

CITY OF ROCKVILLE
ROCKVILLE, MINNESOTA
ANNUAL FINANCIAL REPORT
YEAR ENDED
DECEMBER 31, 2009

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CITY OF ROCKVILLE, MINNESOTA
 ANNUAL FINANCIAL REPORT
 DECEMBER 31, 2009
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INTRODUCTORY SECTION

CITY OF ROCKVILLE
ROCKVILLE, MINNESOTA

YEAR ENDED
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CITY OF ROCKVILLE, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2009

ELECTED

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jeff Hagen	Mayor	12/31/12
Bill Becker	Council	12/31/12
John Koerber	Council	12/31/10
Susan Palmer	Council	12/31/10
Randy Volkmuth	Council	12/31/10
Jerry Schmitt	Council	12/31/12
Duane Willenbring	Council	12/31/12

APPOINTED

Rena Weber	Administrator/Clerk
Judy Neu	Utility Billing Clerk/Adminstrative Assistant
Rick Hansen	Public Works Supervisor

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FINANCIAL SECTION

CITY OF ROCKVILLE
ROCKVILLE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2009

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

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Rockville
Rockville, Minnesota

We have audited the accompanying 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), as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the City's 2008 financial statements and, in our report dated April 7, 2009, we expressed unqualified opinions on the respective proprietary fund financial statements.

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

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, each major fund and the aggregate remaining fund information of the City as of December 31, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison schedule for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2010 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages IV through XVI 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.

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

April 7, 2010
Mankato, Minnesota

Abdo, Eick & Meyers, LLP
ABDO, EICK & MEYERS, LLP
Certified Public Accountants

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Management's Discussion and Analysis

As management of the City of Rockville, Minnesota, (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2009.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$13,734,335 (net assets). Of this amount, \$8,123,091 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$212,254. The majority of this increase is attributable to special assessments in the Sewer utility fund which are reported as capital grants in the statement of activities and a decrease in expenses in governmental activities.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,892,785, an increase of \$217,815 in comparison with the prior year. Approximately 79.5 percent of this total amount, \$1,504,446, is available for spending at the City's discretion, but has been designated for specific purposes.
- At the end of the current fiscal year, unreserved fund balance for the General fund was \$998,105, or 135.1 percent of total General fund expenditures. While these funds are not legally reserved, \$650,275 is designated for future purposes.
- The City's total debt decreased by \$658,169, or 5.0 percent during the current fiscal year. The decrease was due to the normally scheduled principal payments and the refunding of 1997 and 1998 Disposal System Bonds, the G.O. Water Revenue Bonds of 2001 and the G.O. Water Revenue Bonds of 2005 with the G.O. Utility Revenue Refunding Bonds of \$1,650,000.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of combining and individual fund financial statements and schedules that further explains and supports the information in the financial statements. Figure 1 shows how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included a section with combining and individual fund financial statements and schedules that provide details about nonmajor governmental funds, which are added together and presented in single columns in the basic financial statements.

Figure 1
Required Components of the
City's Annual Financial Report

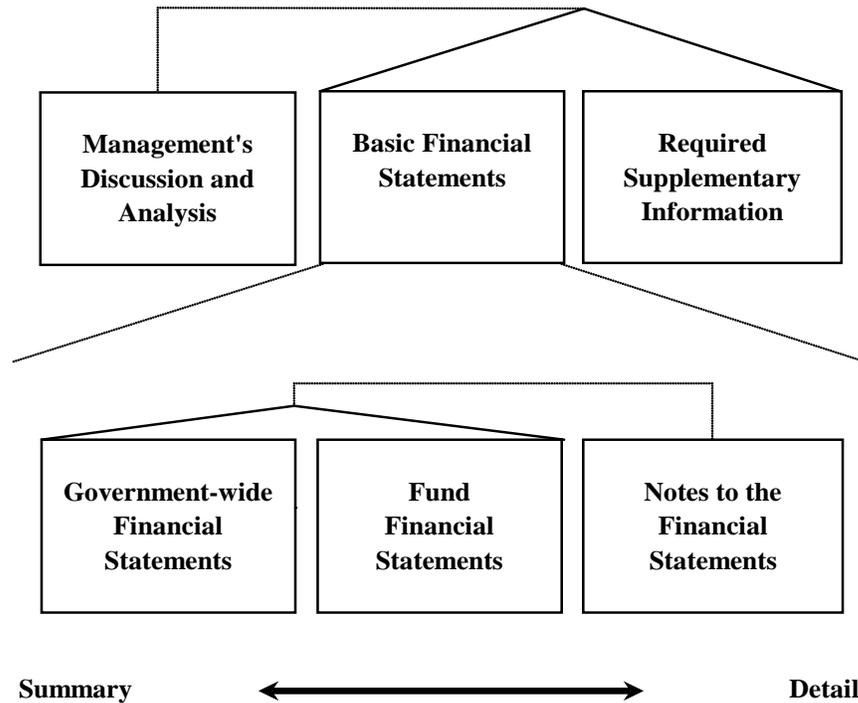


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

Figure 2
Major features of the Government-wide and Fund Financial Statements

	Fund Financial Statements		
	Government-wide Statements	Governmental Funds	Proprietary Funds
Scope	Entire City government (except fiduciary funds) and the City’s component units	The activities of the City that are not proprietary or fiduciary, such as police, fire and parks	Activities the City operates similar to private businesses, such as the water and sewer system
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Revenues, Expenses and Changes in Fund Net Assets • Statement of Cash Flows
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of in flow/out flow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, streets and highway, culture and recreation and economic development. The business-type activities of the City include water utility and sewer utility.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate Economic Development Authority (EDA) for which the City is financially accountable. The EDA, although legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 1 - 3 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact by the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains twelve individual governmental funds, four of which are Debt Service funds which are considered one fund for reporting purposes. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, the Debt Service funds, and the Economic Development Authority fund, all of which are considered to be major funds. Data from the other nonmajor governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements or schedules* elsewhere in this report.

The City adopts an annual appropriated budget for its General fund. Budgetary comparison statements have been provided for this fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 4 - 10 of this report.

Proprietary funds. The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water utility and sewer utility.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each of the enterprise funds which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 11 - 16 of this report.

Notes to 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 17 - 38 of this report.

Other Information

The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to financial statements. Combining and individual fund statements and schedules can be found on pages 39 - 55 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the City, assets exceeded liabilities by \$13,734,335 at the close of the most recent fiscal year.

A portion of the City’s net assets (32.0 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Summary of Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 2,865,296	\$ 2,767,877	\$ 6,977,684	\$ 7,085,822	\$ 9,842,980	\$ 9,853,699
Capital assets	4,413,045	4,571,039	12,067,863	12,412,703	16,480,908	16,983,742
Total assets	7,278,341	7,338,916	19,045,547	19,498,525	26,323,888	26,837,441
Long-term liabilities outstanding	3,634,865	3,924,618	8,777,187	9,137,579	12,412,052	13,062,197
Other liabilities	93,529	199,056	83,972	54,107	177,501	253,163
Total liabilities	3,728,394	4,123,674	8,861,159	9,191,686	12,589,553	13,315,360
Invested in capital assets, net of related debt	1,124,481	1,042,012	3,269,119	3,275,124	4,393,600	4,317,136
Restricted	1,191,293	1,227,637	26,351	23,984	1,217,644	1,251,621
Unrestricted	1,234,173	945,593	6,888,918	7,007,731	8,123,091	7,953,324
Total net assets	\$ 3,549,947	\$ 3,215,242	\$ 10,184,388	\$ 10,306,839	\$ 13,734,335	\$ 13,522,081

An additional portion of the City’s net assets (8.9 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (59.1 percent) may be used to meet the City’s ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all categories of net assets.

The City’s net assets increased by \$212,254 during the current fiscal year. The majority of this increase is attributable to special assessments in the business-type activities which are reported as capital grants in the statement of activities and reduction of expenses in the General fund.

Governmental activities. Governmental activities increased the City's net assets by \$334,705. Key elements of this increase are as follows:

Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues						
Program revenues						
Charges for services	\$ 109,506	\$ 153,171	\$ 384,550	\$ 385,172	\$ 494,056	\$ 538,343
Operating grants and contributions	28,392	29,730	563	5,619	28,955	35,349
Capital grants and contributions	82,999	187,635	164,056	292,168	247,055	479,803
General revenues						
Property taxes	966,508	917,882	19,590	20,504	986,098	938,386
Other taxes	16,358	18,865	-	-	16,358	18,865
Grants and contributions not restricted to specific programs	55,498	37,977	900	538	56,398	38,515
Unrestricted investment earnings	71,498	38,578	80,254	70,389	151,752	108,967
Total revenues	<u>1,330,759</u>	<u>1,383,838</u>	<u>649,913</u>	<u>774,390</u>	<u>1,980,672</u>	<u>2,158,228</u>

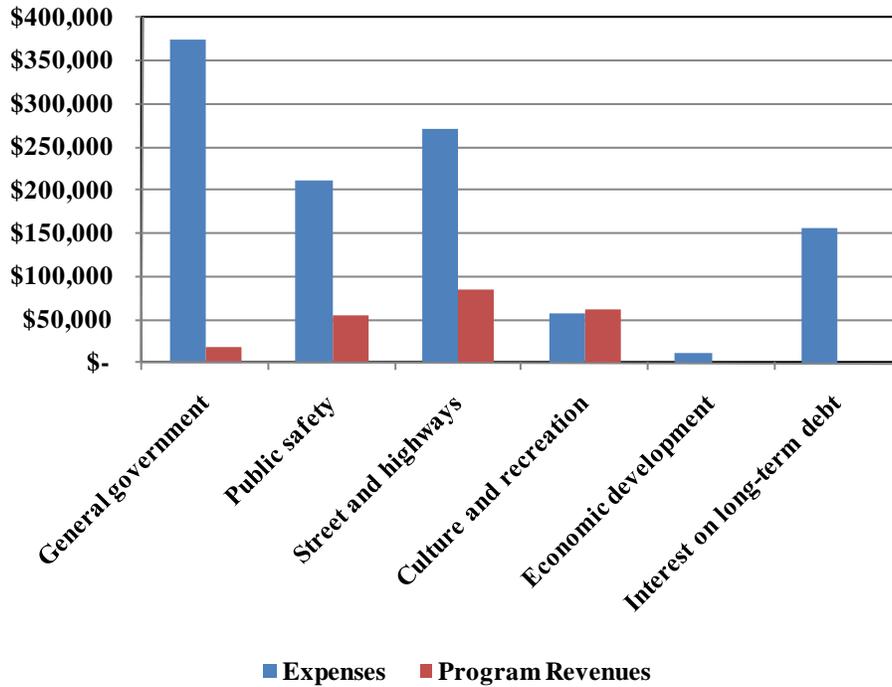
Changes in Net Assets - Continued

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Expenses						
General government	\$ 375,367	\$ 460,191	\$ -	\$ -	\$ 375,367	\$ 460,191
Public safety	211,671	257,349	-	-	211,671	257,349
Streets and highways	270,980	274,520	-	-	270,980	274,520
Culture and recreation	58,495	75,207	-	-	58,495	75,207
Economic development	11,400	38,622	-	-	11,400	38,622
Interest on long-term debt	156,699	153,322	-	-	156,699	153,322
Water utility	-	-	170,949	175,070	170,949	175,070
Sewer utility	-	-	512,857	510,324	512,857	510,324
Total expenses	<u>1,084,612</u>	<u>1,259,211</u>	<u>683,806</u>	<u>685,394</u>	<u>1,768,418</u>	<u>1,944,605</u>
Increase (decrease) in net assets before transfers	246,147	124,627	(33,893)	88,996	212,254	213,623
Transfers	<u>88,558</u>	<u>(303,864)</u>	<u>(88,558)</u>	<u>303,864</u>	<u>-</u>	<u>-</u>
Change in net assets	334,705	(179,237)	(122,451)	392,860	212,254	213,623
Net assets - January 1	3,215,242	3,216,044	10,306,839	9,913,979	13,522,081	13,130,023
Prior period adjustment	<u>-</u>	<u>178,435</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>178,435</u>
Net assets - January 1, restated	<u>3,215,242</u>	<u>3,394,479</u>	<u>10,306,839</u>	<u>9,913,979</u>	<u>13,522,081</u>	<u>13,308,458</u>
Net assets - December 31	<u>\$ 3,549,947</u>	<u>\$ 3,215,242</u>	<u>\$ 10,184,388</u>	<u>\$ 10,306,839</u>	<u>\$ 13,734,335</u>	<u>\$ 13,522,081</u>

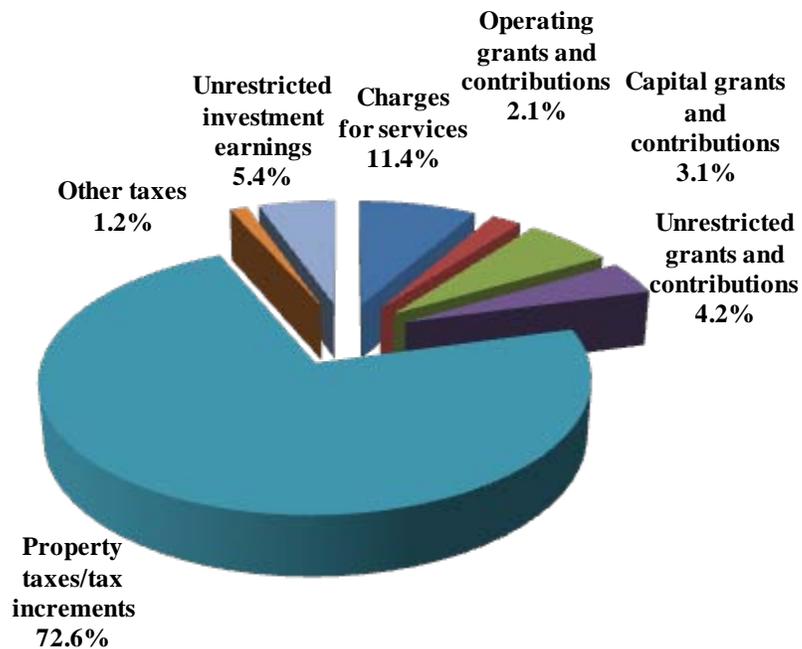
Property tax levies increased by \$37,554 (3.7 percent) during the year. Most of this increase is due to tax levy increases for governmental operations for an increased budget.

The following graph depicts various governmental activities and shows the revenue and expenses directly related to those activities.

Expenses and Program Revenues - Governmental Activities



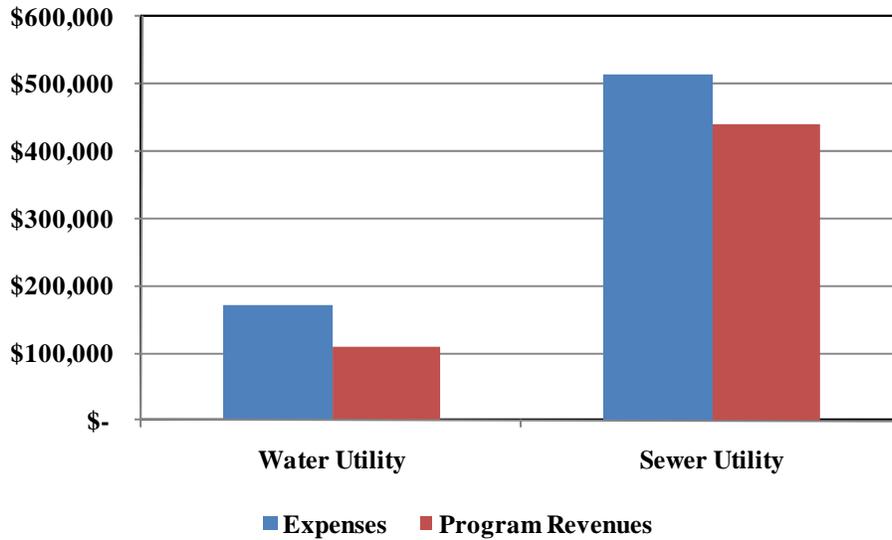
Revenues by Source - Governmental Activities



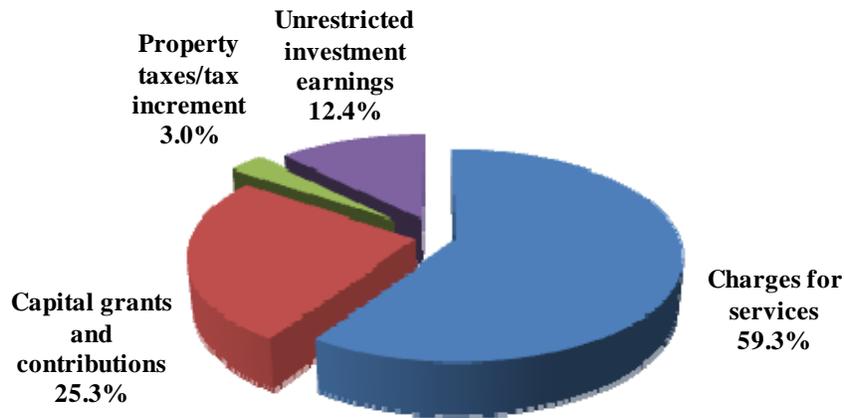
Business-type activities. Business-type activities decreased the City’s net assets by \$122,451. Key elements of this decrease are as follows:

- Capital Grants and Contributions are down from the prior year. \$140,675, in the current year, compared to \$292,168, in the prior year.

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type 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, *unreserved fund balance* may serve as a useful measure of a government'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 \$1,892,785, an increase of \$217,815 in comparison with the prior year. Approximately 79.5 percent of this total amount \$1,504,446 constitutes *unreserved fund balance*, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to pay debt service in the amount of \$387,007.

The General fund is the chief operating fund of the City. At the end of the current year, the fund balance of the General fund was \$999,437, most of which was unreserved. As a measure of the General fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 135.3 percent of fund expenditures. Of this unreserved balance, \$650,275 has been designated for various purposes.

The fund balance of the City's General fund increased by \$218,584 during the current fiscal year. The key factor in this increase was:

- Total current expenditures under budget by \$167,297.

The Economic Development Authority fund (Fund 209) has a total fund balance of \$251,396, all of which is designated for future economic development. The net increase in fund balance during the current year in this fund was \$9,464.

The Debt Service fund has a total fund balance of \$387,007, all of which is reserved for the payment of debt service. The net decrease in fund balance during the current year in the debt service fund was \$17,634.

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

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$6,888,918. The total decrease in net assets for the funds was \$122,451. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The City's General fund budget was amended during the year. The original budget called for a gain of \$13,949. The budget was amended during the year which resulted in a budgeted loss of \$53,507. Revenues were more than expected by \$18,443 and expenditures came in under budget by \$250,450 in 2009.

Capital Asset and Debt Administration

Capital Assets. The City’s investment in capital assets for its governmental and business type activities as of December 31, 2009, amounts to \$16,480,908 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges. The total decrease in the City’s investment in capital assets for the current fiscal year was 3.0 percent (a 3.5 percent decrease for governmental activities and a 2.8 percent decrease for business-type activities).

Major capital asset events during the current fiscal year included the following:

- Purchase of a snow plow for \$29,370
- Purchase of Bobcat angle broom for \$3,700

Additional information on the City’s capital assets can be found in Note 3C on pages 27 - 28 of this report.

Capital Assets Net of Depreciation

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$ 456,118	\$ 456,118	\$ 98,295	\$ 98,295	\$ 554,413	\$ 554,413
Buildings and improvements	2,406,215	2,472,000	-	-	2,406,215	2,472,000
Systems and infrastructure	865,636	936,849	11,933,850	12,273,188	12,799,486	13,210,037
Equipment and machinery	685,076	706,072	35,718	41,220	720,794	747,292
Total	\$ 4,413,045	\$ 4,571,039	\$ 12,067,863	\$ 12,412,703	\$ 16,480,908	\$ 16,983,742

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$12,375,800.

Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
General obligation Special Assessment Bonds	\$ 860,000	\$ 955,000	\$ -	\$ -	\$ 860,000	\$ 955,000
General obligation Bonds	-	-	-	198,000	-	198,000
General obligation Revenue Bonds	-	85,000	8,777,187	8,939,579	8,777,187	9,024,579
Revenue Bonds	2,380,000	2,445,000	-	-	2,380,000	2,445,000
Capital Lease Payable	7,113	10,390	-	-	7,113	10,390
Note Payable	351,500	401,000	-	-	351,500	401,000
Total outstanding debt	<u>\$ 3,598,613</u>	<u>\$ 3,896,390</u>	<u>\$ 8,777,187</u>	<u>\$ 9,137,579</u>	<u>\$ 12,375,800</u>	<u>\$ 13,033,969</u>

The City's total debt decreased by \$658,169 (5.0 percent) during the current fiscal year. The decrease was due to the normally scheduled principal payments and the refunding of 1997 and 1998 Disposal System Bonds, the G.O. Water Revenue Bonds of 2001 and the G.O. Water Revenue Bonds of 2005 with the G.O. Utility Revenue Refunding Bonds of \$1,650,000.

Minnesota statutes limit the amount of net general obligation debt a City may issue to 3 percent of the market value of taxable property within the City. The current debt limitation for the City is \$9,921,420 which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be found in Note 3E on pages 30 - 34 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Stearns County is currently 7.1 percent, which is an increase from a rate of 7.0 percent a year ago. This is consistent with the State's average unemployment rate of 7.3 percent and the national average rate of 9.7 percent.
- There have been market corrections in the real estate market. As a result the residential market may be flattened out but the commercial market is still fairly strong.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the City's budget for the 2010 fiscal year.

Property taxes will decrease in 2010 by approximately 5.4 percent. The City's share of property taxes is low when compared to similar sized cities throughout the State. The tax decrease will reduce the amount available for operations by approximately \$57,000.

The City's bond rating increased to AAA in 2009. This increase will provide the city with better interest rates on future bonds.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Administrator/Clerk, City of Rockville, 229 Broadway Street East, Rockville, MN 56369-0093.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF ROCKVILLE
ROCKVILLE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2009

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CITY OF ROCKVILLE, MINNESOTA
STATEMENT OF NET ASSETS
DECEMBER 31, 2009

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and temporary investments	\$ 1,888,178	\$ 2,119,553	\$ 4,007,731
Receivables			
Interest	8,878	8,263	17,141
Delinquent taxes	54,803	2,073	56,876
Accounts	504	91,183	91,687
Special assessments	873,952	4,622,703	5,496,655
Intergovernmental	28,899	80,244	109,143
Prepaid items	1,332	-	1,332
Unamortized bond discount and issuance costs	8,750	53,665	62,415
Capital assets not being depreciated			
Land	456,118	98,295	554,413
Capital assets (net of accumulated depreciation)			
Buildings and improvements	2,406,215	-	2,406,215
Systems and infrastructure	865,636	11,933,850	12,799,486
Equipment and machinery	685,076	35,718	720,794
TOTAL ASSETS	7,278,341	19,045,547	26,323,888
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable	20,010	8,352	28,362
Due to other governments	-	-	-
Accrued interest payable	58,523	52,805	111,328
Accrued salaries payable	9,959	1,258	11,217
Unamortized bond premiums	-	21,557	21,557
Unearned revenue	5,037	-	5,037
Noncurrent liabilities			
Due within one year	236,427	529,450	765,877
Due in more than one year	3,398,438	8,247,737	11,646,175
TOTAL LIABILITIES	3,728,394	8,861,159	12,589,553
NET ASSETS			
Invested in capital assets, net of related debt	1,124,481	3,269,119	4,393,600
Restricted for debt service	1,191,293	-	1,191,293
Restricted for wastewater infrastructure	-	26,351	26,351
Unrestricted	1,234,173	6,888,918	8,123,091
TOTAL NET ASSETS	\$ 3,549,947	\$ 10,184,388	\$ 13,734,335

The notes to the financial statements are in integral part of this statement.

CITY OF ROCKVILLE, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2009

<u>Functions/Programs</u>	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
General government	\$ 375,367	\$ 17,149	\$ 760	\$ -
Public safety	211,671	37,063	18,616	-
Streets and highways	270,980	43,442	156	40,999
Culture and recreation	58,495	11,852	8,860	42,000
Economic development	11,400	-	-	-
Interest on long-term debt	156,699	-	-	-
	1,084,612	109,506	28,392	82,999
Business-type activities				
Water utility	170,949	105,827	563	1,565
Sewer utility	512,857	278,723	-	162,491
	683,806	384,550	563	164,056
Total	\$ 1,768,418	\$ 494,056	\$ 28,955	\$ 247,055

General revenues

- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- Property taxes, levied for other
- Grants and contributions not restricted to specific programs
- Unrestricted investment earnings

Transfers

Total general revenues and transfers

Change in net assets

Net assets, January 1

Net assets, December 31

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (357,458)		\$ (357,458)
(155,992)		(155,992)
(186,383)		(186,383)
4,217		4,217
(11,400)		(11,400)
<u>(156,699)</u>		<u>(156,699)</u>
<u>(863,715)</u>		<u>(863,715)</u>
	\$ (62,994)	(62,994)
	<u>(71,643)</u>	<u>(71,643)</u>
	<u>(134,637)</u>	<u>(134,637)</u>
	<u>(134,637)</u>	<u>(998,352)</u>
746,186	-	746,186
220,322	19,590	239,912
16,358	-	16,358
55,498	900	56,398
71,498	80,254	151,752
<u>88,558</u>	<u>(88,558)</u>	<u>-</u>
<u>1,198,420</u>	<u>12,186</u>	<u>1,210,606</u>
334,705	(122,451)	212,254
<u>3,215,242</u>	<u>10,306,839</u>	<u>13,522,081</u>
<u>\$ 3,549,947</u>	<u>\$ 10,184,388</u>	<u>\$ 13,734,335</u>

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FUND FINANCIAL STATEMENTS

CITY OF ROCKVILLE
ROCKVILLE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2009

CITY OF ROCKVILLE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2009

	General	Economic Development Authority	Debt Service
ASSETS			
Cash and temporary investments	\$ 1,004,972	\$ 251,109	\$ 377,606
Receivables			
Interest	5,573	1,165	1,133
Delinquent taxes	41,912	558	11,928
Accounts	504	-	-
Special assessments	23,071	-	850,881
Intergovernmental	20,174	259	8,268
Prepaid items	1,332	-	-
	<u>1,097,538</u>	<u>253,091</u>	<u>1,249,816</u>
TOTAL ASSETS	\$ 1,097,538	\$ 253,091	\$ 1,249,816
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 18,122	\$ 1,137	\$ -
Accrued interest payable	-	-	-
Accrued salaries payroll	9,959	-	-
Deferred revenue	70,020	558	862,809
	<u>98,101</u>	<u>1,695</u>	<u>862,809</u>
TOTAL LIABILITIES	98,101	1,695	862,809
FUND BALANCES			
Reserved for			
Prepaid items	1,332	-	-
Debt service	-	-	387,007
Unreserved, designated for:			
Future improvements	-	-	-
Economic development	-	251,396	-
Cash flows	160,048	-	-
General government	68,764	-	-
Fire	52,054	-	-
Civil defense	26,962	-	-
Street maintenance	282,774	-	-
Park and recreation	59,673	-	-
Unreserved, undesignated reported in:			
General fund	347,830	-	-
Special revenue funds	-	-	-
	<u>999,437</u>	<u>251,396</u>	<u>387,007</u>
TOTAL FUND BALANCES	999,437	251,396	387,007
	<u>\$ 1,097,538</u>	<u>\$ 253,091</u>	<u>\$ 1,249,816</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,097,538	\$ 253,091	\$ 1,249,816

The notes to the financial statements are an integral part of this statement.

Other Governmental Funds	Totals
\$ 254,491	\$ 1,888,178
1,007	8,878
405	54,803
-	504
-	873,952
198	28,899
-	1,332
<u>\$ 256,101</u>	<u>\$ 2,856,546</u>
751	\$ 20,010
-	-
-	9,959
405	933,792
<u>1,156</u>	<u>963,761</u>
-	1,332
-	387,007
254,812	254,812
-	251,396
-	160,048
-	68,764
-	52,054
-	26,962
-	282,774
-	59,673
-	347,830
133	133
<u>254,945</u>	<u>1,892,785</u>
<u>\$ 256,101</u>	<u>\$ 2,856,546</u>

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CITY OF ROCKVILLE, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
DECEMBER 31, 2009

Total fund balances - governmental funds	\$ 1,892,785
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds.	4,413,045
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.	
Long-term liabilities at year-end consist of:	
Unamortized bond issuance costs	8,750
Severance payable	(36,251)
Capital lease payable	(3,654)
Notes payable	(301,300)
Bonds payable	(3,293,660)
Long-term assets are not available to pay current-period expenditures and, therefore, are deferred in the funds.	
Delinquent property taxes receivable	54,803
Special assessments receivable	873,952
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(58,523)</u>
Total net assets - governmental activities	<u><u>\$ 3,549,947</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF ROCKVILLE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2009

	General	Economic Development Authority	Debt Service
REVENUES			
Taxes	\$ 732,565	\$ 9,370	\$ 220,322
Special assessments	7,901	-	65,793
Licenses and permits	28,430	-	-
Intergovernmental	58,179	519	12,193
Charges for services	74,701	-	-
Fines and forfeits	5,621	-	-
Investment earnings	39,155	10,975	12,583
Miscellaneous	8,399	-	-
TOTAL REVENUES	954,951	20,864	310,891
EXPENDITURES			
Current			
General government	345,593	-	-
Public safety	123,458	-	-
Streets and highways	171,083	-	-
Culture and recreation	28,745	-	-
Economic development	-	7,519	-
Capital outlay			
General government	3,796	-	-
Public safety	6,000	-	-
Streets and highways	33,307	-	-
Culture and recreation	1,829	-	-
Economic development	-	3,881	-
Debt service			
Principal	16,777	-	206,000
Interest and other	7,977	-	152,705
TOTAL EXPENDITURES	738,565	11,400	358,705
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	216,386	9,464	(47,814)
OTHER FINANCING SOURCES (USES)			
Payment to refunding bond escrow agent	-	-	(75,000)
Transfers in	3,198	-	105,180
Transfers out	(1,000)	-	-
TOTAL OTHER FINANCING SOURCES	2,198	-	30,180
NET CHANGE IN FUND BALANCES	218,584	9,464	(17,634)
FUND BALANCES, JANUARY 1	780,853	241,932	404,641
FUND BALANCES, DECEMBER 31	\$ 999,437	\$ 251,396	\$ 387,007

The notes to the financial statements are an integral part of this statement.

Other Governmental Funds	Totals
\$ 6,988	\$ 969,245
-	73,694
-	28,430
389	71,280
-	74,701
-	5,621
8,563	71,276
<u>51,444</u>	<u>59,843</u>
<u>67,384</u>	<u>1,354,090</u>
-	345,593
-	123,458
19,730	190,813
16,165	44,910
-	7,519
-	3,796
-	6,000
4,168	37,475
1,100	2,929
-	3,881
-	222,777
-	160,682
<u>41,163</u>	<u>1,149,833</u>
<u>26,221</u>	<u>204,257</u>
-	(75,000)
43,000	151,378
<u>(61,820)</u>	<u>(62,820)</u>
<u>(18,820)</u>	<u>13,558</u>
7,401	217,815
<u>247,544</u>	<u>1,674,970</u>
<u>\$ 254,945</u>	<u>\$ 1,892,785</u>

CITY OF ROCKVILLE, MINNESOTA
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2009

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - governmental funds	\$ 217,815
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense.</p>	
Capital outlay	33,067
Depreciation expense	(191,061)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.</p>	
Principal repayments	297,777
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>	
	3,983
<p>Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.</p>	
Property taxes	13,843
<p>Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.</p>	
Special assessments	(32,695)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	
Compensated absences	(8,024)
	(8,024)
Change in net assets - governmental activities	\$ 334,705

The notes to the financial statements are an integral part of this statement.

CITY OF ROCKVILLE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2009

	General			Variance with Final Budget- Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
REVENUES				
Property taxes	\$ 766,989	\$ 768,855	\$ 732,565	\$ (36,290)
Licenses and permits	55,000	27,258	28,430	1,172
Special assessments	11,000	8,246	7,901	(345)
Intergovernmental	59,187	28,357	58,179	29,822
Charges for services	29,700	73,894	74,701	807
Fines and forfeits	6,000	4,557	5,621	1,064
Investment earnings	24,967	18,629	39,155	20,526
Miscellaneous	10,370	6,712	8,399	1,687
TOTAL REVENUES	963,213	936,508	954,951	18,443
EXPENDITURES				
Current				
General government	418,037	411,994	345,593	66,401
Public safety	163,320	141,992	123,458	18,534
Streets and highways	245,900	243,475	171,083	72,392
Culture and recreation	42,090	38,715	28,745	9,970
Capital outlay				
General government	21,000	22,055	3,796	18,259
Public safety	19,500	20,500	6,000	14,500
Streets and highways	6,000	76,867	33,307	43,560
Culture and recreation	9,000	9,000	1,829	7,171
Debt service				
Principal	16,777	16,777	16,777	-
Interest and other	7,640	7,640	7,977	(337)
TOTAL EXPENDITURES	949,264	989,015	738,565	250,450
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) OVER (UNDER) EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)	13,949	(52,507)	216,386	268,893
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	3,198	3,198
Transfers out	-	(1,000)	(1,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	-	(1,000)	2,198	3,198
NET CHANGE IN FUND BALANCES	13,949	(53,507)	218,584	272,091
FUND BALANCES, JANUARY 1	780,853	780,853	780,853	-
FUND BALANCES, DECEMBER 31	<u>\$ 794,802</u>	<u>\$ 727,346</u>	<u>\$ 999,437</u>	<u>\$ 272,091</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ROCKVILLE, MINNESOTA
 STATEMENTS OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2009 AND 2008

	Business-type Activities - Enterprise Funds			
	218, 303, 307		204, 219, 301	
	311, 312, 404		302, 309, 310	
	601, 606		407, 602, 604, 605	
	Water Utility		Sewer Utility	
	2009	2008	2009	2008
ASSETS				
CURRENT ASSETS				
Cash and temporary investments	\$ 430,090	\$ 405,571	\$ 1,689,463	\$ 1,687,890
Receivables				
Interest	1,129	869	7,134	5,959
Accounts	24,099	45,156	67,084	126,945
Delinquent taxes	-	-	2,073	897
Special assessments - delinquent	123,232	73,939	122,229	136,742
Special assessments - deferred	36,398	34,664	309,681	200,197
Intergovernmental	-	-	80,244	16,785
TOTAL CURRENT ASSETS	614,948	560,199	2,277,908	2,175,415
NONCURRENT ASSETS				
Unamortized bond discount and issuance costs	46,887	-	6,778	-
Special assessments receivable - deferred	279,989	294,514	3,751,174	4,055,694
Capital assets, at cost				
Land	98,295	98,295	-	-
Systems and infrastructure	2,504,104	2,504,104	11,025,214	11,025,214
Equipment and machinery	-	-	58,553	58,553
Less accumulated depreciation	(467,587)	(404,167)	(1,150,716)	(869,296)
Total capital assets (net of accumulated depreciation)	2,134,812	2,198,232	9,933,051	10,214,471
TOTAL NONCURRENT ASSETS	2,461,688	2,492,746	13,691,003	14,270,165
TOTAL ASSETS	3,076,636	3,052,945	15,968,911	16,445,580
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	983	2,972	7,369	6,415
Accrued interest payable	17,187	12,003	35,618	31,698
Accrued salaries payable	719	480	539	539
Due within one year				
Bonds payable	48,000	17,000	481,450	471,037
TOTAL CURRENT LIABILITIES	66,889	32,455	524,976	509,689
NONCURRENT LIABILITIES				
Bonds payable	1,395,000	1,303,000	6,852,737	7,346,542
Unamortized bond premiums	18,834	-	2,723	-
TOTAL NONCURRENT LIABILITIES	1,413,834	1,303,000	6,855,460	7,346,542
TOTAL LIABILITIES	1,480,723	1,335,455	7,380,436	7,856,231
NET ASSETS				
Invested in capital assets, net of related debt	672,978	878,232	2,596,141	2,396,892
Restricted for sewer infrastructure	-	-	26,351	23,984
Unrestricted	922,935	839,258	5,965,983	6,168,473
TOTAL NET ASSETS	\$ 1,595,913	\$ 1,717,490	\$ 8,588,475	\$ 8,589,349

The notes to the financial statements are an integral part of this statement.

Business-type Activities -
Enterprise Funds

Totals	
2009	2008
\$ 2,119,553	\$ 2,093,461
8,263	6,828
91,183	172,101
2,073	897
245,461	210,681
346,079	234,861
80,244	16,785
2,892,856	2,735,614
53,665	-
4,031,163	4,350,208
98,295	98,295
13,529,318	13,529,318
58,553	58,553
(1,618,303)	(1,273,463)
12,067,863	12,412,703
16,152,691	16,762,911
19,045,547	19,498,525
8,352	9,387
52,805	43,701
1,258	1,019
529,450	488,037
591,865	542,144
8,247,737	8,649,542
21,557	-
8,269,294	8,649,542
8,861,159	9,191,686
3,269,119	3,275,124
26,351	23,984
6,888,918	7,007,731
\$ 10,184,388	\$ 10,306,839

CITY OF ROCKVILLE, MINNESOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	Business-type Activities - Enterprise Funds			
	218, 303, 307		204, 219, 301	
	311, 312, 404		302, 309, 310	
	601, 606		407, 602, 604, 605	
	Water Utility		Sewer Utility	
	2009	2008	2009	2008
OPERATING REVENUES				
Charges for services	\$ 105,772	\$ 104,249	\$ 261,752	\$ 257,908
OPERATING EXPENSES				
Salaries and benefits	17,379	14,921	15,056	14,885
Supplies	16,958	5,863	18,859	8,795
Other services and charges	7,720	22,544	86,969	77,494
Insurance	2,042	-	2,387	-
Utilities	14,486	13,827	8,340	9,615
Depreciation	63,420	63,420	281,419	281,418
TOTAL OPERATING EXPENSES	122,005	120,575	413,030	392,207
OPERATING LOSS	(16,233)	(16,326)	(151,278)	(134,299)
NONOPERATING REVENUES (EXPENSES)				
Special assessments	16,194	19,595	124,481	204,236
Other income	55	5,848	16,971	17,167
Investment earnings	15,346	10,853	64,908	59,536
Connection fees	-	21,873	23,381	46,464
Refunds and reimbursements	563	4,909	-	710
Intergovernmental - state	-	-	900	538
Property taxes	-	-	19,590	20,504
Interest and other expense	(48,944)	(54,495)	(99,827)	(118,117)
TOTAL NONOPERATING REVENUES (EXPENSES)	(16,786)	8,583	150,404	231,038
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(33,019)	(7,743)	(874)	96,739
CAPITAL CONTRIBUTIONS FROM OTHER FUNDS	-	166,407	-	160,490
TRANSFERS IN	41,225	40,985	-	-
TRANSFERS OUT	(129,783)	(64,018)	-	-
CHANGE IN NET ASSETS	(121,577)	135,631	(874)	257,229
NET ASSETS, JANUARY 1	1,717,490	1,581,859	8,589,349	8,332,120
NET ASSETS, DECEMBER 31	\$ 1,595,913	\$ 1,717,490	\$ 8,588,475	\$ 8,589,349

The notes to the financial statements are an integral part of this statement.

Business-type Activities -
Enterprise Funds

Totals	
2009	2008
\$ 367,524	\$ 362,157
32,435	29,806
35,817	14,658
94,689	100,038
4,429	-
22,826	23,442
344,839	344,838
535,035	512,782
(167,511)	(150,625)
140,675	223,831
17,026	23,015
80,254	70,389
23,381	68,337
563	5,619
900	538
19,590	20,504
(148,771)	(172,612)
133,618	239,621
(33,893)	88,996
-	326,897
41,225	40,985
(129,783)	(64,018)
(122,451)	392,860
10,306,839	9,913,979
\$ 10,184,388	\$ 10,306,839

CITY OF ROCKVILLE, MINNESOTA
STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	Business-type Activities - Enterprise Funds			
	218, 303, 307		204, 219, 301	
	311, 312, 404		302, 309, 310	
	601, 606		407, 602, 604, 605	
	Water Utility		Sewer Utility	
	2009	2008	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 104,956	\$ 99,281	\$ 257,786	\$ 272,443
Payments to suppliers and vendors	(43,195)	(42,312)	(115,601)	(107,790)
Payments to and on behalf of employees	(17,140)	(14,959)	(15,056)	(14,940)
Other receipts	618	10,757	17,871	18,415
NET CASH PROVIDED BY OPERATING ACTIVITIES	45,239	52,767	145,000	168,128
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Principal paid	(1,320,000)	(16,000)	(690,392)	(1,304,869)
Interest paid	(43,760)	(54,495)	(95,907)	(118,117)
Bond proceeds received	1,414,947	-	202,945	-
Transfers from other funds	41,225	40,985	-	-
Transfers to other funds	(129,783)	(64,018)	-	-
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	(37,371)	(93,528)	(583,354)	(1,422,986)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Connection fees received	-	21,872	23,381	46,464
Property taxes collected	-	-	18,414	19,722
Payments received on special assessments receivable, net	1,565	3,333	334,399	387,976
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	1,565	25,205	376,194	454,162
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received on cash and investments	15,086	9,984	63,733	53,577
NET INCREASE (DECREASE) IN CASH AND TEMPORARY INVESTMENTS	24,519	(5,572)	1,573	(747,119)
CASH AND TEMPORARY INVESTMENTS, JANUARY 1	405,571	411,143	1,687,890	2,435,009
CASH AND TEMPORARY INVESTMENTS, DECEMBER 31	\$ 430,090	\$ 405,571	\$ 1,689,463	\$ 1,687,890
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating loss	\$ (16,233)	\$ (16,326)	\$ (151,278)	\$ (134,299)
Adjustments to reconcile operating loss to net cash provided by operating activities:				
Other income related to operations	618	10,757	17,871	18,415
Depreciation	63,420	63,420	281,419	281,418
(Increase) decrease in assets:				
Accounts receivable	(816)	(4,968)	(3,966)	14,535
Increase (decrease) in liabilities:				
Accounts payable	(1,989)	(78)	954	(2,962)
Due to other governments	-	-	-	(8,924)
Accrued salaries payable	239	(38)	-	(55)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 45,239	\$ 52,767	\$ 145,000	\$ 168,128
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Capital contributions				
Infrastructure contributed from governmental funds	\$ -	\$ 166,408	\$ -	\$ 160,490

The notes to the financial statements are an integral part of this statement.

Business-type Activities -
Enterprise Funds

Totals	
2009	2008
\$ 362,742	\$ 371,724
(158,796)	(150,102)
(32,196)	(29,899)
18,489	29,172
<u>190,239</u>	<u>220,895</u>
(2,010,392)	(1,320,869)
(139,667)	(172,612)
1,617,892	-
41,225	40,985
(129,783)	(64,018)
<u>(620,725)</u>	<u>(1,516,514)</u>
23,381	68,336
18,414	19,722
<u>335,964</u>	<u>391,309</u>
<u>377,759</u>	<u>479,367</u>
<u>78,819</u>	<u>63,561</u>
26,092	(752,691)
<u>2,093,461</u>	<u>2,846,152</u>
<u>\$ 2,119,553</u>	<u>\$ 2,093,461</u>
\$ (167,511)	\$ (150,625)
18,489	29,172
344,839	344,838
(4,782)	9,567
(1,035)	(3,040)
-	(8,924)
239	(93)
<u>\$ 190,239</u>	<u>\$ 220,895</u>
\$ -	\$ 326,898

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CITY OF ROCKVILLE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Rockville (the City) operates under “Optional Plan A” as defined in the State of Minnesota statutes. The City is governed by an elected Mayor and a six-member Council. The Council exercises legislative authority and determines all matters of policy. The Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City’s financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization’s governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. Blended component units, although legally separate entities are, in substance, part of the City’s operations and so data from these units are combined with data of the primary government.

Blended Component Unit. The Rockville Economic Development Authority (EDA) was established under Minnesota statutes, 469.090 through 469.108 for the purpose of promoting economic development within the City. The governing body of the EDA consists of the Administrator, two council members and the four Council appointed members of the community. The EDA has a December 31 year-end and is reported as a special revenue fund. Separate financial statements are not issued for the EDA.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *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. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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. *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*.

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

CITY OF ROCKVILLE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 and fiduciary 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, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue in the fund financial statements.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF ROCKVILLE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The City reports the following major governmental funds:

The *General fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Economic Development Authority* accounts for providing resources for the purpose of promoting economic development within the City.

The *Debt Service fund* accounts for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources and special assessment bond principal and interest from special assessment levies when the City is obligated in some manner for the payment.

The City reports the following major proprietary funds:

The *Water Utility fund* accounts for costs associated with the City's water system and to insure that user charges are sufficient to pay for those costs.

The *Sewer Utility fund* accounts for the costs associated with the City's sewer system and to insure that user charges are sufficient to pay for those costs.

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

As a general rule the effect of interfund activity has been eliminated from government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer 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.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contribution, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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 City's enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF ROCKVILLE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The City may invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
6. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
7. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
8. Guaranteed investment contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

Investments for the City are reported at fair value. The 4M Fund and broker money market accounts operate in accordance with appropriate state laws and regulations. The reported value of the pools is the same as the fair value of the pool shares.

CITY OF ROCKVILLE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Investment policy

All City investments and deposits shall be those allowable by Minnesota Statutes Chapter 118A and amendments thereto. In accordance with MN Statutes 118A, collateralization will be required on all demand deposit accounts, including checking, savings, and money market accounts, and non-negotiable certificates of deposit in excess of federal deposit insurance. The investment portfolio shall remain sufficiently liquid to meet projected disbursement requirements. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Generally, investments shall have “laddered” maturities so that money becomes available on a regular schedule.

Property Taxes

The Council annually adopts a tax levy and certifies it to the County in December for collection the following year. The County is responsible for collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Treasurer and tax settlements are made to the City during January, June and November each year.

Taxes payable on homestead property, as defined by Minnesota statutes, are partially reduced by a market value credit aid. The credit is paid to the City by the State of Minnesota (the State) in lieu of taxes levied against the homestead property. The State remits this credit in two equal installments in October and December each year.

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by a deferred revenue liability for delinquent taxes not received within 60 days after year end in the fund financial statements.

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2009. The City annually certifies delinquent water and sewer accounts to the County for collection in the following year. Therefore, there has been no allowance for doubtful accounts established.

Special Assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue when they are annually certified to the County or received in cash or within 60 days after year end. All governmental special assessments receivable are offset by a deferred revenue liability in the fund financial statements.

Interfund 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 non-current 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.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

CITY OF ROCKVILLE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2009

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an estimated useful life in excess of two years. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements.

In the case of initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include items dating back to June 30, 1980. The City was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the City constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the City values these capital assets at the estimated fair value of the item at the date of its donation. 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. For financial statement purposes only, a capitalization threshold is established for each capital asset category as follows:

Assets	Amount
Construction and infrastructure	\$ 25,000
Buildings and improvements	25,000
Machinery and equipment	5,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Improvements other than buildings	10 - 30
Buildings and improvements	10 - 40
Infrastructure	15 - 30
Machinery and equipment	5 - 20
Sewer and water improvements	10 - 40
Vehicles	5 - 20
Other assets	5 - 20

Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All earned vacation days must be used during the year after the days are earned. Unused vacation days are forfeited unless an emergency situation arises in which a three month grace period is available. All earned, unused and unforfeited vacation days are paid upon termination.

Employees may accumulate an unlimited amount of sick leave. Employees shall be compensated for all unused sick leave, after one year of service, upon termination of employment at the then current rate of pay. If the hours exceed 240 hours, the employee may be paid out these hours at their discretion.

Full-time employees can also earn compensation time that is paid to employees upon termination. Employees may only accumulate 40 hours of compensation time. Any balance over 40 hours is paid to the employee every pay period. At the end of the year, an employee can carry over 40 hours of compensation time to the next year.

The City Administrator receives severance pay equal to two months of salary upon termination with just cause.

CITY OF ROCKVILLE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

All vacation and sick leave pay are accrued when incurred in the government-wide fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

The General fund is typically used to liquidate governmental compensated absences payable.

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognized 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.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets are displayed in three components:

- a. Invested in capital assets, net of related debt - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net assets - Consist of net assets restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Comparative Data/Reclassifications

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation.

CITY OF ROCKVILLE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

An annual budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General fund. Since it is not legally required to do so, there is no budget prepared for the Economic Development Authority special revenue fund. All annual appropriations lapse at fiscal year end. The City does not use encumbrance accounting.

In July of each year, all departments of the City submit requests for appropriations to the Administrator/ Clerk so that a budget may be prepared. Before September 15, the proposed budget is presented to the Council for review. The Council holds public hearings and a final budget is prepared and adopted in early December.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Administrator/Clerk. The legal level of budgetary control is the department level. Budgeted amounts are as originally adopted, or as amended by the Council. There were budget amendments during 2009 that amount to an increase of expenditures of \$39,751, and a decrease in budgeted revenues of \$26,705.

Note 3: DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Deposits

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the City's deposits and investments may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the Council, the City maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rate "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any federal agency.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the government entity.

At year end, the City's carrying amount of deposits was \$3,220,676 and the bank balance was \$3,252,756. Of the bank balance, \$2,577,376 was covered by federal depository insurance. Of the remaining balance, \$675,380 was collateralized with securities held by the pledging financial institution's trust department in the City's name.

CITY OF ROCKVILLE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2009

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Investments

The investments of the City are subject to the following risks:

- *Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota Statutes and the City's investment policy limit the City's investments.
- *Custodial Credit Risk.* The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The City's investment policy does not address custodial credit risk but typically limits its exposure by purchasing insured or registered investments.
- *Concentration of Credit Risk.* The concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City places no limit on the amount that may be invested in any one issuer.
- *Interest Rate Risk.* The interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the maturity of its investment portfolio to less than five years.

As of December 31, 2009, the City had the following investments that are insured or registered, or securities held by the City or its agent in the City's name.

Types of Investments	Fair Value and Carrying Amount	Cost	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)
Pooled investments:				
Minnesota Municipal Money				
Market (4M) fund	\$ 544	\$ 544	P-1	less than 6 months
Broker money markets	237,741	237,741	N/A	less than 6 months
Non-pooled investments:				
Federal National Mortgage Association	199,126	200,000		more than 3 years
Federal Home Loan Mortgage Corporation	251,547	255,000		more than 3 years
Federal Home Loan Bank	97,719	100,000		more than 3 years
 Total investments	 <u>\$ 786,677</u>	 <u>\$ 793,285</u>		

(1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.
 N/A indicates not applicable or available.

(2) Interest rate risk is disclosed using the segmented time distribution method.

The Minnesota Municipal Money Market Fund (the 4M Fund) is a customized cash management and investment program for Minnesota public funds. Sponsored and governed by the League of Minnesota Cities since 1987, the 4M Fund is a unique investment alternative designed to address the daily and long term investment needs of Minnesota cities and other municipal entities. Allowable under Minnesota statutes, the 4M Fund is comprised of top quality, rated investments.

CITY OF ROCKVILLE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2009

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Cash on Hand

Cash in the possession of the City, consisting of petty cash and change funds, totals \$378.

Cash and Investments Summary

A reconciliation of cash and investments as shown on the Statement of Net Assets for the City follows:

Deposits	\$ 3,220,676
Investments	786,677
Cash on hand	<u>378</u>
 Total cash and temporary investments	 <u><u>\$ 4,007,731</u></u>

B. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Delinquent taxes receivable (General fund)	\$ 41,912	\$ -
Delinquent taxes receivable (EDA)	558	-
Delinquent taxes receivable (Debt Service fund)	11,928	-
Delinquent taxes receivable (Other governmental funds)	405	-
Delinquent special assessments receivable (Debt Service fund)	203,823	-
Special assessments not yet due (Debt Service fund)	647,058	-
Special assessments not yet due (General fund)	23,071	-
Unearned revenue (General fund)	<u>-</u>	<u>5,037</u>
 Total	 <u><u>\$ 928,755</u></u>	 <u><u>\$ 5,037</u></u>

CITY OF ROCKVILLE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

C. Capital Assets

Capital asset activity for the City for the year ended December 31, 2009 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 456,118	\$ -	\$ -	\$ 456,118
Capital assets being depreciated:				
Buildings and improvements	2,613,864	-	-	2,613,864
Systems and infrastructure	1,903,867	-	-	1,903,867
Equipment and machinery	1,065,308	33,067	(37,000)	1,061,375
Total capital assets being depreciated	5,583,039	33,067	(37,000)	5,579,106
Less accumulated depreciation for				
Buildings and improvements	(141,864)	(65,785)	-	(207,649)
Systems and infrastructure	(967,018)	(71,213)	-	(1,038,231)
Equipment and machinery	(359,236)	(54,063)	37,000	(376,299)
Total accumulated depreciation	(1,468,118)	(191,061)	37,000	(1,622,179)
Total capital assets being depreciated, net	4,114,921	(157,994)	-	3,956,927
Governmental activities capital assets, net	<u>\$ 4,571,039</u>	<u>\$ (157,994)</u>	<u>\$ -</u>	<u>\$ 4,413,045</u>

CITY OF ROCKVILLE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets not being depreciated				
Land	\$ 98,295	\$ -	\$ -	\$ 98,295
Capital assets being depreciated				
Systems and infrastructure	13,527,464	-	-	13,527,464
Equipment and machinery	60,407	-	-	60,407
Total capital assets being depreciated	13,587,871	-	-	13,587,871
Less accumulated depreciation for				
Systems and infrastructure	(1,254,276)	(339,338)	-	(1,593,614)
Equipment and machinery	(19,188)	(5,501)	-	(24,689)
Total accumulated depreciation	(1,273,464)	(344,839)	-	(1,618,303)
Total capital assets being depreciated, net	12,314,407	(344,839)	-	11,969,568
Governmental activities capital assets, net	\$ 12,412,702	\$ (344,839)	\$ -	\$ 12,067,863

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities		
General government		\$ 24,625
Public safety		82,213
Streets and highways		73,567
Culture and recreation		10,656
Total depreciation expense - governmental activities		\$ 191,061
Business-type activities		
Water utility		\$ 63,420
Sewer utility		281,419
Total depreciation expense - business-type activities		\$ 344,839

CITY OF ROCKVILLE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2009

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

D. Interfund Receivables, Payables and Transfers

The composition of interfund transfers at December 31, 2009 is as follows:

Interfund transfers:

	Transfer in:			Total
	General Fund	Debt Service Fund	Nonmajor Governmental Funds	
Transfer out:				
General fund	\$ -	\$ -	\$ 1,000	\$ 1,000
Nonmajor governmental funds	3,198	16,622	42,000	61,820
Water Utility fund	-	88,558	-	88,558
 Total transfers out	<u>\$ 3,198</u>	<u>\$ 105,180</u>	<u>\$ 43,000</u>	<u>\$ 151,378</u>

In the year ended December 31, 2009, the City made the following transfers:

- Transfer of \$1,000 from the General fund to the Public Land Dedication fund for a matching contribution for the Rocori Trails.
- Transfer of \$3,198 to close the Lions Park Improvement fund to the General fund.
- Transfer of \$16,622 to close the CR 82 Street Improvement fund to the Debt Service fund.
- Transfer of \$42,000 to setup new fund for Rocori Trail for contributions occurring in 2008.
- Transfer of \$75,830 from the 2009A G.O. Utility Bond fund to payoff off the debt in the 2005 Prairie Industrial Park Additional Project fund.
- Transfers of \$12,728 from the Water fund to the Debt Service fund for its annual debt payment.

CITY OF ROCKVILLE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

E. Long-term Debt

General Obligation Bonds. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenues. In addition, general obligation bonds have been issued to refund special assessments related bonds.

General Obligation Improvement Bonds

The following bonds were issued to finance various improvements and will be repaid primarily from special assessments levied on the properties benefiting from the improvements. Some issues, however, are partly financed by ad valorem tax levies. All special assessment debt is backed by the full faith and credit of the City. General Obligation Improvement bonds currently outstanding are as follows:

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Improvement Bonds of 2004	\$ 990,000	2.20-4.25 %	06/01/04	02/01/15	\$ 630,000
G.O. Improvement Bonds of 2008A	230,000	2.00-5.00	09/08/02	01/01/18	<u>230,000</u>
Total General Obligation Improvement Bonds					<u><u>\$ 860,000</u></u>

General Obligation Revenue Bonds

The following bonds were issued to finance capital improvements to the enterprise funds. They will be retired from net revenue of the enterprise funds. General Obligation Revenue Bonds currently outstanding is as follows:

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Sewer Revenue Bonds of 1996	\$ 1,209,000	- %	12/19/95	08/20/17	\$ 461,861
G.O. Sewer Revenue Bonds of 2004	9,235,403	1.34	04/22/04	08/20/24	6,665,327
G.O. Utility Revenue Refunding Bonds of 2009	1,650,000	2.00 - 4.35	08/20/09	02/01/28	<u>1,650,000</u>
Total G.O. Revenue Bonds					<u><u>\$ 8,777,187</u></u>

CITY OF ROCKVILLE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Revenue Bonds

The City also issues bonds where the City pledges income derived from the constructed asset to pay debt service. The Revenue Bond currently outstanding is as follows:

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Public Project Lease Revenue Bonds of 2005A	\$ 2,565,000	3.00-5.00 %	07/27/05	02/01/27	<u>\$ 2,380,000</u>

Capital Lease Payable

The City has entered into a lease agreement as a lessee for financing the acquisition of a Kubota lawn tractor and a public works truck. The following is the currently outstanding balance of these leases:

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Public Works Vehicle Lease	\$ 16,435	5.58 %	11/17/06	11/17/11	<u>\$ 7,113</u>

The capitalized leased assets consist of:

	Governmental Activities
Asset:	
Machinery and equipment	\$ 53,028
Less: Accumulated depreciation	<u>(7,683)</u>
Total	<u>\$ 45,345</u>

Notes Payable

The following notes were issued to finance improvements and the purchase of equipment. The following is the currently outstanding balance of these notes:

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Stearns Electric	\$ 360,000	- %	09/12/05	09/12/15	\$ 216,000
Equipment certificate	160,000	5.00	11/01/06	02/01/17	<u>135,500</u>
Total Notes					<u>\$ 351,500</u>

CITY OF ROCKVILLE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Annual requirement to maturity for long-term liabilities is as follows:

Year Ending December 31,	G.O. Special Assessment Bonds					
	Governmental Activities					
	Principal	Interest	Total	Principal	Interest	Total
2010	\$ 100,000	\$ 33,324	\$ 133,324			
2011	110,000	29,498	139,498			
2012	120,000	25,064	145,064			
2013	120,000	20,241	140,241			
2014	125,000	15,158	140,158			
2015 - 2019	285,000	22,244	307,244			
Total	<u>\$ 860,000</u>	<u>\$ 145,529</u>	<u>\$ 1,005,529</u>			

Year Ending December 31,	G.O. Revenue Bonds			Revenue Bonds		
	Business-type Activities			Governmental Activities		
	Principal	Interest	Total	Principal	Interest	Total
2010	\$ 529,450	\$ 140,362	\$ 669,812	\$ 70,000	\$ 108,250	\$ 178,250
2011	519,450	133,832	653,282	75,000	105,350	180,350
2012	590,450	126,734	717,184	75,000	102,350	177,350
2013	600,451	118,856	719,307	80,000	99,250	179,250
2014	601,451	110,361	711,812	80,000	96,050	176,050
2015 - 2019	3,224,611	373,945	3,598,556	580,000	417,038	997,038
2020 - 2024	2,531,327	158,238	2,689,565	820,000	254,263	1,074,263
2025 - 2028	179,997	15,398	195,395	600,000	46,000	646,000
Total	<u>\$ 8,777,187</u>	<u>\$ 1,177,726</u>	<u>\$ 9,954,913</u>	<u>\$ 2,380,000</u>	<u>\$ 1,228,551</u>	<u>\$ 3,608,551</u>

Year Ending December 31,	Capital Leases			Notes		
	Governmental Activities			Governmental Activities		
	Principal	Interest	Total	Principal	Interest	Total
2010	\$ 3,460	\$ 344	\$ 3,804	\$ 50,200	\$ 6,420	\$ 56,620
2011	3,653	151	3,804	50,900	5,693	56,593
2012	-	-	-	51,600	4,930	56,530
2013	-	-	-	52,400	4,130	56,530
2014	-	-	-	53,300	3,288	56,588
2015 - 2019	-	-	-	93,100	4,378	97,478
Total	<u>\$ 7,113</u>	<u>\$ 495</u>	<u>\$ 7,608</u>	<u>\$ 351,500</u>	<u>\$ 28,839</u>	<u>\$ 380,339</u>

CITY OF ROCKVILLE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Year Ending December 31,	Total Governmental Activities			Total Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2010	\$ 223,660	\$ 148,338	\$ 371,998	\$ 529,450	\$ 140,362	\$ 669,812
2011	239,553	140,692	380,245	519,450	133,832	653,282
2012	246,600	132,344	378,944	590,450	126,734	717,184
2013	252,400	123,621	376,021	600,451	118,856	719,307
2014	258,300	114,496	372,796	601,451	110,361	711,812
2015 - 2019	958,100	443,660	1,401,760	3,224,611	373,945	3,598,556
2020 - 2024	820,000	254,263	1,074,263	2,531,327	158,238	2,689,565
2025 - 2028	600,001	46,000	646,001	179,997	15,398	195,395
Total	<u>\$ 3,598,614</u>	<u>\$ 1,403,414</u>	<u>\$ 5,002,028</u>	<u>\$ 8,777,187</u>	<u>\$ 1,177,726</u>	<u>\$ 9,954,913</u>

On August 20, 2009, the City issued \$1,650,000 of General Obligation Utility Refunding Bonds, Series 2009A. The proceeds of this issue were used to refund the 2009 through 2026 maturities of the City's General Obligation Disposal System Bonds of 1997 (\$105,000), the 2009 through 2028 maturities of the City's General Obligation Disposal System Bonds of 1998 (\$93,000), the 2009 through 2028 maturities of the City's General Obligation Water Revenue Bond of 2001 (\$510,000), and the 2012 through 2016 maturities of the City's General Obligation Water Revenue Bonds of 2005B (\$885,000). The bonds were issued with a net interest cost of 3.5701687 percent. It is estimated that the City will reduce its aggregate debt service payments by \$49,085 over the life of the issue and obtain an economic gain (difference between the present values of the old and new debt service payments) of \$51,860.

CITY OF ROCKVILLE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities					
Bonds payable					
General obligation special assessment bonds	\$ 955,000	\$ -	\$ (95,000)	\$ 860,000	\$ 100,000
General obligation revenue bonds	85,000	-	(85,000)	-	-
Revenue bonds	2,445,000	-	(65,000)	2,380,000	70,000
Total bonds payable	3,485,000	-	(245,000)	3,240,000	170,000
Capital lease	10,390	-	(3,277)	7,113	3,460
Notes payable	401,000	-	(49,500)	351,500	50,200
Compensated absences payable	28,227	18,494	(10,469)	36,252	12,767
Governmental activity long-term liabilities	<u>\$ 3,924,617</u>	<u>\$ 18,494</u>	<u>\$ (308,246)</u>	<u>\$ 3,634,865</u>	<u>\$ 236,427</u>
Business-type activities					
Bonds payable					
General obligation bonds	\$ 198,000	\$ -	\$ (198,000)	\$ -	\$ -
General obligation revenue bonds	8,939,579	1,650,000	(1,812,392)	8,777,187	529,450
Business-type activities long-term liabilities	<u>\$ 9,137,579</u>	<u>\$ 1,650,000</u>	<u>\$ (2,010,392)</u>	<u>\$ 8,777,187</u>	<u>\$ 529,450</u>

CITY OF ROCKVILLE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 4: DEFINED BENEFIT PENSION PLAN - STATEWIDE

A. Plan Description

All full-time and certain part-time employees of the City are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota statutes, chapters 353 and 356.

PERF 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.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of 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. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon 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 PERF. That report may be obtained on the Internet at www.mnpera.com, by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

CITY OF ROCKVILLE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 4: DEFINED BENEFIT PENSION PLAN - STATEWIDE - CONTINUED

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. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.0%, respectively, of their annual covered salary in 2009. PEPFF members were required to contribute 9.4% of their annual covered salary in 2009. PECF members are required to contribute 5.83% of their annual covered salary. The City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 6.75% for Coordinated Plan PERF members, and 14.1% for PEPFF members. Employer contribution rates in the Coordinated Plan increased to 7.00 percent, effective January 1, 2010. The City's contributions to the PERF for the years ending December 31, 2009, 2008 and 2007 were \$14,153, \$13,421, and \$13,208, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

Note 5: DEFINED BENEFIT PENSION PLAN - FIRE RELIEF ASSOCIATION

1. Plan Description

All members of the Rockville Fire Department (the Department) are covered by a defined benefit plan administered by the Rockville Firefighters' Relief Association (the Association). The plan is a single employer retirement plan and is established and administered in accordance with Minnesota statute, chapter 69.

The Association maintains a separate Special fund to accumulate assets to fund the retirement benefits earned by the Department's membership. Funding for the Association is derived from an insurance premium tax in accordance with the Volunteer Firefighter's Relief Association Financing Guidelines Act of 1971 (chapter 261 as amended by chapter 509 of Minnesota statutes 1980). Funds are also derived from investment income.

The Association issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Rockville Firefighters' Relief Association, PO Box 145, Rockville, MN 56369.

CITY OF ROCKVILLE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 5: DEFINED BENEFIT PENSION PLAN - FIRE RELIEF ASSOCIATION

2. Funding Policy

The financial requirements of the Special fund are determined in accordance with section 69.772 of the Minnesota statutes, which requires the payment of pension benefits in a lump sum or optionally in annual installments. The benefits are payable after age 50, 20 years of service, and 10 years of Association membership or upon death. The City's annual pension cost for the current year and related information for the plan is as follows:

Annual pension cost	\$ 11,566
Contributions made	
City (voluntary)	5,000
State aid	11,566
Actuarial valuation date	12/31/09
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	
Normal cost	20 years
Prior service cost	10 years
Asset valuation method	Market
Actuarial assumptions	
Investment rate of return	5%
Projected salary increases	N/A
Inflation rate	N/A
Cost of living adjustments	None

Three Year Trend Information

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/09	\$ 11,566	100.0 %	\$ -
12/31/08	12,626	100.0	-
12/31/07	23,317	100.0	-

Required Supplementary Information

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Assets in Excess of (Unfunded) Accrued Liability	Funded Rate	Pension Benefit Per Year of Service
12/31/09	* \$ -	\$ -	\$ -	- %	\$ 1,500
12/31/08	320,526	524,328	(203,802)	61.13	1,500
12/31/07	420,671	525,612	(104,941)	80.03	1,300

* Information not available at time of audit

CITY OF ROCKVILLE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

Note 6: OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT) which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City's coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The City's management is not aware of any incurred but not reported claims.

B. Jointly Governed Organization

The City, in conjunction with the City of Cold Spring and Richmond created the Rocori Trail Construction Board pursuant to Minnesota Statute 471.59. The organization was created to acquire trail right of way, design, construction and fund a regional trail connecting the terminus of the anticipated Glacial Lakes Trail. The City currently received \$42,000 in funding along with a \$1,000 contribution from the General fund for 2009. The cost related to this project for 2009 amounted to \$3,934.

C. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

D. Legal Debt Margin

The City's statutory debt limit is three percent of estimated taxable market value of real and personal property located in the City. The taxable market value was \$330,714,000 at December 31, 2009 for a limit of \$9,921,420. The City currently has \$860,000 in debt subject to this limit. Debt financed partially or entirely by special assessments or by operations of enterprise funds is excluded from this computation by statute.

E. Sewage Treatment and Capacity Agreement

The City has entered into an agreement on August 8, 2003 with the City of Cold Spring to use their wastewater treatment facility. The City of Cold Spring will charge the City all costs related to the treatment as well as a pro rata share of the total amount of the annual plant operation and maintenance cost attributable to use of the plant, whether said costs were for the benefit of Cold Spring and City both. A debt service component is billed related to the 1990 upgrade of the Cold Spring Plant which will be completely paid for in 2011. The City of Rockville has already paid its share of debt service for the most recent City of Cold Spring plant expansion costs. This agreement shall continue for a term of 30 years and shall be renewable by mutual agreement of the parties.

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

CITY OF ROCKVILLE
ROCKVILLE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2009

CITY OF ROCKVILLE, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2009

	<u>Nonmajor Special Revenue</u>	<u>Nonmajor Capital Projects</u>	<u>Totals</u>
ASSETS			
Cash and temporary investments	\$ 254,491	\$ -	\$ 254,491
Receivables			
Interest	1,007	-	1,007
Delinquent taxes	405	-	405
Intergovernmental	198	-	198
	<u>256,101</u>	<u>-</u>	<u>256,101</u>
TOTAL ASSETS	<u>\$ 256,101</u>	<u>\$ -</u>	<u>\$ 256,101</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 751	\$ -	\$ 751
Deferred revenue	405	-	405
	<u>1,156</u>	<u>-</u>	<u>1,156</u>
TOTAL LIABILITIES	<u>1,156</u>	<u>-</u>	<u>1,156</u>
FUND BALANCES			
Unreserved, designated for future improvements	254,812	-	254,812
Unreserved, reported in:			
Special revenue funds	133	-	133
	<u>254,945</u>	<u>-</u>	<u>254,945</u>
TOTAL FUND BALANCES	<u>254,945</u>	<u>-</u>	<u>254,945</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 256,101</u>	<u>\$ -</u>	<u>\$ 256,101</u>

CITY OF ROCKVILLE, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED DECEMBER 31, 2009

	Nonmajor Special Revenue	Nonmajor Capital Projects	Totals
REVENUES			
Property taxes	\$ 6,988	\$ -	\$ 6,988
Intergovernmental	389	-	389
Charges for services	-	-	-
Investment earnings	8,563	-	8,563
Miscellaneous	51,444	-	51,444
TOTAL REVENUES	67,384	-	67,384
EXPENDITURES			
Current			
Streets and highways	19,730	-	19,730
Culture and recreation	16,165	-	16,165
Capital outlay			
Streets and highways	1,568	2,600	4,168
Culture and recreation	1,100	-	1,100
TOTAL EXPENDITURES	38,563	2,600	41,163
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	28,821	(2,600)	26,221
OTHER FINANCING SOURCES (USES)			
Transfers in	43,000	-	43,000
Transfers out	(45,198)	(16,622)	(61,820)
TOTAL OTHER FINANCING SOURCES (USES)	(2,198)	(16,622)	(18,820)
NET CHANGE IN FUND BALANCES	26,623	(19,222)	7,401
FUND BALANCES, JANUARY 1	228,322	19,222	247,544
FUND BALANCES, DECEMBER 31	\$ 254,945	\$ -	\$ 254,945

CITY OF ROCKVILLE, MINNESOTA
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2009

	202 Public Land Dedication	203 Lions Park Improvement	205 Rocori Trail	408 Annual Event
ASSETS				
Cash and temporary investments	\$ 53,148	\$ -	\$ 82,273	\$ 18
Receivables				
Interest	453	-	-	-
Delinquent taxes	-	-	-	231
Intergovernmental	-	-	-	115
TOTAL ASSETS	<u>\$ 53,601</u>	<u>\$ -</u>	<u>\$ 82,273</u>	<u>\$ 364</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 751	\$ -	\$ -	\$ -
Deferred revenue	-	-	-	231
TOTAL LIABILITIES	<u>751</u>	<u>-</u>	<u>-</u>	<u>231</u>
FUND BALANCES				
Unreserved				
Designated for future improvements	52,850	-	82,273	-
Undesignated	-	-	-	133
TOTAL FUND BALANCES	<u>52,850</u>	<u>-</u>	<u>82,273</u>	<u>133</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 53,601</u>	<u>\$ -</u>	<u>\$ 82,273</u>	<u>\$ 364</u>

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<u>Road Maintenance</u>	<u>Total Nonmajor</u>
\$ 119,052	\$ 254,491
554	1,007
174	405
<u>83</u>	<u>198</u>
<u>\$ 119,863</u>	<u>\$ 256,101</u>
\$ -	\$ 751
<u>174</u>	<u>405</u>
<u>174</u>	<u>1,156</u>
119,689	254,812
<u>-</u>	<u>133</u>
<u>119,689</u>	<u>254,945</u>
<u>\$ 119,863</u>	<u>\$ 256,101</u>

CITY OF ROCKVILLE, MINNESOTA
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS)
YEAR ENDED DECEMBER 31, 2009

	202 Public Land Dedication	203 Lions Park Improvement	205 Rocori Trail	408 Annual Event
REVENUES				
Property taxes	\$ -	\$ -	\$ -	\$ 4,154
Intergovernmental				
Property tax credits and aids	-	-	-	233
Investment earnings	1,174	-	960	-
Miscellaneous				
Other	-	-	42,000	9,444
TOTAL REVENUES	<u>1,174</u>	<u>-</u>	<u>42,960</u>	<u>13,831</u>
EXPENDITURES				
Current				
Streets and highways	-	-	-	-
Culture and recreation	39	-	2,795	13,331
Capital outlay				
Streets and highways				
Culture and recreation	208	-	892	-
TOTAL EXPENDITURES	<u>247</u>	<u>-</u>	<u>3,687</u>	<u>13,331</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>927</u>	<u>-</u>	<u>39,273</u>	<u>500</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	43,000	-
Transfers out	(42,000)	(3,198)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(42,000)</u>	<u>(3,198)</u>	<u>43,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(41,073)	(3,198)	82,273	500
FUND BALANCES (DEFICITS), JANUARY 1	<u>93,923</u>	<u>3,198</u>	<u>-</u>	<u>(367)</u>
FUND BALANCES, DECEMBER 31	<u>\$ 52,850</u>	<u>\$ -</u>	<u>\$ 82,273</u>	<u>\$ 133</u>

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<u>Road Maintenance</u>	<u>Total Nonmajor Funds</u>
\$ 2,834	\$ 6,988
156	389
6,429	8,563
<u>-</u>	<u>51,444</u>
<u>9,419</u>	<u>67,384</u>
19,730	19,730
-	16,165
1,568	1,568
<u>-</u>	<u>1,100</u>
<u>21,298</u>	<u>38,563</u>
<u>(11,879)</u>	<u>28,821</u>
-	43,000
<u>-</u>	<u>(45,198)</u>
<u>-</u>	<u>(2,198)</u>
(11,879)	26,623
<u>131,568</u>	<u>228,322</u>
<u>\$ 119,689</u>	<u>\$ 254,945</u>

CITY OF ROCKVILLE, MINNESOTA
GENERAL FUND
COMPARATIVE BALANCE SHEETS
DECEMBER 31, 2009 AND 2008

	2009	2008
ASSETS		
Cash and temporary investments	\$ 1,004,972	\$ 860,621
Receivables		
Interest	5,573	2,805
Delinquent taxes	41,912	31,221
Accounts	504	782
Special assessments - delinquent	6,273	3,197
Special assessments - deferred	16,798	26,942
Intergovernmental	20,174	14,387
Prepaid items	1,332	-
	<u>\$ 1,097,538</u>	<u>\$ 939,955</u>
TOTAL ASSETS		
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	\$ 18,122	\$ 40,764
Accrued salaries payable	9,959	55,028
Deferred revenue	70,020	63,310
	<u>98,101</u>	<u>159,102</u>
TOTAL LIABILITIES		
FUND BALANCES		
Reserved for prepaid items	1,332	-
Unreserved, designated		
Designated for cash flow	160,048	186,014
General government	68,764	-
Fire equipment	52,054	37,361
Civil defense	26,962	10,912
Street maintenance	282,774	16,000
Park and recreation	59,673	12,400
Unreserved, undesignated	347,830	518,166
	<u>999,437</u>	<u>780,853</u>
TOTAL FUND BALANCES		
TOTAL LIABILITIES AND FUND BALANCES		
	<u>\$ 1,097,538</u>	<u>\$ 939,955</u>

CITY OF ROCKVILLE, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CONTINUED ON THE FOLLOWING PAGES
YEAR ENDED DECEMBER 31, 2009
With Comparative Actual Amounts for Year Ended December 31, 2008

	2009			Variance with Final Budget - Positive (Negative)	2008
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
REVENUES					
Taxes					
Property taxes	\$ 766,989	\$ 768,855	\$ 732,565	\$ (36,290)	\$ 697,599
Special Assessments	11,000	8,246	7,901	(345)	10,443
Licenses and permits					
Business	6,050	4,628	4,653	25	4,606
Nonbusiness	48,950	22,630	23,777	1,147	47,303
Total licenses and permits	55,000	27,258	28,430	1,172	51,909
Intergovernmental					
State					
Local government aid	38,127	1,025	2,030	1,005	7,896
Property tax credits and aids	-	27,272	40,523	13,251	22,811
Fire aid	21,000	-	11,566	11,566	12,626
Other state aids	60	60	4,060	4,000	60
Total state	59,187	28,357	58,179	29,822	43,393
Charges for services					
General government	5,750	4,200	4,776	576	5,236
Public safety	13,500	17,610	17,230	(380)	22,285
Street and highways	3,300	40,100	41,427	1,327	3,602
Culture and recreation	7,150	11,984	11,268	(716)	10,840
Economic development	-	-	-	-	6,507
Total charges for services	29,700	73,894	74,701	807	48,470
Fines and forfeits	6,000	4,557	5,621	1,064	10,732
Investment earnings	24,967	18,629	39,155	20,526	24,800
Miscellaneous					
Other	270	1,193	2,170	977	645
Contributions and donations	4,000	2,250	1,750	(500)	2,291
Refunds and reimbursements	6,100	3,269	4,479	1,210	16,043
Total miscellaneous	10,370	6,712	8,399	1,687	18,979
TOTAL REVENUES	963,213	936,508	954,951	18,443	906,325

CITY OF ROCKVILLE, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CONTINUED
YEAR ENDED DECEMBER 31, 2009
With Comparative Actual Amounts for Year Ended December 31, 2008

	2009			Variance with Final Budget - Positive (Negative)	2008
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
EXPENDITURES					
Current					
General government					
Other general government					
Personal services	\$ 190	\$ -	\$ -	\$ -	\$ -
Supplies	600	600	604	(4)	1,573
Other services and charges	122,450	128,109	93,498	34,611	177,312
Total other general government	123,240	128,709	94,102	34,607	178,885
Council					
Personal services	30,101	30,101	16,169	13,932	20,963
Other services and charges	2,700	2,700	1,376	1,324	2,236
Total Council	32,801	32,801	17,545	15,256	23,199
Administration					
Personal services	206,031	200,310	194,922	5,388	198,412
Other services and charges	4,300	4,300	3,007	1,293	5,641
Total administration	210,331	204,610	197,929	6,681	204,053
Elections					
Personal services	-	-	-	-	2,065
Supplies	-	-	-	-	154
Other services and charges	165	165	-	165	701
Total elections	165	165	-	165	2,920
General government building					
Personal services	12,605	13,254	7,275	5,979	10,099
Supplies	3,200	3,200	3,063	137	4,187
Other services and charges	35,695	29,255	25,679	3,576	36,026
Total general government building	51,500	45,709	36,017	9,692	50,312
Total general government	418,037	411,994	345,593	66,401	459,369

CITY OF ROCKVILLE, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CONTINUED
YEAR ENDED DECEMBER 31, 2009
With Comparative Actual Amounts for Year Ended December 31, 2008

	2009			Variance with Final Budget - Positive (Negative)	2008
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - continued					
Public safety					
Police					
Other services and charges	\$ 23,000	\$ 23,000	\$ 22,567	\$ 433	\$ 21,635
Fire-City					
Personal services	76,595	54,840	49,288	5,552	70,514
Supplies	20,050	21,827	18,628	3,199	18,869
Other services and charges	37,495	36,145	30,761	5,384	37,446
Total fire-City	134,140	112,812	98,677	14,135	126,829
Emergency management					
Personal services	3,310	3,310	1,462	1,848	2,455
Supplies	1,140	1,140	256	884	-
Other services and charges	1,730	1,730	496	1,234	941
Total emergency management	6,180	6,180	2,214	3,966	3,396
Total public safety	163,320	141,992	123,458	18,534	151,860
Streets and highways					
Street maintenance					
Personal services	35,500	34,700	40,813	(6,113)	37,735
Supplies	21,400	21,650	19,054	2,596	17,377
Other services and charges	156,850	154,975	78,193	76,782	93,043
Total street maintenance	213,750	211,325	138,060	73,265	148,155
Snow removal					
Personal services	11,900	11,900	8,715	3,185	6,757
Supplies	20,250	20,250	24,308	(4,058)	21,916
Total snow removal	32,150	32,150	33,023	(873)	28,673

CITY OF ROCKVILLE, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CONTINUED
YEAR ENDED DECEMBER 31, 2009
With Comparative Actual Amounts for Year Ended December 31, 2008

	2009			Variance with Final Budget - Positive (Negative)	2008
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - continued					
Streets and highways - continued					
Total streets and highways	\$ 245,900	\$ 243,475	\$ 171,083	\$ 72,392	\$ 176,828
Culture and recreation					
Parks and recreation					
Personal services	11,165	9,021	7,312	1,709	9,797
Supplies	10,200	8,599	5,725	2,874	9,246
Other services and charges	8,280	8,880	5,272	3,608	5,460
Total parks and recreation	29,645	26,500	18,309	8,191	24,503
Summer ball program					
Personal services	3,240	3,240	2,407	833	2,324
Supplies	6,850	7,010	6,100	910	6,169
Other services and charges	2,355	1,965	1,929	36	1,671
Total summer ball program	12,445	12,215	10,436	1,779	10,164
Total culture and recreation	42,090	38,715	28,745	9,970	34,667
Total current	869,347	836,176	668,879	167,297	822,724
Capital outlay					
General government	21,000	22,055	3,796	18,259	21,294
Public safety	19,500	20,500	6,000	14,500	75,229
Streets and highways	6,000	76,867	33,307	43,560	5,632
Culture and recreation	9,000	9,000	1,829	7,171	8,860
Total capital outlay	55,500	128,422	44,932	83,490	111,015
Debt service					
Principal	16,777	16,777	16,777	-	16,695
Interest and other	7,640	7,640	7,977	(337)	8,516
Total debt service	24,417	24,417	24,754	(337)	25,211
TOTAL EXPENDITURES	949,264	989,015	738,565	250,450	958,950

CITY OF ROCKVILLE, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CONTINUED
YEAR ENDED DECEMBER 31, 2009
With Comparative Actual Amounts for Year Ended December 31, 2008

	2009			Variance with Final Budget - Positive (Negative)	2008
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ 13,949	\$ (52,507)	\$ 216,386	\$ 268,893	\$ (52,625)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	3,198	3,198	-
Transfers out	-	(1,000)	(1,000)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	(1,000)	2,198	3,198	-
NET CHANGE IN FUND BALANCES	13,949	(53,507)	218,584	272,091	(52,625)
FUND BALANCES, JANUARY 1	780,853	780,853	780,853	-	833,478
FUND BALANCES, DECEMBER 31	<u>\$ 794,802</u>	<u>\$ 727,346</u>	<u>\$ 999,437</u>	<u>\$ 272,091</u>	<u>\$ 780,853</u>

CITY OF ROCKVILLE, MINNESOTA
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2009

	304	305	306
	City Facilities	2004 G.O. Improvement Bonds	2005 Prairie Industrial Park Addition Project
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and temporary investments (deficits)	\$ 323,798	\$ 23,254	\$ -
Receivables			
Interest	1,053	-	-
Delinquent taxes	11,711	217	-
Special assessments			
Delinquent	-	202,535	-
Deferred	-	581,745	-
Intergovernmental	5,742	107	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 342,304</u></u>	<u><u>\$ 807,858</u></u>	<u><u>\$ -</u></u>
LIABILITIES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Interest payable	\$ -	\$ -	\$ -
Deferred revenue	11,711	784,497	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>11,711</u>	<u>784,497</u>	<u>-</u>
FUND BALANCES (DEFICITS)			
Reserved for debt service	330,593	23,361	-
Unreserved fund balance	-	-	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES (DEFICITS)	<u>330,593</u>	<u>23,361</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	<u><u>\$ 342,304</u></u>	<u><u>\$ 807,858</u></u>	<u><u>\$ -</u></u>

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2008A G.O.
Improvement

<u>Bonds</u>	<u>Totals</u>
\$ 30,554	\$ 377,606
80	1,133
-	11,928
1,288	203,823
65,313	647,058
<u>2,419</u>	<u>8,268</u>
<u>\$ 99,654</u>	<u>\$ 1,249,816</u>
\$ -	\$ -
<u>66,601</u>	<u>862,809</u>
<u>66,601</u>	<u>862,809</u>
33,053	387,007
<u>-</u>	<u>-</u>
<u>33,053</u>	<u>387,007</u>
<u>\$ 99,654</u>	<u>\$ 1,249,816</u>

CITY OF ROCKVILLE, MINNESOTA
DEBT SERVICE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2009

	304	305	306
	City Facilities	2004 G.O. Improvement Bonds	2005 Prairie Industrial Park Addition Project
REVENUES			
Property taxes	\$ 208,157	\$ 2,665	\$ -
Intergovernmental			
Property tax credits and aids	11,526	145	-
Special assessments	-	52,085	-
Investment earnings	11,109	18	-
TOTAL REVENUES	<u>230,792</u>	<u>54,913</u>	<u>-</u>
EXPENDITURES			
Debt service			
Principal	101,000	95,000	10,000
Interest and other	112,656	26,671	3,949
TOTAL EXPENDITURES	<u>213,656</u>	<u>121,671</u>	<u>13,949</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>17,136</u>	<u>(66,758)</u>	<u>(13,949)</u>
OTHER FINANCING SOURCES (USES)			
Payment to refunding bond escrow agent	-	-	(75,000)
Transfers in	-	-	88,558
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>13,558</u>
NET CHANGE IN FUND BALANCES	17,136	(66,758)	(391)
FUND BALANCES, JANUARY 1	<u>313,457</u>	<u>90,119</u>	<u>391</u>
FUND BALANCES, DECEMBER 31	<u><u>\$ 330,593</u></u>	<u><u>\$ 23,361</u></u>	<u><u>\$ -</u></u>

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2008A G.O.
Improvement

<u>Bonds</u>	<u>Totals</u>
\$ 9,500	\$ 220,322
522	12,193
13,708	65,793
<u>1,456</u>	<u>12,583</u>
<u>25,186</u>	<u>310,891</u>
-	206,000
<u>9,429</u>	<u>152,705</u>
<u>9,429</u>	<u>358,705</u>
<u>15,757</u>	<u>(47,814)</u>
-	(75,000)
<u>16,622</u>	<u>105,180</u>
<u>16,622</u>	<u>30,180</u>
32,379	(17,634)
<u>674</u>	<u>404,641</u>
<u>\$ 33,053</u>	<u>\$ 387,007</u>

CITY OF ROCKVILLE, MINNESOTA
SUMMARY FINANCIAL REPORT
REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS
GOVERNMENTAL FUNDS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	Total 2009	Total 2008	Percent Increase (Decrease)
REVENUES			
Taxes	\$ 969,245	\$ 925,116	4.77 %
Special assessments	73,694	320,912	(77.04)
Licenses and permits	28,430	51,909	(45.23)
Intergovernmental	71,280	50,845	40.19
Charges for services	74,701	97,230	(23.17)
Fines and forfeits	5,621	10,732	(47.62)
Investment earnings	71,276	38,578	84.76
Miscellaneous	59,843	32,672	83.16
TOTAL REVENUES	<u>\$ 1,354,090</u>	<u>\$ 1,527,994</u>	<u>(11.38) %</u>
Per Capita	\$ 500.40	\$ 573.79	(12.79) %
EXPENDITURES			
Current			
General government	\$ 345,593	\$ 459,369	(24.77) %
Public safety	123,458	151,860	(18.70)
Streets and highways	190,813	192,063	(0.65)
Culture and recreation	44,910	49,259	(8.83)
Economic development	7,519	8,828	(14.83)
Capital outlay			
General government	3,796	21,294	(82.17)
Public safety	6,000	75,229	(92.02)
Streets and highways	37,475	36,480	2.73
Culture and recreation	2,929	22,130	(86.76)
Economic development	3,881	29,794	(86.97)
Debt service			
Principal	222,777	212,695	4.74
Interest and other charges	160,682	155,548	3.30
TOTAL EXPENDITURES	<u>\$ 1,149,833</u>	<u>\$ 1,414,549</u>	<u>(18.71) %</u>
Per Capita	\$ 424.92	\$ 531.19	(20.01) %
Total Long-term Indebtedness	\$ 3,598,613	\$ 3,896,390	(7.64) %
Per Capita	1,329.86	1,463.16	(9.11)
General Fund Balance - December 31	\$ 1,892,785	\$ 1,674,970	13.00 %
Per Capita	699.48	628.98	11.21

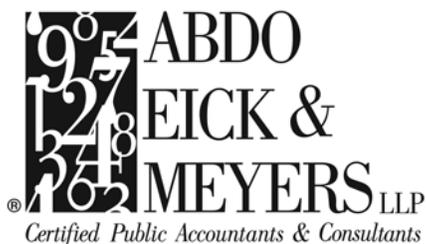
The purpose of this report is to provide a summary of financial information concerning the City of Rockville to interested citizens. The complete financial statements may be examined at City Hall, PO Box 93, 229 Broadway Street E. Questions about this report should be directed to the City Administrator/Clerk at (320) 251-5836.

OTHER REQUIRED REPORTS

CITY OF ROCKVILLE
ROCKVILLE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2009

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

REPORT ON MINNESOTA LEGAL COMPLIANCE

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) as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 7, 2010.

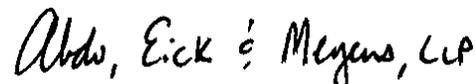
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the Minnesota Office of the State Auditor pursuant to Minnesota statute 6.65. Accordingly,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

The *Minnesota Legal Compliance Audit Guide for Local Government* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, tax increment financing districts and miscellaneous provisions. Our study included all of the listed categories.

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

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.

April 7, 2010
Mankato, Minnesota


ABDO, EICK & MEYERS, LLP
Certified Public Accountants



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

Honorable Mayor and City Council
City of 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) as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 7, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We considered the deficiency described in the accompanying Schedule of Findings and Responses as finding 2009-2 to be a material weakness.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as finding 2009-1 to be a significant deficiency.



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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported to management of the City in a separate letter dated April 7, 2010.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City's responses and, accordingly, we express no opinion on them.

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

April 7, 2010
Mankato, Minnesota

Abdo, Eick & Meyers, LLP
ABDO, EICK & MEYERS, LLP
Certified Public Accountants

CITY OF ROCKVILLE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2009

Finding

Description

2009-1

Preparation of Financial Statements (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 our 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 changes have been made in this finding in the current year.

CITY OF ROCKVILLE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
DECEMBER 31, 2009

Finding

Description

2009-2

Material Audit Adjustments

- Condition: During our audit, adjustments were needed to record several accounting and audit adjustments, including some adjustments that would be considered material audit adjustments.
- Criteria: The financial statements are the responsibility of the City's management.
- Cause: City staff has not prepared a year end trial balance reflecting all necessary accounting entries.
- Effect: It is likely that if a misstatement were to occur, it would not be detected by the City's system of internal control. The audit firm cannot serve as a compensating control over this deficiency.
- Recommendation: We recommend that management review each journal entry, obtain an understanding of why the entry was necessary and modify current procedures to ensure that future corrections are not needed.

Management Response

Management will review and gain an understanding of the audit adjustments in order to reduce the number of entries necessary for future audits.