plaza
Suite 300
P.O. Box 3166
Mankato, MN 56002-3166

April 7, 2009

Management, Honorable Mayor and City Council
City of Rockville
Rockville, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Rockville, Minnesota (the City), for the year ended December 31, 2008 and have issued our report thereon dated April 7, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and *Government Auditing Standards*

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

Also, our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. We are responsible for communicating significant matters related to audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Significant Audit Findings

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the finding 2008-1 described on the following page to be a significant deficiency in internal control over financial reporting:

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2008-1 Financial Report Preparation (Finding Since 2007)

Condition: As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Recent auditing standards require auditors to communicate this situation to the Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. However, based on recent auditing standards, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.

Criteria: Internal controls should be in place to ensure adequate internal control over safeguarding of assets and the reliability of financial records and reporting.

Cause: From a practical standpoint, we prepare the statements and determine the fairness of the presentation at the same time in connection with out audit. This is not unusual for us to do with organizations of your size.

Effect: The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for accuracy; we have answered any questions that management might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosures in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.

Recommendation: Under these circumstances, the most effective controls lie in management's knowledge of the City's financial operations. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost and other considerations. Regarding the specific situation listed above, we would offer the following specific recommendation: 1) Utilize a disclosure checklist to ensure all required disclosures are present and agree to work papers, and 2) Agree your Banyon receipt and disbursement information to the amount reported in the financial statements plus or minus any applicable accruals.

Management Response:

For now, the City's management accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements.

Updated Progress since Prior Year

No progress has been made in addressing this finding in the current year.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control. We do not consider the finding described on the previous page to be a material weakness in internal control over financial reporting.

Compliance and Other Matters

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

Planned Scope and Timing of the Audit

We performed the audit according to planned scope and timing previously communicated to you through various means.

Qualitative Aspects of Accounting Practices

Management has the responsibility for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing polices was not changed during the year ended December 31, 2008. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most significant estimate made relates to depreciation on capital assets. Management's estimate of depreciation is based on the estimated useful lives of the assets.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

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Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We consider none of the adjusting journal entries, which appear at the end of this letter, to be material misstatements detected as a result of audit procedures which were corrected by management.

In total, we prepared 16 journal entries, compared to 20 entries in the previous year. These entries are necessary to adjust balances to year end amounts. The City should try to prepare as many of these entries as possible before the audit fieldwork begins. You will have better, more reliable internal information if these entries are completed. Adjusting journal entries proposed by the auditor and made by management are attached to this letter and are summarized as follows:

Accounting - client identified	3
Accounting - auditor identified	6
GASB 34 - auditor identified	4
Audit - auditor identified	3
Total	16

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 7, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Financial Position and Results of Operations

Our principal observations and recommendations are summarized below. These recommendations resulted from our observations made in connection with our audit of the City's financial statements for the year ended December 31, 2008.

General Fund

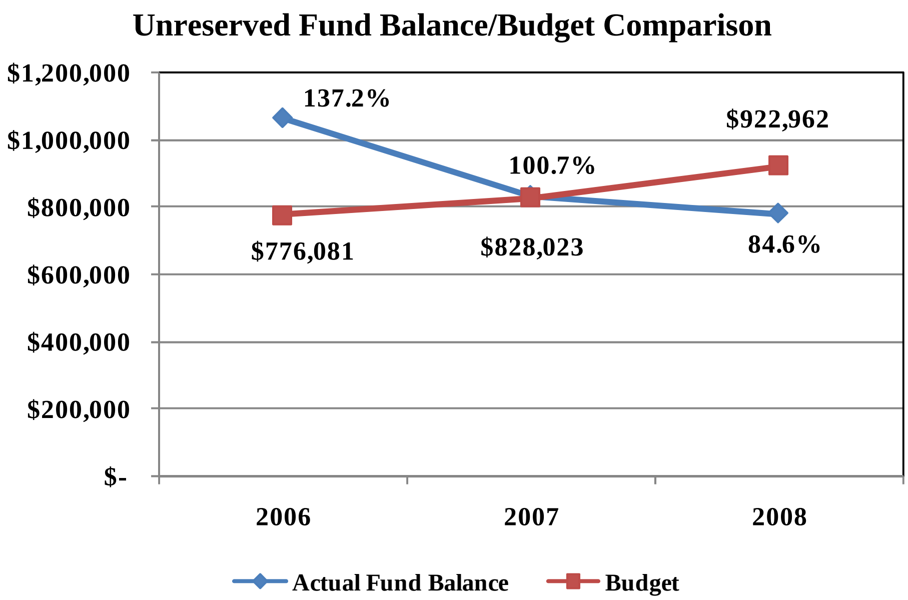
All general governmental functions of the City which are not accounted for in separate funds are included in the General fund.

Minnesota municipalities must maintain substantial amounts of fund balance in order to meet their liquidity and working capital needs as an operating entity. That is because a substantial portion of your revenue sources (taxes and intergovernmental revenues) are received in the last two months of each six-month cycle.

As you can see from the following information, it is necessary to maintain fund balance in order to keep pace with the increasing operating budget. *This information is also presented in graphic form below.*

Year	Unreserved Fund Balance December 31	Budget Year	General Fund Budget	Percent of Fund Balance to Budget
2006	$ 1,064,526	2007	$ 776,081	137.2 %
2007	833,478	2008	828,023	100.7
2008	780,853	2009	922,962	84.6

The following is an analysis of the General fund's unreserved fund balance for the past five years compared to the following year's budget:



The unreserved fund balance decreased by $52,625 in 2008. The total unreserved fund balance of $780,853 represents 84.6 percent of the budget. Many other organizations, including the Office of the State Auditor (the OSA) and League of Minnesota Cities (LMC) recommend that a fund balance reserve be anywhere from 35 to 50 percent of planned expenditures. We concur with those recommendations.

Although there is no legislation regulating fund balance, it is a good policy to designate intended use of fund balance. This helps address citizen concerns as to the use of fund balance and tax levels. The City should consider documenting designations for intended use of fund balance at and above the fifty percent level. This documentation could be accomplished by an annual resolution to identify intended use of available fund balance. We recommend a minimum fund balance for working capital be approximately 40 percent to 50 percent of planned disbursements. So at the current level, the fund balance is considered higher than what is recommended.

The purposes and benefits of a fund balance are as follows:

- Expenditures are incurred somewhat evenly throughout the year. However, property tax and state aid revenues are not received until the second half of the year. An adequate fund balance will provide the cash flow required to finance the governmental fund expenditures.

- The City is vulnerable to legislative actions at the State and Federal level. The State continually adjusts the local government aid and property tax credit formulas. We also have seen the State mandate levy limits for cities over 2,500 in population. An adequate fund balance will provide a temporary buffer against those aid adjustments or levy limits.

- Expenditures not anticipated at the time the annual budget was adopted may need immediate Council action. These would include capital outlay, replacement, lawsuits and other items. An adequate fund balance will provide the financing needed for such expenditures.

- A strong fund balance will assist the City in maintaining, improving or obtaining its bond rating. The result will be better interest rates in future bond sales.

The 2008 General fund operations are summarized as follows:

	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues	$ 993,390	$ 906,325	$ (87,065)
Expenditures	985,265	958,950	26,315
Net change in fund balances	$ 8,125	(52,625)	$ (60,750)
Fund balances, January 1		833,478	
Fund balances, December 31		$ 780,853	

Actual revenues were under budget by $87,065. The major sources under budget were as follows:

- Taxes - $53,227, which is offset by the unbudgeted property tax credits of $50,096.
- Charges for services - $19,904

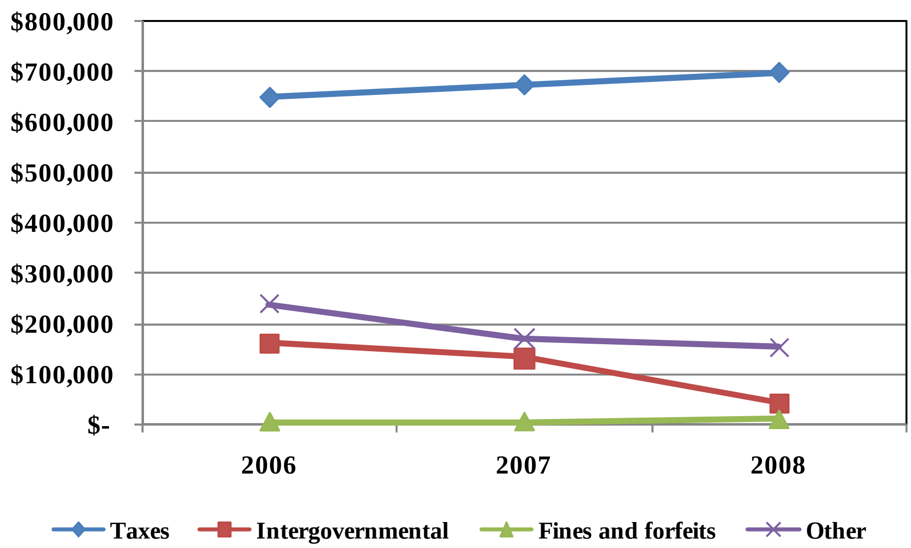
Actual expenditures were under budget by $26,315. The major uses under budget were as follows:

- Current expenditures for general government ($21,209)

A comparison of General fund revenues for the last three years is represented below:

Source	2006	2007	2008	Percent of Total
Taxes	$ 649,067	$ 673,397	$ 697,599	77.0 %
Special assessments	35,915	19,148	10,443	1.2
Licenses and permits	56,663	87,610	51,909	5.7
Intergovernmental	161,216	132,625	43,393	4.8
Charges for services	71,666	573	48,470	5.3
Fines and forfeits	5,764	6,069	10,732	1.2
Investment earnings	37,283	38,196	24,800	2.7
Miscellaneous	37,242	24,948	18,979	2.1
Total revenues	$ 1,054,816	$ 982,566	$ 906,325	100.0 %

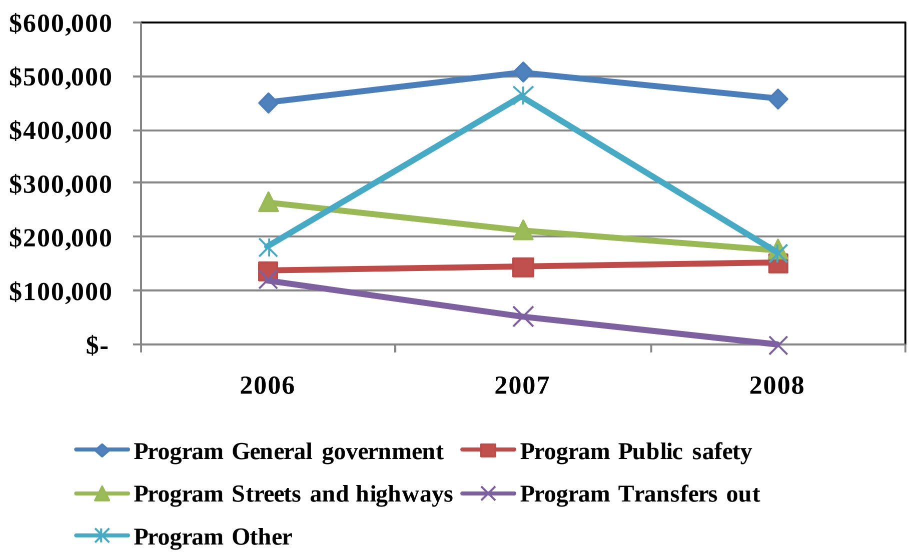
General Fund Revenues by Source



A comparison of General fund expenditures and transfers for the last three years is presented below:

Program	2006	2007	2008	Percent of Total
Current				
General government	$ 452,176	$ 508,827	$ 459,369	47.9 %
Public safety	136,799	143,586	151,860	15.8
Streets and highways	264,654	212,550	176,828	18.4
Culture and recreation	31,945	33,570	34,667	3.7
Total current	885,574	898,533	822,724	85.8
Capital outlay	149,306	415,974	111,015	11.6
Debt service	-	12,730	25,211	2.6
Transfers out	119,720	51,672	-	-
Total expenditures and transfers	$ 1,154,600	$ 1,378,909	$ 958,950	100.0 %

General Fund Expenditures by Program



Special Revenue Funds

Special revenue funds have revenue from specific sources to be used for specific purpose. Listed below are the special revenue funds of the City along with the fund balances (deficits) for 2008 and 2007 and the net change:

Fund	Fund Balances (Deficits) December 31, 2008	Fund Balances (Deficits) December 31, 2007	Increase (Decrease)
Major			
Economic Development Authority	$ 241,932	$ 262,469	$ (20,537)
Nonmajor			
Public Land Dedication	93,923	49,494	44,429
Lions Park Improvement	3,198	3,198	-
Annual Event	(367)	86	(453)
Road Maintenance	131,568	145,844	(14,276)
Total	$ 470,254	$ 461,091	$ 9,163

Debt Service Funds

Debt Service funds are a type of governmental fund to account for the accumulation of resources for the payment of interest and principal on debt (other than enterprise fund debt).

Debt Service funds may have one or a combination of the following revenue sources pledged to retire debt as follows:

- Property taxes - Primarily for general City benefit projects such as parks and municipal buildings. Property taxes may also be used to fund special assessment bonds which are not fully assessed.
- Tax increments - Pledged exclusively for tax increment/economic development districts.
- Capitalized interest portion of bond proceeds - After the sale of bonds, the project may not produce revenue (tax increments or special assessments) for a period of one to two years. Bonds are issued with this timing difference considered in the form of capitalized interest.
- Special assessments - Charges to benefited properties for various improvements.

In addition to the above pledged assets, other funding sources may be received by Debt Service funds as follows:

- Residual project proceeds from the related capital project fund
- Investment earnings
- State or federal grants
- Transfers from other funds

The following is a summary of Debt Service fund assets and outstanding debt as of December 31, 2008:

Debt Description	Total Cash and Temporary Investments (Deficits)	Total Assets	Outstanding Debt	Maturity Date
Revenue Bonds:				
2005A Public Project Lease	$ 213,368	$ 322,237	$ 2,445,000	2027
G.O. Improvement Bonds:				
2004 G.O. Improvement Bonds	86,473	889,995	725,000	2015
2008A G.O. Improvement Bonds	732	77,578	230,000	2019
Total G.O. Improvement Bonds	87,205	967,573	955,000	
G.O. Revenue Bonds:				
G.O. Water Revenue Bonds of 2005B	391	391	85,000	2016
Total All Debt Service Funds	$ 300,964	$ 1,290,201	$ 3,485,000	
Future Interest on Debt			$ 1,534,438	

Capital Projects Funds

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds. The table below compares 2008 fund balances with 2007:

Fund	Fund Balances (Deficits) December 31, 2008	2007	Decrease
SJ Louis Construction	$ -	$ (158,790)	$ 158,790
CR82 Street Improvements	19,222	(173,318)	192,540
Total	$ 19,222	$ (332,108)	$ 351,330

The City should analyze projects' status each year and close those that are completed.

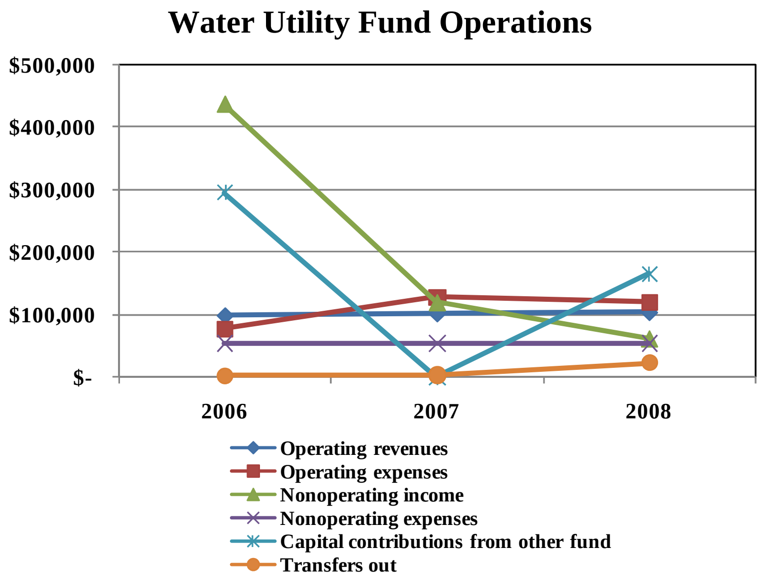
Enterprise Funds

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Water Utility Fund

A comparison of Water Utility fund operations and cash and investments balances for the past three years is as follows:

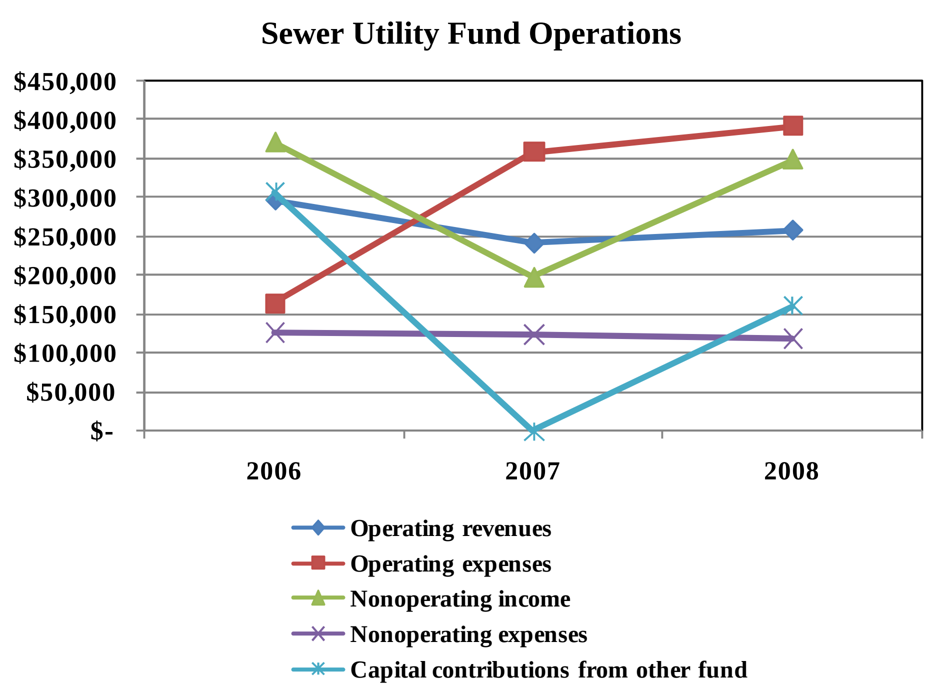
	2006		2007		2008	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Operating revenues	$ 99,118	100.0 %	$ 102,004	100.0 %	$ 104,249	100.0 %
Operating expenses	(77,474)	(78.2)	(128,719)	(126.2)	(120,575)	(115.6)
Operating income (loss)	21,644	21.8	(26,715)	(26.2)	(16,326)	(15.6)
Nonoperating income	437,535	441.4	120,744	118.4	63,078	60.5
Nonoperating expenses	(55,120)	(55.6)	(55,208)	(54.1)	(54,495)	(52.3)
Income (loss) before contributions and transfers	404,059	407.6	38,821	38.1	(7,743)	(7.4)
Capital contributions from other fund	296,220	298.9	-	-	166,407	159.6
Transfers out	(2,923)	(2.9)	(3,328)	(3.3)	(23,033)	(22.1)
Change in net assets	$ 697,356	703.6 %	$ 35,493	34.8 %	$ 135,631	130.1 %
Cash and investments	$ 297,917		$ 411,143		$ 405,571	
Long-term debt payable	$ 93,203		$ 1,336,000		$ 1,320,000	



Sewer Utility Fund

A comparison of Sewer Utility fund operations and cash and investment balances for the past three years is as follows:

	2006		2007		2008	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Operating revenues	$ 296,385	100.0 %	$ 241,071	100.0 %	$ 257,908	100.0 %
Operating expenses	(164,467)	(55.5)	(358,583)	(148.7)	(392,207)	(152.1)
Operating income (loss)	131,918	44.5	(117,512)	(48.7)	(134,299)	(52.1)
Nonoperating income	371,262	125.3	197,083	81.8	349,155	135.4
Nonoperating expenses	(126,751)	(42.8)	(123,692)	(51.4)	(118,117)	(45.8)
Income (loss) before capital contributions	376,429	127.0	(44,121)	(18.3)	96,739	37.5
Capital contributions from other fund	306,435	103.4	-	-	160,490	62.2
Change in net assets	$ 682,864	230.4 %	$ (44,121)	(18.3) %	$ 257,229	99.7 %
Cash and investments	$ 2,246,292		$ 2,435,009		$ 1,687,890	



Ratio Analysis

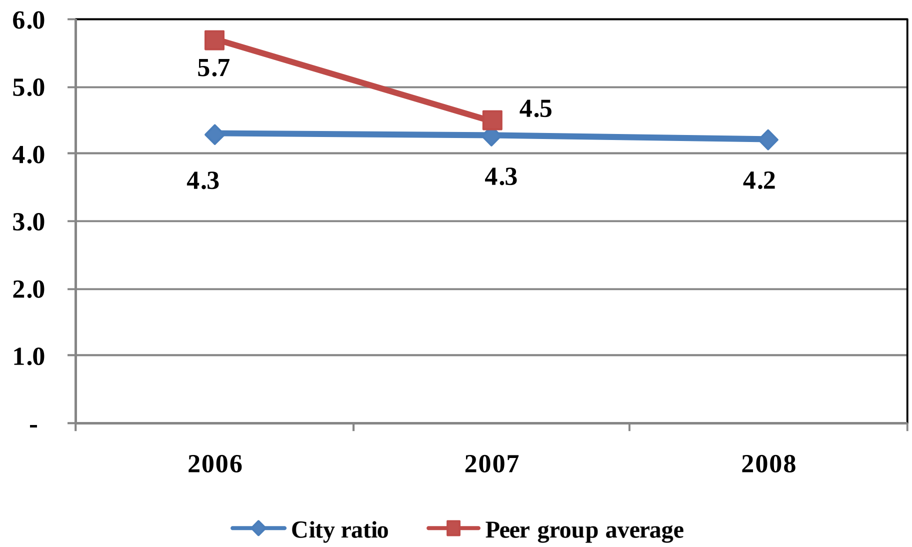
The following captures a few ratios from the City's financial statements that give some additional information for trend and peer group analysis. The peer group average is derived from information available on the website of the Office of the State Auditor. Different peer group averages are used for Cities of the 2nd class (pop. 20,000 – 100,000), 3rd class (10,000 to 20,000), and 4th class (under 10,000) as well as Regulatory basis Cities, discretely presented development authorities and utility commissions. The majority of these ratios facilitate the use of economic resources focus and accrual basis of accounting at the government-wide level. A combination of liquidity (ability to pay its most immediate obligations), solvency (ability to pay its long-term obligations), funding (comparison of financial amounts and economic indicators to measure changes in financial capacity over time) and common-size (comparison of financial data with other cities regardless of size) ratios are shown below.

Ratio	Calculation	Source	Year 2006	Year 2007	Year 2008
Current	Current assets/current liabilities	Government-wide	4.3	4.3	4.2
			5.7	4.5	N/A
Debt to assets	Total liabilities/total assets	Government-wide	0.5	0.6	0.5
			0.3	0.3	N/A
Debt service coverage	Net cash provided by operations/ enterprise fund debt payments	Enterprise funds	1.0	1.0	0.1
			1.5	1.8	N/A
Debt per capita	Bonded debt/population	Government-wide	$ 5,519	$ 5,456	$ 4,740
			$ 2,306	2,503	N/A
Taxes per capita	Tax revenues/population	Government-wide	$ 315	$ 311	$ 359
			$ 366	399	N/A
Expenditures per capita	Governmental fund expenditures/ population	Governmental funds	$ 903	$ 893	$ 531
			$ 1,176	1,373	N/A
Capital assets % left to depreciate - Governmental	Net capital assets/ gross capital assets	Government-wide	79%	79%	76%
			67%	69%	N/A
Capital assets % left to depreciate - Business-type	Net capital assets/ gross capital assets	Government-wide	96%	96%	91%
			67%	66%	N/A
Charges to total operating revenues - Governmental	Governmental charges for services/ governmental operating revenue	Government-wide	10%	12%	16%
			23%	22%	N/A
Unrestricted net assets to operating expenses	Unrestricted net assets/ operating expenses	Government-wide	577%	577%	409%
			96%	88%	N/A

Represents City of Rockville (blue rows)
Represents Peer Group Ratio (red rows)

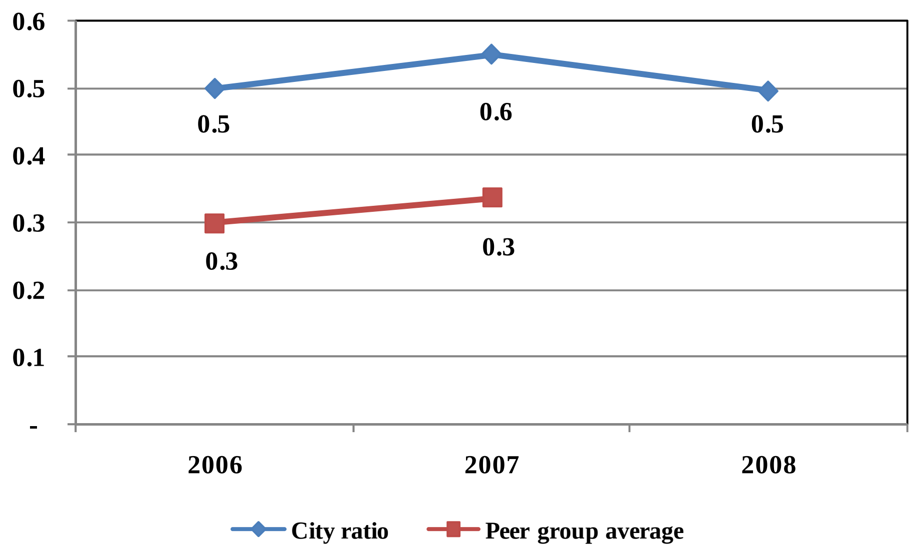
Current Ratio (Liquidity Ratio)

The current ratio is a comparison of a city's current assets to its current liabilities. The current ratio is an indication of a city's ability to meet short-term debt obligations. Acceptable current ratios vary from industry to industry, but a current ratio between 1 and 2 is considered standard. If a city's current assets are in this range, then it is generally considered to have good short-term financial strength. If current liabilities exceed current assets (the current ratio is below 1), then the city may have problems meeting its short-term obligations. If the current ratio is too high, then the city may not be efficiently utilizing its current assets.



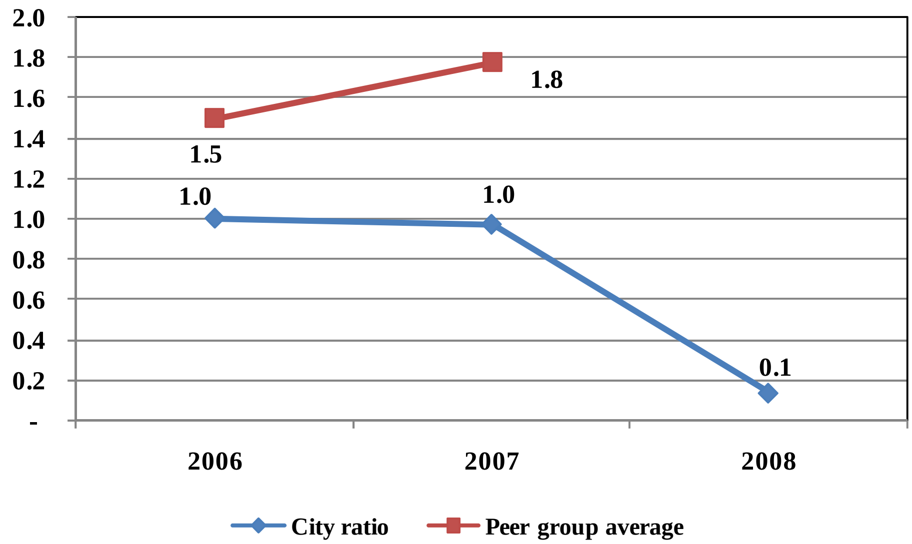
Debt-to-Assets Leverage Ratio (Solvency Ratio)

The debt-to-assets leverage ratio is a comparison of a city's total liabilities to its total assets or the percentage of total assets that are provided by creditors. It indicates the degree to which the City's assets are financed through borrowings and other long-term obligations (i.e. a ratio of .50 would indicate half of the assets are financing with outstanding debt).



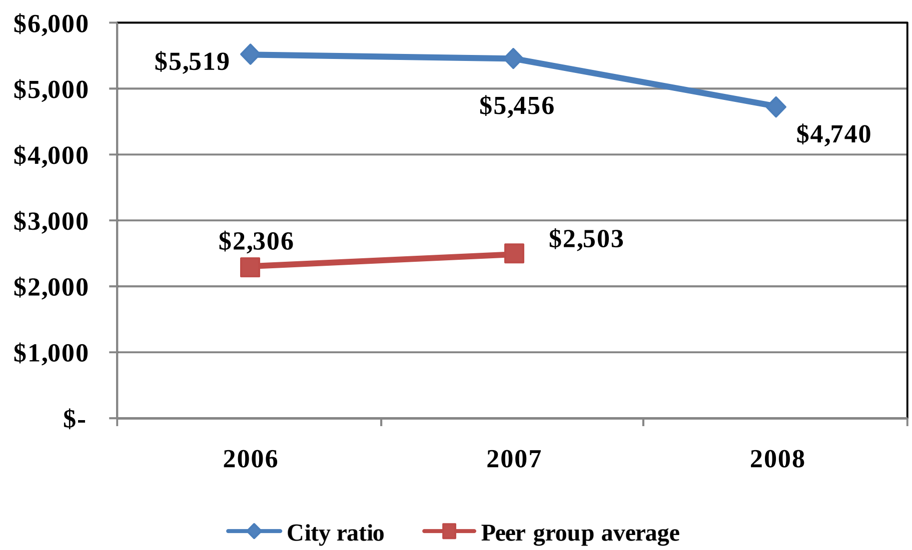
Debt Service Coverage Ratio (Solvency Ratio)

The debt coverage ratio is a comparison of cash generated by operations to total debt service payments (principal and interest) of enterprise funds. This ratio indicates if there are sufficient cash flows from operations to meet debt service obligations. Except in cases where other nonoperating revenues (i.e. taxes, assessments, transfers from other funds, etc.) are used to fund debt service payments, an acceptable ratio would be above 1.



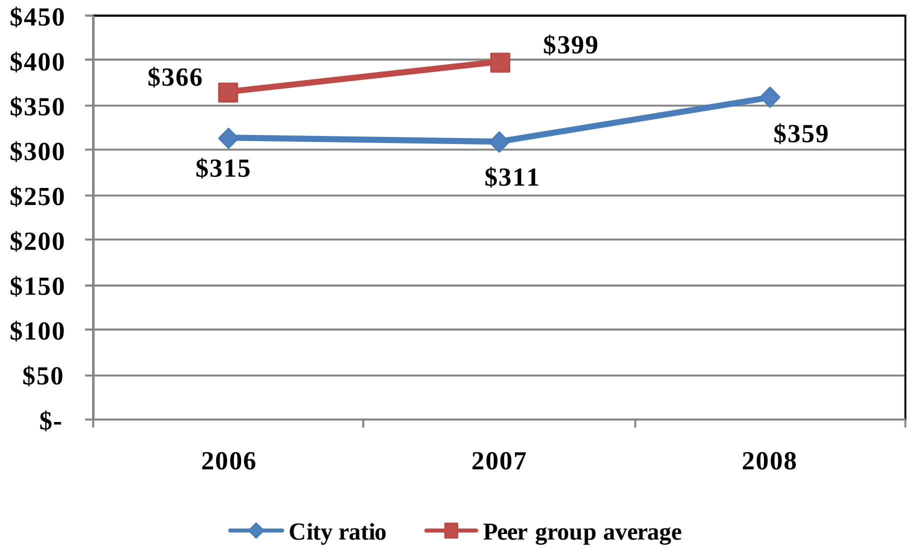
Bonded Debt per Capita (Funding Ratio)

This dollar amount is arrived at by dividing the total bonded debt by the population of the city and represents the amount of bonded debt obligation for each citizen of the city at the end of the year. The higher the amount, the more resources are needed in the future to retire these obligations through taxes, assessments or user fees.



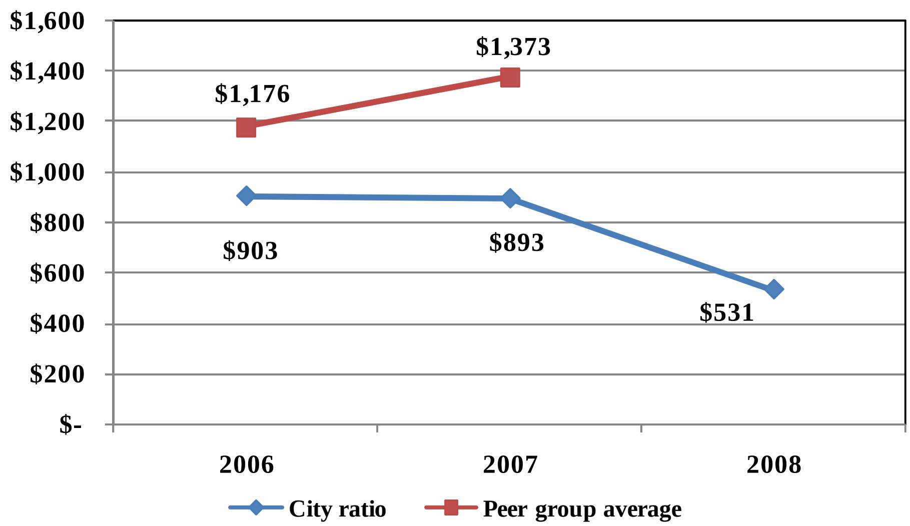
Taxes per Capita (Funding Ratio)

This dollar amount is arrived at by dividing the total tax revenues by the population of the city and represents the amount of taxes for each citizen of the city for the year. The higher this amount is, the more reliant the city is on taxes to fund its operations.



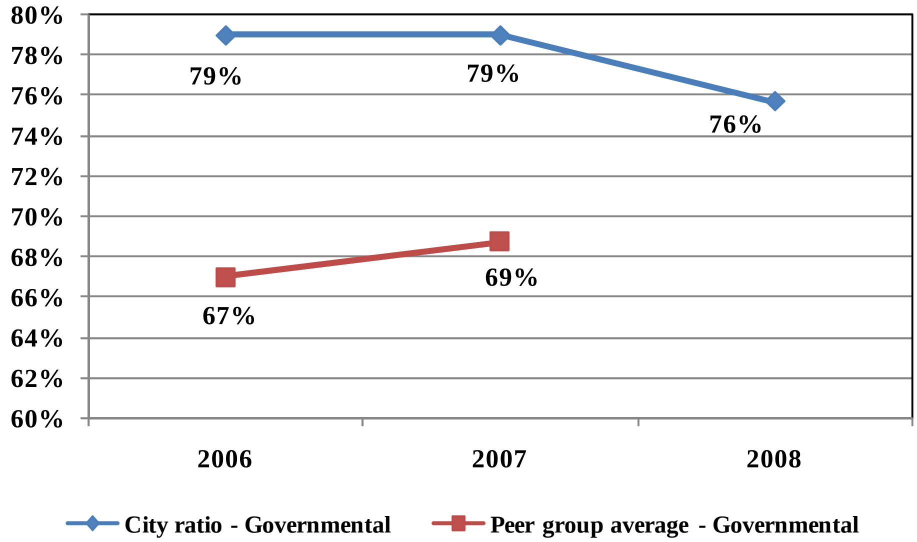
Expenditures per Capita (Funding Ratio)

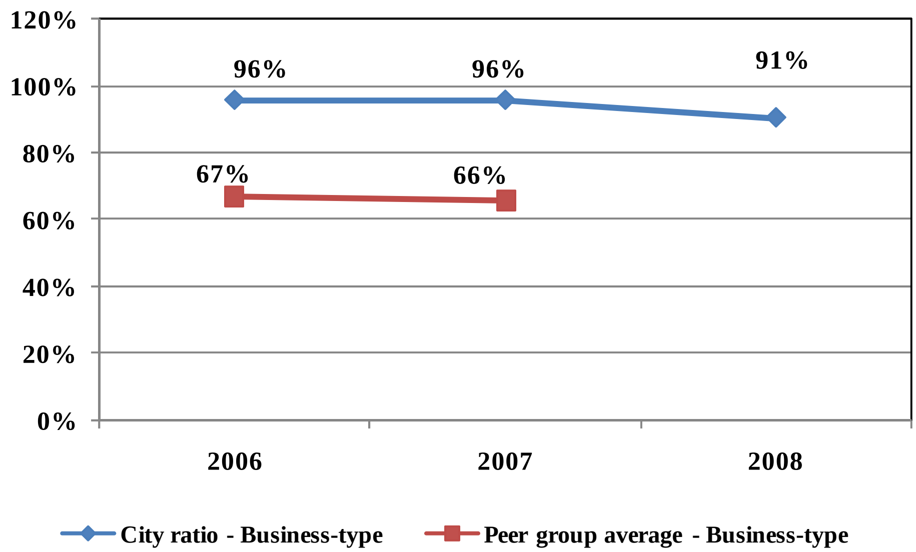
This dollar amount is arrived at by dividing the total governmental expenditures by the population of the City and represents the amount of governmental expenditure for each citizen of the City during the year. Because of major capital projects from year to year, this number may fluctuate accordingly.



Capital Assets Percentage (Common-size Ratio)

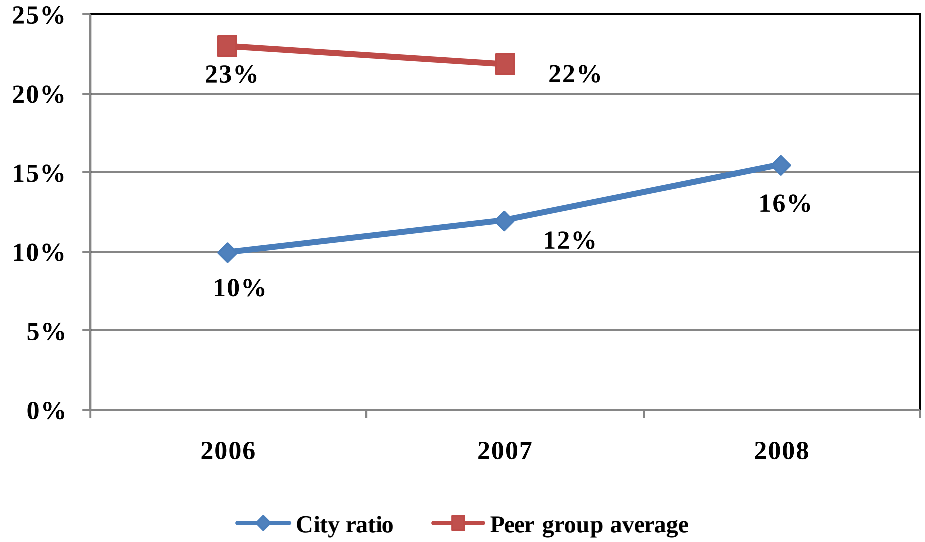
This percentage represents the percent of governmental or business-type capital assets that are left to be depreciated. The lower this percentage, the older the city's capital assets are and may need major repairs or replacements in the near future. A higher percentage may indicate newer assets being constructed or purchased and may coincide with higher debt ratios or bonded debt per capita.





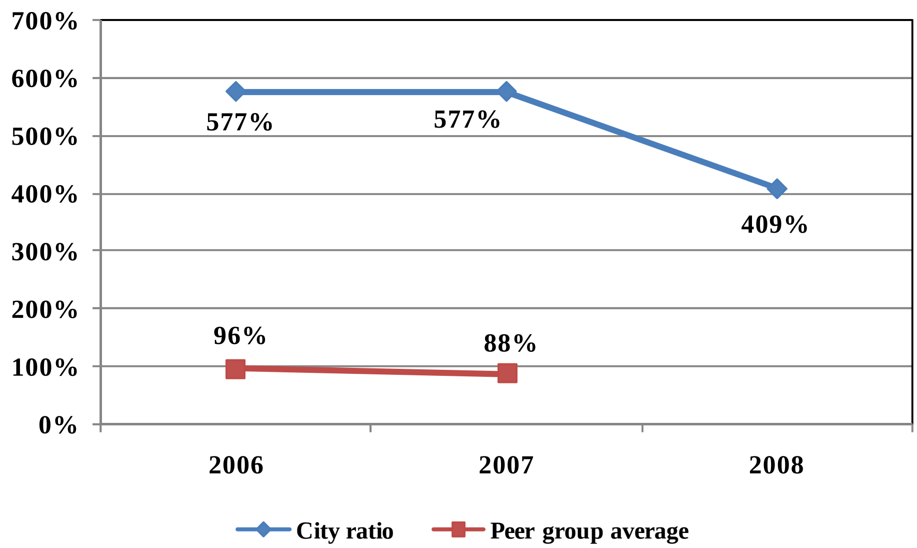
Charges for Service to Total Operating Revenues (Common-size Ratio)

This percentage is arrived at by dividing charges for service by total operating revenues from governmental operations. This percentage indicates the percent of governmental operating revenues that are funded by user charges versus other revenues. It measures the amount of control a city has in funding its governmental operating costs.



Unrestricted Net Assets to Total Expenses (Common-size Ratio)

This percentage is arrived at by dividing total expenses by the unrestricted net assets of the city. It indicates percent of unrestricted funds available at year end to pay for a current year expenses. Approximately every 8 percent represents a month of funds available to cover expenses, so a percentage of 25 percent would indicate funds available to cover 3 months of expenses.



Other Items

Monthly Depreciation Estimates

The City records monthly depreciation expense estimates. This provides Council and management with current and updated operational information for the City's enterprise funds. The amount of this estimate for the coming year for the Water fund is $5,300 per month and the Sewer fund is $23,500 per month.

Written Policies and Procedures

The City has implemented written policies and procedures. We recommend the City continue creating and adopting written policies and procedures for various other activities that are deemed important. These written policies and procedures are important to keep developing and improving which will be helpful if there is staff turnover and improvement of controls.

Future Statute and Accounting Standard Changes

GASB Statement No. 45 - *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*

This statement is effective in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999:

- Governments that were phase 1 governments for the purpose of implementation of Statement No. 34 - those with annual revenues of $100 million or more - are required to implement this Statement in financial statements for periods beginning after December 15, 2006.

- Governments that were phase 2 governments for the purpose of implementation of Statement No. 34 - those with total annual revenues of $10 million or more but less than $100 million - are required to implement this Statement in financial statements for periods beginning after December 15, 2007.

- Governments that were phase 3 governments for the purpose of implementation of Statement No. 34 - those with total annual revenues of less than $10 million - are required to implement this Statement in financial statements for periods beginning after December 15, 2008.

The City is a phase 3 government and is required to implements this standard for calendar year 2009.

Statement No. 45 gives the following summary, "In addition to pensions, many state and local governmental employers provide other postemployment benefits (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes postemployment healthcare, as well as other forms of postemployment benefits (for example, life insurance) when provided separately from a pension plan. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers."

GASB Statement No. 48 - *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*

This statement was issued September 2006 and is effective for periods beginning after December 15, 2006. Therefore, this statement has been implemented for the current financial statements.

This standard provides accounting guidance for when certain transactions-such as the sale of delinquent taxes, certain mortgages, student loans, or future revenues such as those arising from tobacco settlement agreements-should be regarded as a sale or a collateralized borrowing. The financial reporting question addressed in Statement No. 48 is whether such transactions should be reported as a sale or collateralized borrowing.

In addition to clarifying guidance on accounting for sales and pledges of receivables and future revenues, Statement No. 48 (1) requires enhanced disclosures pertaining to future revenues that have been pledged or sold; (2) provides guidance on the sales of receivables and future revenues within the same financial reporting entity; and (3) provides guidance on recognizing other assets and liabilities arising from the sale of specific receivables or future revenues.

GASB Statement No. 49 - *Accounting and Financial Reporting for Pollution Remediation Obligations*

This statement was issued November 2007 and is effective for periods beginning after December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated.

This standard is intended to ensure that certain cost and long-term obligations related to pollution clean up not specifically addressed by current governmental accounting standards will be included in financial reports. The standards set forth the key circumstances under which a government would be required to report a liability related to pollution remediation. A government would have to determine whether one or more components of a pollution remediation liability are recognizable if any of the following five obligating events or triggers occurs:

- A government is compelled to take remediation action because pollution creates an imminent endangerment to the public health or welfare or environment, leaving it little or no discretion to avoid remediation action.
- A government is in violation of a pollution prevention-related permit or license.
- The government is named, or evidence indicates it will be named, by a regulator that has identified the government as a responsible party or potentially responsible party for remediation, or as a government responsible for sharing costs.
- A government is named, or evidence indicates that it will be named, in a lawsuit to compel the government to participate in remediation.
- A government commences or legally obligates itself to commence clean up activities or monitoring or operation and maintenance of the remediation effort.

If any of the above bullets are met, the pollution remediation liabilities should be measured at their current value using the expected cash flow technique, which measures the liability as a sum of probability-weighted amounts in a range of possible estimated amounts. Expected recoveries from other responsible parties and from insurers reduce the amount of remediation expense. Statement No. 49 also specifies criteria for capitalization of some pollution remediation outlays.

GASB Statement No. 50 – *Pension Disclosures*

This statement was issued May 2007 and is effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which are effective for periods for which the financial statements and RSI contain information resulting from actuarial valuations as of June 15, 2007 or later.

This statement more closely aligns the financial reporting requirements for pensions with those for OPEB and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this statement amend applicable note disclosure and RSI requirements of Statement No. 25 , Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 27 , Accounting for Pensions by State and Local Governmental Employers, to conform with requirements of Statement No. 43 , Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, and 45 , Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This statement requires defined benefit pension plans and sole and agent employers present the following information related to note disclosures:

- Notes to financial statements should disclose the funded status of the plan as of the most recent actuarial valuation date. Defined benefit pension plans also should disclose actuarial methods and significant assumptions used in the most recent actuarial valuation in notes to financial statements instead of in notes to RSI.

- If the aggregate actuarial cost method is used to determine the annual required contribution of the employer (ARC), notes to financial statements should disclose the funded status of the plan, and a schedule of funding progress should be presented as RSI, using the entry age actuarial cost method. Plans and employers also should disclose that the purpose of doing so is to provide information that serves as a surrogate for the funded status and funding progress of the plan.

- Notes to financial statements should include a reference linking the funded status disclosure in the notes to financial statements to the required schedule of funding progress in RSI.

- If applicable, notes to financial statements should disclose legal or contractual maximum contribution rates. In addition, if relevant, they should disclose that the maximum contribution rates have not been explicitly taken into consideration in the projection of pension benefits for financial accounting measurement purposes.

- If an actuarial assumption is different for successive years, notes to financial statements should disclose the initial and ultimate rates.

GASB Statement No. 51 - *Accounting and Financial Reporting for Intangible Assets*

This statement was issued in June 2007 and is effective for periods beginning after June 15, 2009.

The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, computer software, water rights, timber rights, patents, and trademarks.

This statement requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). Relevant authoritative guidance for capital assets should be applied to these intangible assets. The statement provides additional guidance that specifically addresses the unique nature of intangible assets, including:

- Requiring that an intangible asset be recognized in the statement of net assets only if it is considered identifiable

- Establishing a specified-conditions approach to recognizing intangible assets that are internally generated (for example, patents and copyrights)

- Providing guidance on recognizing internally generated computer software

- Establishing specific guidance for the amortization of intangible assets.

GASB Statement No. 54 – *Fund Balance*

This statement was issued in March of 2009 and is effective for periods beginning after June 15, 2010.
This new standard is intended to improve the usefulness of information provided to financial report uses about fund balance by providing clearer, more structured fund balance classifications, and clarifying the definitions of existing governmental fund types.

GASB No. 54 distinguishes fund balance between amounts that are considered non-spendable, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. The following classifications and definitions will be used:

- *Restricted* - amounts constrained by external parties, constitutional provision, or enabling legislation
- *Committee* - amounts constrained by a government using its highest level of decision-making authority
- *Assigned* - amounts a government intends to use for a particular purpose
- *Unassigned* - amounts that are not constrained at all will be reported in the general fund.

In addition to the classifications of fund balance, the standard clarified the definitions of individual governmental fund types, for example, special revenue funds, debt service funds, and capital project funds.

2009 Levy Limits

During the 2008 legislative session, Minnesota legislators amended Statutes section 275.71 to enact levy limits for cities over 2,500 in population. This bill is in effect for taxes levied in 2008 through 2010. Annually the levy limit is multiplied by:

1. One plus the lesser of 3.9 percent or the percentage growth in the implicit price deflator.
2. One plus a percentage equal to 50 percent of the percentage increase in the number of households, if any, for the most recent 12-month period for which data is available, and
3. One plus a percentage equal to 50 percent of the percentage increase in the taxable market value of the jurisdiction due to new construction of class 3 property, as defined in section 273.13, subdivision 4, except for state-assessed utility and railroad property, for the most recent year for which data is available.

In addition there are special levies that are currently allowed outside any levy limit. They are listed below:

- Debt levies – includes bonds, most certificates of indebtedness and levies to pay the local share of bonds issued by another political subdivision
- Voter approved levy increases
- To pay federal or state matching fund requirements for programs instituted after 2001
- For costs to prepare for, or recovery from, natural disasters – upon approval by the commission of revenue
- To pay amounts related to errors in levy certification in the previous year
- To pay for property tax abatements
- To pay increases in the employer share of PERA pension costs since 2001
- To pay operating and maintenance costs of county jails to the extent that the cost is required by the Department of Corrections Rules and Standards.
- To pay for a lake improvement district
- To repay a federal or state loan issued to help a local government pay the required local share of a federal or state transportation or other capital project
- To pay court administration costs during the period in which court costs were being transferred from the counties to the state
- To fund required police and firefighters relief funds, to the extent that the costs exceed costs in 2001
- To fund a storm sewer improvement district
- To fund an animal protection society
- For counties, to pay for the increase in their share of health and human service costs caused by reductions in federal health and human service grants effective after September 30, 2007
- To fund increased costs of securing, maintaining, and demolishing foreclosed and abandoned housing in cities that have a 2007 foreclosure rate over a certain percent
- To lost traffic citation revenue and unreimbursed costs of redeployed traffic control agents due to the collapse of the Interstate 35W bridge
- To fund certain cost increases in police and firefighter costs
- To recoup losses due to any unallotment of city and county general purpose aids and credits

We recommend that the City review all of the options presented when calculating future years levies. There is further guidance provided by League of Minnesota Cities on how to estimate the 2009 levy limit on their website: www.lmc.org

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

The comments and recommendation in this report are purely constructive in nature, and should be read in this context. Our audit would not necessarily disclose all weaknesses in the system because it was based on selected tests of the accounting records and related data.

If you have any questions or wish to discuss any of the items contained in this letter, please feel free to contact us at your convenience. We wish to thank you for the continued opportunity to be of service, and for the courtesy and cooperation extended to us by your staff.

Abdo, Eick & Meyers, LLP

April 7, 2009
Mankato, Minnesota

ABDO, EICK & MEYERS, LLP
Certified Public Accountants

Client:	***Rockville - City of Rockville***
Engagement:	***2008A - CITY OF ROCKVILLE***
Period Ending:	***12/31/2008***
Trial Balance:	***5061 - TB***
Workpaper:	***Adjusting Journal Entries Report - 4***

4/22/2009
8:26 AM

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 1		**2253**		
TO RECORD GASB 34 DEBT ENTRIES FOR 2008.				
902-20601	Loans Payable		36,000.00	
902-22500	Bonds Payable Current		212,696.00	
902-23100	Bonds Payable-Noncurrent NC		170,000.00	
902-23700	Capital Lease Obligation Pay		3,277.00	
902-23900	Notes Payable		13,500.00	
902-22500	Bonds Payable Current			222,777.00
902-47000-601	Debt Srv Bond			212,695.00
902-47000-611	Bond Interest			1.00
Total			**435,473.00**	**435,473.00**
Adjusting Journal Entries JE # 2				
TO RECORD BOND PROCEEDS IN CONSTRUCTION FUND				
308-47000-36105	Prepaid Special		51,441.00	
308-47000-39310	Proceeds-Gen		229,384.00	
405-10600	Cash		48,805.00	
409-10600	Cash		51,441.00	
409-10600	Cash		220,576.00	
409-47000-39310	Proceeds-Gen Obligation Bond		48,805.00	
409-47000-614	Bond issuance costs		8,750.00	
308-10600	Cash			51,441.00
308-10600	Cash			220,576.00
308-21500	Accrued interest payable			58.00
308-47000-614	Bond Issuance Cost			8,750.00
405-41000-39310	Bond proceeds			48,805.00
409-10600	Cash			48,805.00
409-47000-36105	Prepaid Special Assessments			51,441.00
409-47000-39310	Proceeds-Gen Obligation Bond			229,326.00
Total			**659,202.00**	**659,202.00**

Client:	*Rockville - City of Rockville*	4/22/2009
Engagement:	*2008A - CITY OF ROCKVILLE*	8:26 AM
Period Ending:	*12/31/2008*	
Trial Balance:	*5061 - TB*	
Workpaper:	*Adjusting Journal Entries Report - 4*	

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 3		**1153**		
TO ADJUST SPECIAL ASSESSMENT REVENUE				
208-41000-36240	Ref/Reim-		1,497.00	
208-41000-36240	Ref/Reim-		22,381.00	
209-10600	Cash		1,497.00	
219-10600	Cash		22,381.00	
301-22200	Deferred Revenues		496.00	
302-22200	Deferred Revenues		402.00	
307-22220	Deferred Rev-Spec Assess		6,212.00	
309-10600	Cash		26,461.00	
309-47000-31000	General Property		142,679.00	
309-47000-36105	Prepaid Special		101,585.00	
407-41000-36240	Ref/Reim-		2,833.00	
602-22200	Deferred Revenues		26,461.00	
208-10600	Cash			1,497.00
208-10600	Cash			22,381.00
209-41920-36240	Ref/Reim-			1,497.00
219-49490-37260	SAC Revenue			22,381.00
301-47000-31005	GO BOND LEVY			496.00
302-47000-31005	GO BOND LEVY			402.00
307-47000-36100	Special			6,212.00
309-47000-36100	Special			26,461.00
309-47000-36100	Special			101,585.00
309-47000-36100	Special			142,679.00
407-41000-31900	Penalties and			2,833.00
602-10600	Cash			26,461.00
Total			**354,885.00**	**354,885.00**
Adjusting Journal Entries JE # 4		**PER CLIENT**		
TO RECORD CLIENT PREPARED ENTRY FOR CONTRACTS PAYABLE				
209-41920-325	Construction Costs		28,000.00	
409-41000-325	Construction Costs		9,116.00	
209-20300	Contract & Retainage Payable			28,000.00
409-20300	Contract & Retainage Payable			9,116.00
Total			**37,116.00**	**37,116.00**
Adjusting Journal Entries JE # 5		**PER CLIENT**		
PER CLIENT TO RECORD CLIENT PREPARED FIRE DEPARTMENT MEETING PAYROLL				
101-42200-103	Employee Wage-		180.00	
101-20400	Salaries Payable			166.00
101-21703	FICA/Medicare Withholding			14.00
Total			**180.00**	**180.00**

Client:	***Rockville - City of Rockville***
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Period Ending:	***12/31/2008***
Trial Balance:	***5061 - TB***
Workpaper:	***Adjusting Journal Entries Report - 4***

4/22/2009
8:26 AM

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 6		**PER CLIENT**		
TO RECORD CLIENT PREPARED UTILITY RECEIVABLE				
601-11500	Accounts Receivable		3.00	
601-11500	Accounts Receivable		4.00	
601-11500	Accounts Receivable		18.00	
601-11500	Accounts Receivable		135.00	
601-11500	Accounts Receivable		196.00	
601-11500	Accounts Receivable		238.00	
601-11500	Accounts Receivable		6,718.00	
602-11500	Accounts Receivable		67.00	
602-11500	Accounts Receivable		113.00	
602-11500	Accounts Receivable		197.00	
602-11500	Accounts Receivable		255.00	
602-11500	Accounts Receivable		5,708.00	
602-11500	Accounts Receivable		8,879.00	
602-49490-37405	Swr Pen(Late		1.00	
604-11500	Accounts Receivable		140.00	
604-11500	Accounts Receivable		4,615.00	
601-49440-36242	MN Sales Tax			18.00
601-49440-37100	Water Sales			196.00
601-49440-37100	Water Sales			6,718.00
601-49440-37170	Safe Water Fee			135.00
601-49440-37300	Water Penalty			238.00
601-49440-37500	Safe Water Late			3.00
601-49440-37700	Sales Tax Late Fee			4.00
602-11500	Accounts Receivable			1.00
602-49490-37200	Swr Sales-Core			255.00
602-49490-37200	Swr Sales-Core			5,708.00
602-49490-37205	Swr Sales-Lakes			67.00
602-49490-37205	Swr Sales-Lakes			8,879.00
602-49490-37400	Swr Pen(Late			197.00
602-49490-37405	Swr Pen(Late			113.00
604-47000-37210	Swr Debt			4,615.00
604-47000-37600	Swr Debt Late			140.00
Total			**27,287.00**	**27,287.00**
Adjusting Journal Entries JE # 7				
TO ADJUST DEFERRED ASSESSMENT RECEIVABLE				
212-12300	Defer Special Assessments		10,050.00	
220-12300	Defer Special Assessments		16,892.00	
305-12300	Defer Special Assessments		664,639.00	
307-22220	Deferred Rev-Spec Assess		67,727.00	
307-47000-36100	Special		51,447.00	
308-12300	Special Assessment - Deferred		76,846.00	
309-22220	Deferred Rev-Spec Assess		110,281.00	
309-47000-36100	Special		334,478.00	
212-22200	Deferred Revenues			10,050.00
220-22200	Deferred Revenues			16,892.00
305-22200	Deferred Revenues			664,639.00
307-12300	Defer Special Assessments			51,447.00
307-47000-36100	Special			67,727.00
308-22200	Deferred revenue			76,846.00
309-12300	Defer Special Assessments			334,478.00
309-47000-36100	Special			110,281.00
Total			**1,332,360.00**	**1,332,360.00**

Client:	*Rockville - City of Rockville*	4/22/2009
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Period Ending:	*12/31/2008*	
Trial Balance:	*5061 - TB*	
Workpaper:	*Adjusting Journal Entries Report - 4*	

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 8		**1603**		
TO RECORD DEPRECIATION EXPENSE				
602-49490-407	Deprec Exp-		5,500.00	
602-16430	Fix Asset-Mach/Equip Acc Dep			5,500.00
Total			**5,500.00**	**5,500.00**
Adjusting Journal Entries JE # 9				
TO ADJUST GASB 34 ENTRIES FOR FIXED ASSETS				
601-16300	Improv Other Than Bldgs		5,916.00	
601-16300	Improv Other Than Bldgs		160,491.00	
602-16300	Improv Other Than Bldgs		160,490.00	
901-16200	Fixed Asset-Buildings		24,512.00	
901-16300	Improv Other Than Bldgs		504.00	
901-16300	Improv Other Than Bldgs		872.00	
901-16300	Improv Other Than Bldgs		198,074.00	
901-16400	Fixed Asset-Mach/Equip		47,438.00	
901-16500	Construction in progress		720.00	
901-16500	Construction in progress		5,117.00	
901-16500	Construction in progress		30,672.00	
901-16500	Construction in progress		173,318.00	
901-41000-420	Depreciation Expense		1,224.00	
901-41000-420	Depreciation Expense		23,402.00	
901-42000-420	Depreciation Expense		1,835.00	
901-42200-420	Depreciation Expense		3,300.00	
901-42200-420	Depreciation Expense		35,921.00	
901-42200-420	Depreciation Expense		41,157.00	
901-43000-420	Depreciation Expense		1,267.00	
901-43000-420	Depreciation Expense		11,842.00	
901-43000-420	Depreciation Expense		57,746.00	
901-45000-420	Depreciation Expense		592.00	
901-45000-420	Depreciation Expense		3,595.00	
901-45000-420	Depreciation Expense		6,468.00	
901-49999-000	Contribution of capital assets to enterprise funds		326,897.00	
601-49440-39320	Capital			5,916.00
601-49440-39320	Capital			160,491.00
602-49490-39320	Capital			160,490.00
901-16210	Fix Asset-Bldgs Accum Deprec			66,418.00
901-16350	Improv-Not Bldg Acc Depr			68,738.00
901-16430	Fix Asset-Mach/Equip Acc Dep			53,193.00
901-16500	Construction in progress			524,971.00
901-41000-500	Capital Outlay			504.00
901-41000-500	Capital Outlay			24,512.00
901-42200-500	Capital Outlay (Fire)			47,438.00
901-43000-500	Capital Outlay			720.00
901-43000-500	Capital Outlay			30,672.00
901-45000-500	Capital Outlay			872.00
901-49999-999	Prior period adjustment			178,435.00
Total			**1,323,370.00**	**1,323,370.00**

Client:	*Rockville - City of Rockville*	4/22/2009
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Period Ending:	*12/31/2008*	
Trial Balance:	*5061 - TB*	
Workpaper:	*Adjusting Journal Entries Report - 4*	

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 10				
TO ADJUST GASB 34 DEBT ENTRIES				
902-00000-39310	Capital Lease		230,000.00	
902-15620	Unamoritized bond		8,750.00	
902-21500	Accrued Interest Payable		2,225.00	
902-23100	Bonds Payable-Noncurrent NC			230,000.00
902-47000-611	Bond Interest			2,225.00
902-47000-620	Fiscal agent fees/issue costs			8,750.00
Total			**240,975.00**	**240,975.00**
Adjusting Journal Entries JE # 11				
TO ADJUST FOR ERROR IN CONSTRUCTION RETAINAGE				
209-41920-325	Construction Costs		700.00	
209-20300	Contract & Retainage Payable			700.00
Total			**700.00**	**700.00**
Adjusting Journal Entries JE # 12				
TO ADJUST WATER AND SEWER DEPRECIATION				
309-49490-420	Depreciation expense		226,857.00	
601-49440-408	Depr Exp-Other than		63,420.00	
602-49490-408	Depr Exp-Other than		49,061.00	
309-16350	Improv-Not Bldg Acc Depr			226,857.00
601-16350	Improv-Not Bldg Acc Depr			63,420.00
602-16350	Improv-Not Bldg Acc Depr			49,061.00
Total			**339,338.00**	**339,338.00**
Adjusting Journal Entries JE # 13				
TO ADJUST FOR UPDATED PFA LOAN SCHEDULE				
309-20100	Interest Payable		11,041.00	
309-22500	Bonds Payable Current		45,413.00	
309-47000-611	Bond Interest		5,581.00	
309-23100	Bonds Payable-Noncurrent NC			5,581.00
309-23100	Bonds Payable-Noncurrent NC			45,413.00
309-47000-611	Bond Interest			11,041.00
Total			**62,035.00**	**62,035.00**
Adjusting Journal Entries JE # 14				
TO REVERSE AND RECORD COMPENSATED ABSENCES				
902-21700	Compensated Abs Payable		6,571.00	
902-21710	Compensated Abs-Non Curren		23,194.00	
902-41000-103	Employee Wage-		5,890.00	
902-41000-103	Employee Wage-		18,946.00	
902-43000-103	Shop Wages		980.00	
902-43000-103	Shop Wages		2,411.00	
902-21700	Compensated Abs Payable			6,870.00
902-21710	Compensated Abs-Non Curren			21,357.00
902-41000-103	Employee Wage-			6,571.00
902-41000-103	Employee Wage-			21,279.00
902-43000-103	Shop Wages			1,915.00
Total			**57,992.00**	**57,992.00**

Client:	***Rockville - City of Rockville***	4/22/2009
Engagement:	***2008A - CITY OF ROCKVILLE***	8:26 AM
Period Ending:	***12/31/2008***	
Trial Balance:	***5061 - TB***	
Workpaper:	***Adjusting Journal Entries Report - 4***	

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 15				
TO RECORD ACCOUNTS PAYABLE				
101-41000-305	Building Inspection		3,882.00	
101-20200	Accounts Payable			3,882.00
Total			**3,882.00**	**3,882.00**
Adjusting Journal Entries JE # 16		**2203**		
TO ADJUST GASB 34 TAXES AND SPECIAL ASSESSMENTS AT 12/31/08				
903-22210	Deferred Revenue-Taxes		11,631.00	
903-43000-36100	SPECIAL		133,277.00	
903-22220	Deferred Rev-Spec Assess			133,277.00
903-41000-31010	Property tax			11,631.00
Total			**144,908.00**	**144,908.00**