

**City of Rockville  
Stearns County, Minnesota**

**Audited Financial Statements**

**December 31, 2015**



**City of Rockville  
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**City of Rockville  
Elected Officials and Administration  
December 31, 2015**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Jeff Hagen	Mayor	December 31, 2016
Susan Palmer	Council Member	December 31, 2016
Don Simon	Council Member	December 31, 2016
Duane Willenbring	Council Member	December 31, 2018
Richard Tallman	Council Member	December 31, 2018

Administration

Verena Weber	City Administrator/Clerk - Retired November 2015
Judy Neu	Interim City Administrator/ Finance/Utility Billing Clerk/ Administrative Assistant



## Independent Auditor's Report

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

### Report on the Financial Statements

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, as of and for the year ended December 31, 2015, and the related notes to financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

BerganKDV, Ltd.

**Cedar Falls**  
602 Main Street  
Suite 100  
P.O. Box 489  
Cedar Falls, IA  
50613-0026  
T 319.268.1715  
F 319.268.1720

**Cedar Rapids**  
2720 1st Avenue NE  
Suite 300  
P.O. Box 10200  
Cedar Rapids, IA  
52402-0200  
T 319.294.8000  
F 319.294.9003

**Coralville**  
2530 Corridor Way  
Suite 301  
P.O. Box 5267  
Coralville, IA  
52241-0267  
T 319.248.0367  
F 319.248.0582

**Des Moines**  
9207 Northpark Drive  
Johnston, IA  
50131-2933  
T 515.727.5700  
F 515.727.5800

**Minneapolis**  
3800 American Blvd W  
Suite 1000  
Bloomington, MN  
55431-4420  
T 952.563.6800  
F 952.563.6801

**St. Cloud**  
220 Park Avenue S  
P.O. Box 1304  
St. Cloud, MN  
56302-3713  
T 320.251.7010  
F 320.251.1784

**Waterloo**  
100 East Park Avenue  
Suite 300  
P.O. Box 2100  
Waterloo, IA  
50704-2100  
T 319.234.6885  
F 319.234.6287

bergankdv.com



## **Opinions**

In our opinion, the financial statements referred to previously 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 of Rockville, Minnesota, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Implementation of GASB 68 and GASB 71**

As discussed in Note 12 to the financial statements, the City has adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and the remaining Required Supplementary Information as identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, 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.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rockville's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.



## **Other Matters (Continued)**

### *Other Information (Continued)*

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2016, on our consideration of the City of Rockville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Rockville's internal control over financial reporting and compliance.

*Bergan KDV, Ltd.*

St. Cloud, Minnesota  
May 9, 2016

## **City of Rockville Management's Discussion And Analysis**

The City of Rockville (the "City") would like to offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the year ended December 31, 2015.

### **FINANCIAL HIGHLIGHTS**

- ◆ The net position of the City at the close of the most recent year was approximately \$14,671,363. Of this amount, \$6,307,073 may be used to meet government's ongoing obligations to citizens and creditors.
- ◆ The government's total net position decreased by \$132,584 in 2015. This was attributable due to the city's capital assets are depreciating faster than the city is paying off its debt.
- ◆ As of the close of the current year, the City's governmental funds reported combined ending fund balances of \$2,257,562, a decrease of \$1,769,154. These dollars are available for spending at the City's discretion, but some have been designated for specific purposes.
- ◆ At the end of the current year, fund balance for the General Fund was \$958,437, or 113% of total General Fund expenditures. While these funds are not legally restricted, \$470,192 is assigned for future purposes, leaving the unassigned fund balance of \$488,245, or 57% of current year expenditures, to be used in the event of a major catastrophe.
- ◆ The City's total long-term debt decreased by \$2,938,444 during the current year because of a crossover refunding bond issued during 2014 that refunded during 2015.
- ◆ The City implemented GASB 68 and 71 during 2015, which resulted in a restatement of beginning fund balance of (\$196,070).

### **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 supplementary information in addition to the basic financial statements themselves.



**City of Rockville  
Management's Discussion And Analysis**

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 (MD&A) explains the structure and contents of each of the statements.

**Figure 2  
Major Features of the Government-wide and 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"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures and Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Revenues, Expenses and Changes in Fund Net Position</li> <li>• Statement of Cash Flows</li> </ul>
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 and deferred outflows/liability and deferred inflows of information	All assets and deferred outflows and liabilities and deferred inflows, both financial and capital, and short-term and long-term	Only assets and deferred outflows expected to be used up and liabilities and deferred inflows that come due during the year or soon thereafter, no capital assets included	All assets and deferred outflows and liabilities and deferred inflows, 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

## **City of Rockville Management's Discussion And Analysis**

### **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

The Statement of Net Position presents information on all of the City's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between them reported as net position. Over time, increases or decreases in net position 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 government's net position changed during the most recent year. All changes in net position 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 revenues (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, public works, culture and recreation and economic development. The proprietary funds of the City include the 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) of Rockville. Financial information for this blended component unit is reported as if it were part of the City. The government-wide financial statements can be found on pages 18-19 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 modified accrual 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 (enterprise) funds and fiduciary funds.

## **City of Rockville Management's Discussion And Analysis**

### **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 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 of 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 government-wide activities.

The City maintains 8 individual governmental funds. Information is presented separately in the governmental funds Balance Sheet and in the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund, Road Maintenance Capital Project Fund and the City Facilities, 2008A General Obligation (G.O.) Improvement Bonds and G.O. Improvement Bonds of 2004 Debt Service Funds, all of which are considered to be major funds. Data from the other nonmajor governmental funds are combined into a single, aggregated presentation. Individual 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 this budget.

The basic governmental fund financial statements can be found on pages 20-27 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 and sewer utilities. Sewer rates for the downtown area have not been raised since the City consolidated in 2002. The Lakes Area Sewer rate has not changed since their inception in 2004 and this needs to be done as costly repairs are occurring.

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 the enterprise funds which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 28-30 of this report.

### **Notes to the Financial Statements**

The Notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**City of Rockville  
Management's Discussion And Analysis**

**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 68-73 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, total assets and deferred outflows exceeded total liabilities and deferred inflows by \$14,671,363 at the close of the most recent year.

A portion of the City's net position 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 Position**

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and Other Assets	\$ 2,707,596	\$ 4,495,241	\$ 5,391,370	\$ 6,131,828	\$ 8,098,966	\$ 10,627,069
Capital Assets	7,160,350	7,158,495	13,686,599	13,686,599	20,846,949	20,845,094
Less Accumulated Depreciation	<u>(2,632,629)</u>	<u>(2,388,507)</u>	<u>(3,327,133)</u>	<u>(2,984,002)</u>	<u>(5,959,762)</u>	<u>(5,372,509)</u>
<b>Total Assets</b>	<u><b>\$ 7,235,317</b></u>	<u><b>\$ 9,265,229</b></u>	<u><b>\$ 15,750,836</b></u>	<u><b>\$ 16,834,425</b></u>	<u><b>\$ 22,986,153</b></u>	<u><b>\$ 26,099,654</b></u>
Deferred Outflows	<u>\$ 68,385</u>	<u>\$ -</u>	<u>\$ 9,463</u>	<u>\$ -</u>	<u>\$ 77,848</u>	<u>\$ -</u>
Long-Term Liabilities						
Outstanding	\$ 2,148,465	\$ 2,082,240	\$ 4,852,800	\$ 5,907,044	\$ 7,001,265	\$ 7,989,284
Other Liabilities	<u>225,367</u>	<u>2,444,307</u>	<u>1,155,816</u>	<u>666,046</u>	<u>1,381,183</u>	<u>3,110,353</u>
<b>Total Liabilities</b>	<u><b>\$ 2,442,217</b></u>	<u><b>\$ 4,526,547</b></u>	<u><b>\$ 6,018,079</b></u>	<u><b>\$ 6,573,090</b></u>	<u><b>\$ 8,460,296</b></u>	<u><b>\$ 11,099,637</b></u>
Deferred Inflows	<u>\$ 7,904</u>	<u>\$ -</u>	<u>\$ 2,286</u>	<u>\$ -</u>	<u>\$ 10,190</u>	<u>\$ -</u>
<b>NET POSITION:</b>						
Net Investment in						
Capital Assets	\$ 2,516,721	\$ 2,549,927	\$ 4,992,558	\$ 4,727,103	\$ 7,509,279	\$ 7,277,030
Restricted	305,826	171,696	549,185	559,413	855,011	731,109
Unrestricted	<u>2,099,419</u>	<u>2,017,059</u>	<u>4,207,654</u>	<u>4,974,819</u>	<u>6,307,073</u>	<u>6,991,878</u>
<b>Total Net Position</b>	<u><b>\$ 4,921,966</b></u>	<u><b>\$ 4,738,682</b></u>	<u><b>\$ 9,749,397</b></u>	<u><b>\$ 10,261,335</b></u>	<u><b>\$ 14,671,363</b></u>	<u><b>\$ 15,000,017</b></u>

An additional portion of the City's net position (6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (43%) may be used to meet the government's ongoing obligations to citizens and creditors. This is a decrease of \$684,805 from 2014.

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

**City of Rockville  
Management's Discussion And Analysis**

**Governmental Activities**

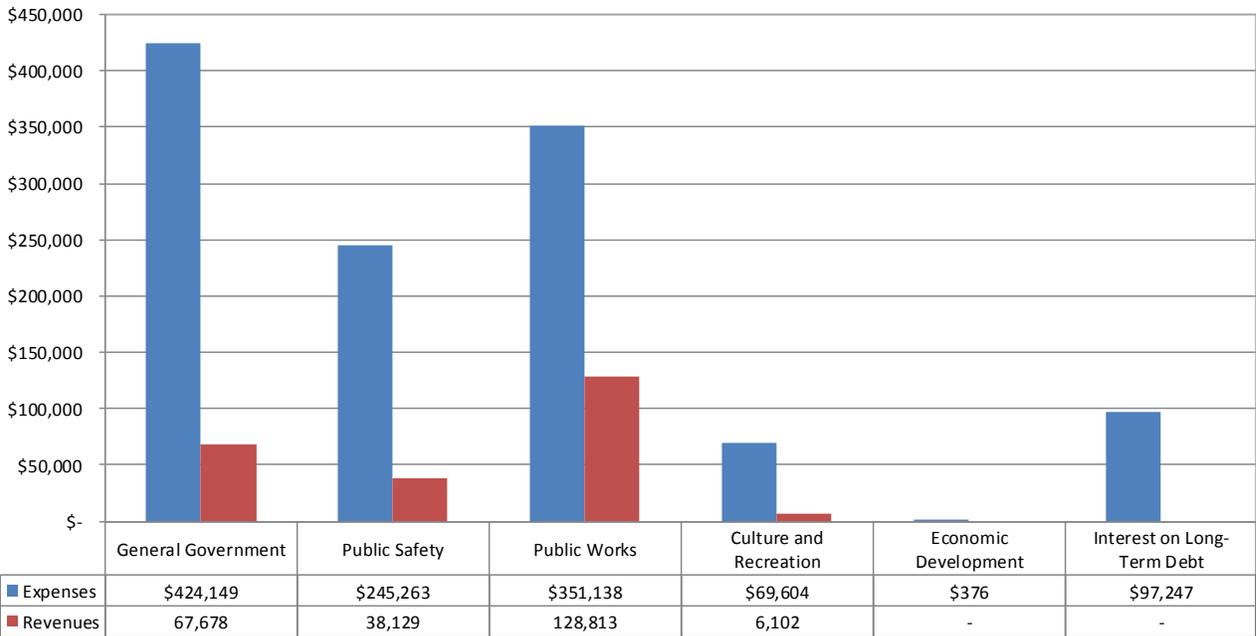
Governmental activities increased the City's net position by \$344,187. The key element of this increase is due to setting aside funds for future road maintenance.

**Changes in Net Position**

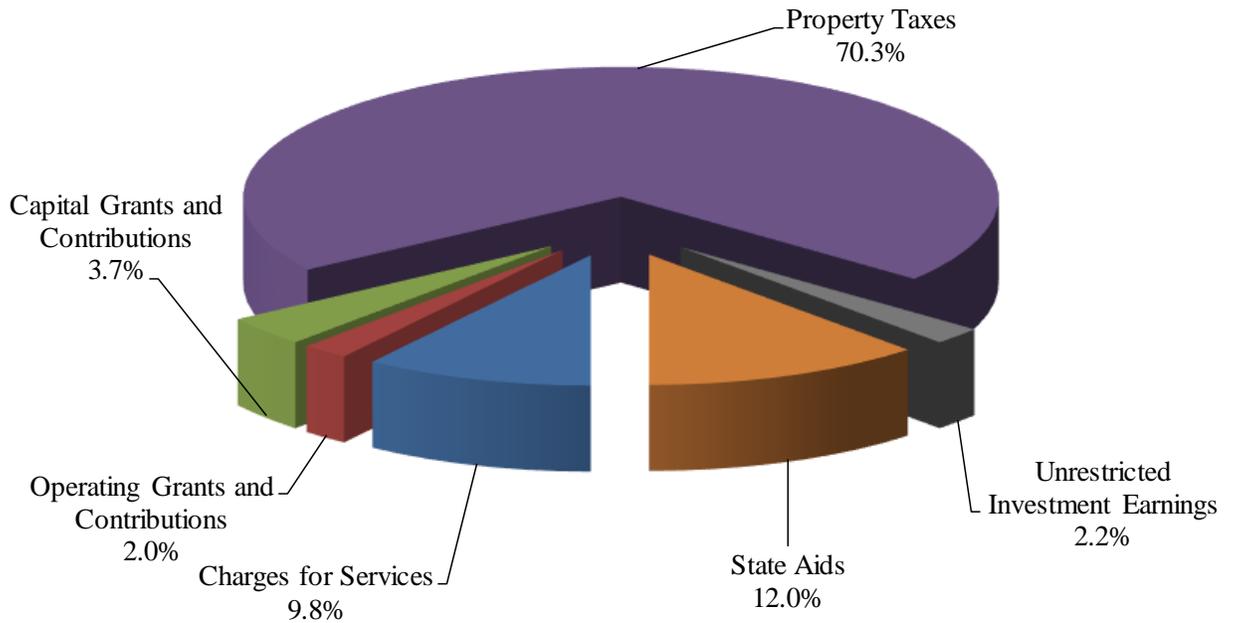
	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
<b>REVENUES:</b>						
Program Revenues:						
Charges for Service	\$ 151,556	\$ 143,816	\$ 403,363	\$ 390,793	\$ 554,919	\$ 534,609
Operating Grants and Contributions	31,408	33,442	26,052	21,530	57,460	54,972
Capital Grants and Contributions	57,758	86,265	122,580	194,659	180,338	280,924
General Revenues:						
Property Taxes	1,089,467	1,083,220	10,977	13,877	1,100,444	1,097,097
Other	185,560	174,900	105	87	185,665	174,987
Investment Income	33,375	31,062	39,522	36,186	72,897	67,248
<b>Total Revenues</b>	<b>1,549,124</b>	<b>1,552,705</b>	<b>602,599</b>	<b>657,132</b>	<b>2,151,723</b>	<b>2,209,837</b>
<b>EXPENSES:</b>						
General Government	424,149	404,861	-	-	424,149	404,861
Public Safety	245,263	210,650	-	-	245,263	210,650
Public Works	351,138	320,037	-	-	351,138	320,037
Culture and Recreation	69,604	47,138	-	-	69,604	47,138
Economic Development	376	3,271	-	-	376	3,271
Interest on Long-Term Debt	97,247	193,854	-	-	97,247	193,854
Water	-	-	217,087	213,185	217,087	213,185
Sewer	-	-	879,443	511,572	879,443	511,572
<b>Total Expenses</b>	<b>1,187,777</b>	<b>1,179,811</b>	<b>1,096,530</b>	<b>724,757</b>	<b>2,284,307</b>	<b>1,904,568</b>
Increase in Net Position Before Transfers	361,347	372,894	(493,931)	(67,625)	(132,584)	305,269
Transfers	(17,160)	(16,556)	17,160	16,556	-	-
<b>Increase in Net Position</b>	<b>344,187</b>	<b>356,338</b>	<b>(476,771)</b>	<b>(51,069)</b>	<b>(132,584)</b>	<b>305,269</b>
<b>NET POSITION:</b>						
Beginning of Year	4,738,682	4,382,344	10,261,335	10,312,404	15,000,017	14,694,748
Change in Accounting Principle	(160,903)	-	(35,167)	-	(196,070)	-
Beginning of Year, Restated	4,577,779	4,382,344	10,226,168	10,312,404	14,803,947	14,694,748
<b>End of Year</b>	<b>\$ 4,921,966</b>	<b>\$ 4,738,682</b>	<b>\$ 9,749,397</b>	<b>\$ 10,261,335</b>	<b>\$ 14,671,363</b>	<b>\$ 15,000,017</b>

**City of Rockville  
Management's Discussion And Analysis**

**Expenses and Program Revenues - Governmental Activities**



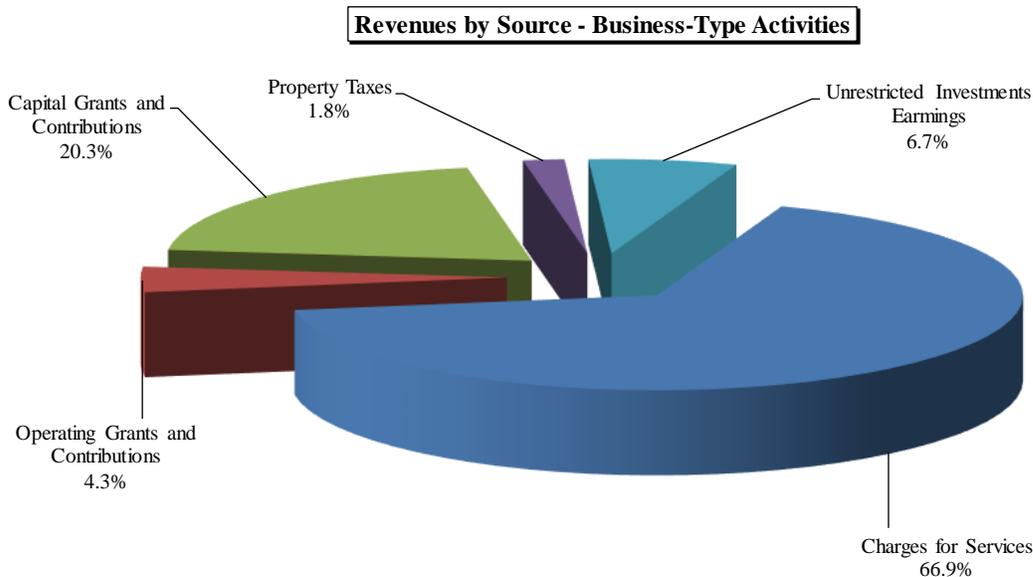
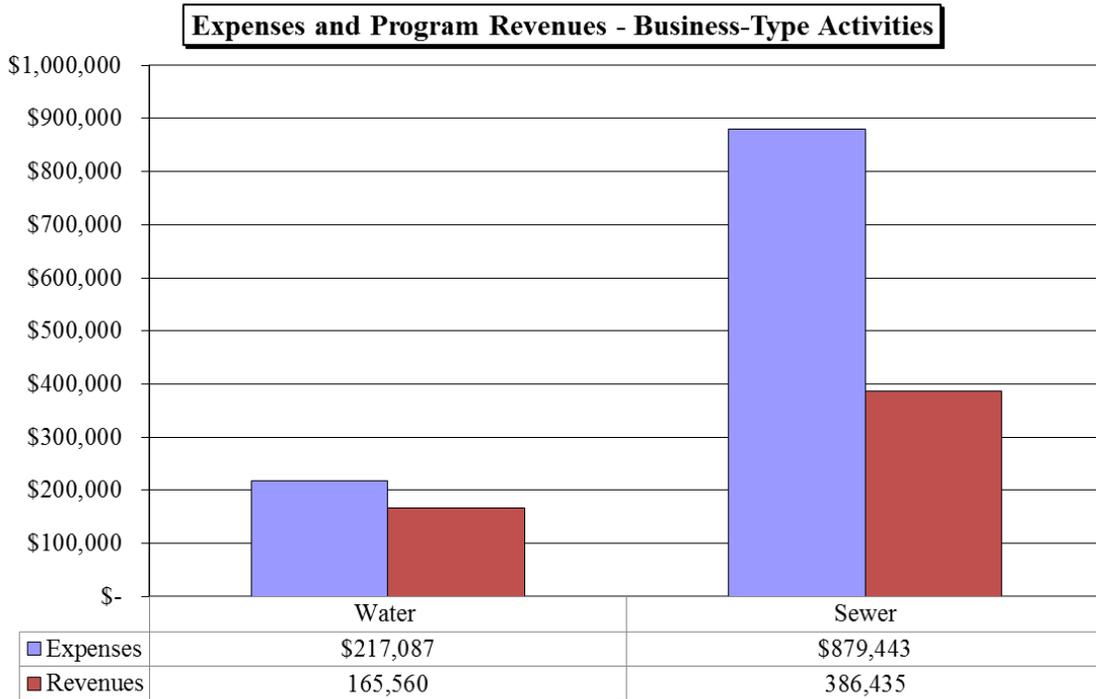
**Revenues by Source - Governmental Activities**



## City of Rockville Management's Discussion And Analysis

### Business Type Activities

Business type activities decreased the City's net position by \$476,771. Key elements of this decrease are as follows: depreciation expense and special assessment forfeitures.



### FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

## **City of Rockville Management's Discussion And Analysis**

### **Governmental Funds**

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

As of the end of the current year, the City's governmental funds reported combined ending fund balances of \$2,257,562, a decrease of \$1,769,154 in comparison with the prior year.

The General Fund is the chief operating fund of the City. At the end of the current year, fund balance of the General Fund was \$958,437. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 57% of total General Fund expenditures, while total fund balance represents 113% of that same amount.

The fund balance of the City's General Fund decreased by \$200,058 during the current year. The key factor for the decrease was a transfer of \$250,323 to the G.O. Improvement Bonds of 2004 to close the fund since the debt was paid off.

The Road Maintenance fund balance increased \$374,578 as a result of no improvement projects being done in 2015, but continuing to levy for future maintenance projects.

The City Facilities fund balance decreased \$2,076,461 during the current year due to payment on the refunded bond.

### **Proprietary Funds**

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

The unrestricted net position in the respective proprietary funds are water, \$(49,296) and sewer, \$4,256,950. The proprietary funds decreased \$476,771 in total net position for the year; of this amount, \$368,541 is related to a special assessment forfeiture.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

The City approved the 2015 General Fund budget anticipating expenditures to exceed revenues by \$400. The City amended its budget to recognize additional unplanned obligations during the year.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### **Capital Assets**

The City's investment in capital assets for its governmental and business type activities as of December 31, 2015, amounts to \$14,887,187 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, furniture and office equipment, infrastructure and construction in progress. The decrease in the governmental activities and business type activities occurred due depreciation of infrastructure. Additional information on capital assets can be found in Note 6 of this report.

**City of Rockville  
Management's Discussion And Analysis**

**Long-Term Debt**

At the end of the current year, the City had total bonded debt outstanding of \$7,956,156.

**Outstanding Debt  
(General Obligation and Revenue Bonds)**

	Governmental Activities	Business-Type Activities	Total
G.O. Improvement Bonds	\$ 2,011,248	\$ -	\$ 2,011,248
G.O. Revenue Bonds	-	1,648,748	1,648,748
G.O. Notes Payable	39,000	4,257,160	4,296,160
Compensated Absences	19,829	-	19,829
 Total	 <u>\$ 2,070,077</u>	 <u>\$ 5,905,908</u>	 <u>\$ 7,975,985</u>

The City's total debt payments of \$2,905,550 were made during the current year. The City established an "AA+" rating from Standard & Poor's for G.O. debt.

Additional information on long-term debt can be found in Note 7 of this report.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- The unemployment rate for the Stearns County at year-end 2015 was 4.6%, which was also the state average.
- The City continues to see new construction growth, not only in residential but also in commercial development.
- Local government aid payments increased over previous year by \$6,984 along with an additional small cities aid of \$25,888.
- The City continues to review its fee structures for all licenses and permits and services to recover appropriate costs in lieu of raising property taxes.
- The City's investment earnings have increased this year by \$6,500 due in large part to the economy picking up and proper investments being made.

**REQUESTS FOR INFORMATION**

The financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Administrator/Clerk, P.O. Box 93, Rockville, Minnesota 56369.

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## **BASIC FINANCIAL STATEMENTS**

**City of Rockville**  
**Statement of Net Position**  
**December 31, 2015**

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and investments	\$ 2,287,091	\$ 2,266,951	\$ 4,554,042
Cash with fiscal agent	-	507,007	507,007
Property tax receivable	26,475	288	26,763
Accounts receivable	2,118	130,287	132,405
Interest receivable	3,969	4,753	8,722
Due from other governments	21,639	16,165	37,804
Special assessments receivable			
Delinquent	1,767	376,415	378,182
Deferred	364,537	2,089,504	2,454,041
Capital assets not being depreciated			
Land	456,118	98,295	554,413
Capital assets being depreciated			
Buildings	2,620,874	-	2,620,874
Infrastructure	2,853,824	-	2,853,824
Sewer and water improvements	-	13,529,751	13,529,751
Machinery and equipment	1,229,534	58,553	1,288,087
Less accumulated depreciation	<u>(2,632,629)</u>	<u>(3,327,133)</u>	<u>(5,959,762)</u>
Total capital assets, net of accumulated depreciation	<u>4,527,721</u>	<u>10,359,466</u>	<u>14,887,187</u>
Total assets	<u>7,235,317</u>	<u>15,750,836</u>	<u>22,986,153</u>
<b>Deferred Outflows of Resources</b>			
Deferred outflows of resources related to pensions	<u>68,385</u>	<u>9,463</u>	<u>77,848</u>
Total assets and deferred outflows of resources	<u>\$ 7,303,702</u>	<u>\$ 15,760,299</u>	<u>\$ 23,064,001</u>
<b>Liabilities</b>			
Accounts payable	\$ 49,539	\$ 14,281	\$ 63,820
Salaries and benefits payable	7,716	1,368	9,084
Interest payable	19,744	41,717	61,461
Bond principal payable (net of premium)			
Payable within one year	118,000	600,000	718,000
Payable after one year	1,893,248	1,048,748	2,941,996
Notes payable			
Payable within one year	19,000	498,450	517,450
Payable after one year	20,000	3,758,710	3,778,710
Compensated absences payable			
Payable within one year	11,368	-	11,368
Payable after one year	8,461	-	8,461
Net pension liability	<u>226,756</u>	<u>45,342</u>	<u>272,098</u>
Total liabilities	<u>2,373,832</u>	<u>6,008,616</u>	<u>8,382,448</u>
<b>Deferred Inflows of Resources</b>			
Deferred inflows of resources related to pensions	<u>7,904</u>	<u>2,286</u>	<u>10,190</u>
<b>Net Position</b>			
Net investment in capital assets	2,516,721	4,992,558	7,509,279
Restricted for			
Debt service	262,279	507,007	769,286
Other purposes	43,547	-	43,547
Wastewater replacement	-	42,178	42,178
Unrestricted	<u>2,099,419</u>	<u>4,207,654</u>	<u>6,307,073</u>
Total net position	<u>4,921,966</u>	<u>9,749,397</u>	<u>14,671,363</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 7,303,702</u>	<u>\$ 15,760,299</u>	<u>\$ 23,064,001</u>

See notes to financial statements.

**City of Rockville  
Statement of Activities  
Year Ended December 31, 2015**

	Program Revenues			Net (Expense) Revenues and Changes in Net Position		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental activities</b>	<b>Expenses</b>					
General government	\$ 424,149	\$ 8,678	\$ -	\$ (356,471)	\$ -	\$ (356,471)
Public safety	245,263	21,311	-	(207,134)	-	(207,134)
Public works	351,138	408	57,758	(222,325)	-	(222,325)
Culture and recreation	69,604	1,011	-	(63,502)	-	(63,502)
Economic development	376	-	-	(376)	-	(376)
Interest on long-term debt	97,247	-	-	(97,247)	-	(97,247)
Total governmental activities	<u>1,187,777</u>	<u>31,408</u>	<u>57,758</u>	<u>(947,055)</u>	<u>-</u>	<u>(947,055)</u>
<b>Business-type activities</b>						
Water	217,087	2,220	18,866	-	(51,527)	(51,527)
Sewer	879,443	23,832	103,714	-	(493,008)	(493,008)
Total business-type activities	<u>1,096,530</u>	<u>26,052</u>	<u>122,580</u>	<u>-</u>	<u>(544,535)</u>	<u>(544,535)</u>
Total governmental and business-type activities	<u>\$ 2,284,307</u>	<u>\$ 57,460</u>	<u>\$ 180,338</u>	<u>(947,055)</u>	<u>(544,535)</u>	<u>(1,491,590)</u>
General revenues						
Property taxes				1,089,467	10,977	1,100,444
Unrestricted grants and aids				185,560	105	185,665
Unrestricted investment earnings				33,375	39,522	72,897
Transfers				(17,160)	17,160	-
Total general revenues and transfers				<u>1,291,242</u>	<u>67,764</u>	<u>1,359,006</u>
Change in net position				344,187	(476,771)	(132,584)
Net position - beginning				4,738,682	10,261,335	15,000,017
Change in accounting principal (Note 11)				(160,903)	(35,167)	(196,070)
Net position, as restated - beginning				<u>4,577,779</u>	<u>10,226,168</u>	<u>14,803,947</u>
Net position - ending				<u>\$ 4,921,966</u>	<u>\$ 9,749,397</u>	<u>\$ 14,671,363</u>

**City of Rockville**  
**Balance Sheet - Governmental Funds**  
**December 31, 2015**

		<u>Capital Project</u>	<u>Debt Service</u>
	<u>General Fund (101,212,220)</u>	<u>Road Maintenance (215)</u>	<u>City Facilities (304)</u>
<b>Assets</b>			
Cash and investments	\$ 999,364	\$ 739,566	\$ 141,504
Taxes receivable - delinquent	14,996	5,962	5,003
Special assessment receivable			
Delinquent	-	-	-
Deferred	174,175	85,578	-
Accounts receivable	2,118	-	-
Interest receivable	2,368	170	653
Due from other governments	11,842	4,820	4,475
	<u>11,842</u>	<u>4,820</u>	<u>4,475</u>
Total assets	<u>\$ 1,204,863</u>	<u>\$ 836,096</u>	<u>\$ 151,635</u>
<b>Liabilities</b>			
Accounts payable	\$ 49,539	\$ -	\$ -
Salaries and benefits payable	7,716	-	-
Total liabilities	<u>57,255</u>	<u>-</u>	<u>-</u>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue - property taxes	14,996	5,962	5,003
Unavailable revenue - special assessments	174,175	85,578	-
Total deferred inflows of resources	<u>189,171</u>	<u>91,540</u>	<u>5,003</u>
<b>Fund Balances</b>			
Restricted	-	-	146,632
Assigned	470,192	744,556	-
Unassigned	488,245	-	-
Total fund balances	<u>958,437</u>	<u>744,556</u>	<u>146,632</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,204,863</u>	<u>\$ 836,096</u>	<u>\$ 151,635</u>

Debt Service

<u>2008A G.O. Improvement Bonds (308)</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 62,141	\$ 344,516	\$ 2,287,091
469	45	26,475
1,767	-	1,767
104,784	-	364,537
-	-	2,118
50	728	3,969
425	77	21,639
<u>\$ 169,636</u>	<u>\$ 345,366</u>	<u>\$ 2,707,596</u>
\$ -	\$ -	\$ 49,539
-	-	7,716
-	-	57,255
469	45	26,475
106,551	-	366,304
<u>107,020</u>	<u>45</u>	<u>392,779</u>
62,616	43,547	252,795
-	301,774	1,516,522
-	-	488,245
<u>62,616</u>	<u>345,321</u>	<u>2,257,562</u>
<u>\$ 169,636</u>	<u>\$ 345,366</u>	<u>\$ 2,707,596</u>

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**City of Rockville**  
**Reconciliation of the Balance Sheet to**  
**the Statement of Net Position - Governmental Funds**  
**December 31, 2015**

Total fund balances - governmental funds \$ 2,257,562

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.

Cost of capital assets	7,160,350
Less accumulated depreciation	(2,632,629)

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:

Bond principal payable	(1,972,000)
Notes payable	(39,000)
Compensated absences payable	(19,829)
Bond premium	(39,248)
Net pension liability	(226,756)

Delinquent receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.

Property taxes	26,475
Special assessments	1,767

Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.

Deferred inflows of resources related to pensions	(7,904)
Deferred outflows of resources related to pensions	68,385

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Deferred special assessments	364,537
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Governmental funds do not report a liability for accrued interest until due and payable.

(19,744)

Total net position - governmental activities	<u><u>\$ 4,921,966</u></u>
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**City of Rockville**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balances - Governmental Funds**  
**Year Ended December 31, 2015**

		<u>Capital Project</u>	<u>Debt Service</u>
	<u>General Fund (101,212,220)</u>	<u>Road Maintenance (215)</u>	<u>City Facilities (304)</u>
<b>Revenues</b>			
Property taxes	\$ 599,025	\$ 243,559	\$ 206,688
Miscellaneous taxes	151	-	-
Special assessments	-	17,536	-
Licenses and permits	35,101	-	-
Intergovernmental	197,387	54,121	1,984
Charges for services	32,408	69,227	-
Fines and forfeitures	13,537	-	-
Miscellaneous			
Investment income	19,643	2,118	5,271
Other	14,589	-	-
Total revenues	<u>911,841</u>	<u>386,561</u>	<u>213,943</u>
<b>Expenditures</b>			
Current			
General government	365,582	-	-
Public safety	162,243	-	-
Public works	211,982	-	-
Culture and recreation	35,014	-	-
Economic development	-	-	-
Debt service			
Principal	18,100	-	2,146,000
Interest and other charges	2,403	-	144,404
Capital outlay			
General government	885	-	-
Public safety	41,597	-	-
Public works	11,813	5,258	-
Culture and recreation	1,522	-	-
Total expenditures	<u>851,141</u>	<u>5,258</u>	<u>2,290,404</u>
Excess of revenues over (under) expenditures	60,700	381,303	(2,076,461)
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	-	-
Transfers out	<u>(260,758)</u>	<u>(6,725)</u>	<u>-</u>
Total other financing sources (uses)	<u>(260,758)</u>	<u>(6,725)</u>	<u>-</u>
Net change in fund balances	(200,058)	374,578	(2,076,461)
<b>Fund Balances</b>			
Beginning of Year	<u>1,158,495</u>	<u>369,978</u>	<u>2,223,093</u>
End of Year	<u>\$ 958,437</u>	<u>\$ 744,556</u>	<u>\$ 146,632</u>

See notes to financial statements.

Debt Service			
G.O. Improvement Bonds of 2004 (305)	2008A G.O. Improvement Bonds (308)	Other Governmental Funds	Total Governmental Funds
\$ 58	\$ 21,183	\$ 15,497	\$ 1,086,010
-	-	-	151
7,721	5,915	-	31,172
-	-	-	35,101
-	204	1,105	254,801
-	-	-	101,635
-	-	-	13,537
-	447	5,984	33,463
-	-	400	14,989
<u>7,779</u>	<u>27,749</u>	<u>22,986</u>	<u>1,570,859</u>
-	-	14,764	380,346
-	-	-	162,243
-	-	-	211,982
-	-	-	35,014
-	-	376	376
115,000	19,000	-	2,298,100
2,444	4,421	-	153,672
-	-	-	885
-	-	-	41,597
-	-	-	17,071
-	-	20,045	21,567
<u>117,444</u>	<u>23,421</u>	<u>35,185</u>	<u>3,322,853</u>
(109,665)	4,328	(12,199)	(1,751,994)
250,323	-	-	250,323
-	-	-	(267,483)
<u>250,323</u>	<u>-</u>	<u>-</u>	<u>(17,160)</u>
140,658	4,328	(12,199)	(1,769,154)
(140,658)	58,288	357,520	4,026,716
<u>\$ -</u>	<u>\$ 62,616</u>	<u>\$ 345,321</u>	<u>\$ 2,257,562</u>

**City of Rockville**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances to**  
**the Statement of Activities - Governmental Funds**  
**December 31, 2015**

Total net change in fund balances - governmental funds \$ (1,769,154)

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

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.

Capital outlays	5,600
Depreciation expense	(246,431)
Loss on disposal	(1,436)

Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities. 28,190

Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in the net assets in the Statement of Activities. 2,298,100

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires 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. 52,857

Governmental funds report the effects of bond premiums when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. 3,568

Governmental funds recognize pension contributions as expenditures at the time of payment whereas the statement of activities factors in items related to pensions on a full accrual perspective.

Pension expense	(5,372)
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Delinquent and deferred receivables will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are not revenues in the funds.

Delinquent property taxes	3,457
Deferred and delinquent special assessments	(25,192)

Change in net position - governmental activities \$ 344,187

**City of Rockville**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances -**  
**Budget and Actual - General Fund**  
**Year Ended December 31, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues</b>				
Property taxes	\$ 583,140	\$ 583,140	\$ 599,025	\$ 15,885
Miscellaneous taxes	-	-	151	151
Licenses and permits	26,884	26,884	35,101	8,217
Intergovernmental	195,815	195,815	197,387	1,572
Charges for services	35,953	35,953	32,408	(3,545)
Fines and forfeitures	10,000	10,000	13,537	3,537
Miscellaneous revenues				
Investment income	20,000	20,000	19,643	(357)
Other	9,170	9,170	14,589	5,419
Total revenues	<u>880,962</u>	<u>880,962</u>	<u>911,841</u>	<u>30,879</u>
<b>Expenditures</b>				
Current				
General government	369,682	369,682	365,582	(4,100)
Public safety	157,368	157,868	162,243	4,375
Public works	205,217	233,128	211,982	(21,146)
Culture and recreation	42,156	42,156	35,014	(7,142)
Debt service				
Principal	18,100	18,100	18,100	-
Interest and other charges	2,403	2,403	2,403	-
Capital outlay				
General government	4,000	4,000	885	(3,115)
Public safety	45,300	67,541	41,597	(25,944)
Public works	13,000	13,000	11,813	(1,187)
Culture and recreation	14,000	14,000	1,522	(12,478)
Total expenditures	<u>871,226</u>	<u>921,878</u>	<u>851,141</u>	<u>(70,737)</u>
Excess of revenues over (under) expenditures	9,736	(40,916)	60,700	101,616
<b>Other Financing Uses</b>				
Transfers in	300	300	-	(300)
Transfers out	(10,436)	(10,436)	(260,758)	(250,322)
Total other financing sources (uses)	<u>(10,136)</u>	<u>(10,136)</u>	<u>(260,758)</u>	<u>(250,622)</u>
Net change in fund balances	<u>\$ (400)</u>	<u>\$ (51,052)</u>	(200,058)	<u>\$ (149,006)</u>
<b>Fund Balances</b>				
Beginning of year			<u>1,158,495</u>	
End of year			<u>\$ 958,437</u>	

**City of Rockville**  
**Statement of Net Position - Proprietary Funds**  
**December 31, 2015**

	Water (311,312,601)	Sewer (309,310,602)	Total
<b>Assets</b>			
Current assets			
Cash and investments	\$ 103,439	\$ 2,163,512	\$ 2,266,951
Cash with fiscal agent	507,007	-	507,007
Taxes receivable - delinquent	-	288	288
Special assessments receivable			
Delinquent	216,796	159,619	376,415
Deferred	161,425	1,928,079	2,089,504
Accounts receivable	48,017	82,270	130,287
Interest receivable	700	4,053	4,753
Due from other governments	4,470	11,695	16,165
Total current assets	<u>1,041,854</u>	<u>4,349,516</u>	<u>5,391,370</u>
Noncurrent assets			
Capital assets			
Land	98,295	-	98,295
Sewer and water improvements	2,504,537	11,025,214	13,529,751
Equipment	-	58,553	58,553
Total capital assets	<u>2,602,832</u>	<u>11,083,767</u>	<u>13,686,599</u>
Less accumulated depreciation	<u>(760,585)</u>	<u>(2,566,548)</u>	<u>(3,327,133)</u>
Net capital assets	<u>1,842,247</u>	<u>8,517,219</u>	<u>10,359,466</u>
Total assets	<u>2,884,101</u>	<u>12,866,735</u>	<u>15,750,836</u>
<b>Deferred Outflows of Resources</b>			
Deferred outflows of resources related to city pensions	<u>5,373</u>	<u>4,090</u>	<u>9,463</u>
Total assets and deferred outflows of resources	<u>\$ 2,889,474</u>	<u>\$ 12,870,825</u>	<u>\$ 15,760,299</u>
<b>Liabilities</b>			
Current liabilities			
Accounts payable	\$ 2,619	\$ 11,662	\$ 14,281
Salaries and benefits payable	643	725	1,368
Interest payable	20,211	21,506	41,717
Long-term liabilities due within one year	590,000	508,450	1,098,450
Total current liabilities	<u>613,473</u>	<u>542,343</u>	<u>1,155,816</u>
Noncurrent liabilities			
Bonds payable, net of unamortized premiums	1,499,886	148,862	1,648,748
Notes payable	-	4,257,160	4,257,160
Net pension liability	25,745	19,597	45,342
Less amount due within one year	<u>(590,000)</u>	<u>(508,450)</u>	<u>(1,098,450)</u>
Total noncurrent liabilities	<u>935,631</u>	<u>3,917,169</u>	<u>4,852,800</u>
Total liabilities	<u>1,549,104</u>	<u>4,459,512</u>	<u>6,008,616</u>
<b>Deferred Inflows of Resources</b>			
Deferred inflows of resources related to city pensions	<u>1,298</u>	<u>988</u>	<u>2,286</u>
<b>Net Position</b>			
Net investment in capital assets	881,361	4,111,197	4,992,558
Restricted	507,007	42,178	549,185
Unrestricted	<u>(49,296)</u>	<u>4,256,950</u>	<u>4,207,654</u>
Total net position	<u>1,339,072</u>	<u>8,410,325</u>	<u>9,749,397</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 2,889,474</u>	<u>\$ 12,870,825</u>	<u>\$ 15,760,299</u>

**City of Rockville**  
**Statement of Revenues, Expenses, And Changes**  
**in Net Position - Proprietary Funds**  
**Year Ended December 31, 2015**

	Water (311,312,601)	Sewer (309,310,602)	Total
Operating revenues			
Charges for services	\$ 132,279	\$ 247,580	\$ 379,859
Permits, hookup fees, and penalties	12,195	8,168	20,363
Total operating revenues	<u>144,474</u>	<u>255,748</u>	<u>400,222</u>
Operating expenses			
Wages and salaries	30,646	23,361	54,007
Employee benefits	7,300	5,479	12,779
Materials and supplies	3,957	522	4,479
Repairs and maintenance	34,080	18,894	52,974
Professional services	4,028	78,636	82,664
Insurance	1,579	5,394	6,973
Utilities	10,316	11,562	21,878
Depreciation	58,133	284,998	343,131
Equipment	15,505	16,079	31,584
Miscellaneous	3,810	3,401	7,211
Total operating expenses	<u>169,354</u>	<u>448,326</u>	<u>617,680</u>
Operating loss	(24,880)	(192,578)	(217,458)
Nonoperating revenues (expenses)			
Investment income	5,866	33,656	39,522
Special assessments	20,449	106,855	127,304
Special assessment forfeiture	-	(368,541)	(368,541)
Property taxes	-	10,977	10,977
Grants	-	105	105
Refunds and reimbursements	637	6,861	7,498
Amortization	992	144	1,136
Interest expense	(48,725)	(62,720)	(111,445)
Other income	-	16,971	16,971
Total nonoperating revenues (expenses)	<u>(20,781)</u>	<u>(255,692)</u>	<u>(276,473)</u>
Loss before capital contributions and transfers	(45,661)	(448,270)	(493,931)
Transfers in	<u>17,160</u>	<u>-</u>	<u>17,160</u>
Change in net position	(28,501)	(448,270)	(476,771)
Net position			
Beginning of year	1,387,541	8,873,794	10,261,335
Change in accounting principal (Note 11)	<u>(19,968)</u>	<u>(15,199)</u>	<u>(35,167)</u>
Beginning of year, as restated	<u>1,367,573</u>	<u>8,858,595</u>	<u>10,226,168</u>
End of year	<u>\$ 1,339,072</u>	<u>\$ 8,410,325</u>	<u>\$ 9,749,397</u>

**City of Rockville**  
**Statement of Cash Flows - Proprietary Funds**  
**For the Year Ended December 31, 2015**

	Water (311,312,601)	Sewer (309,310,602)	Total
<b>Cash Flows - Operating Activities</b>			
Receipts from customers and users	\$ 136,254	\$ 255,052	\$ 391,306
Payments to suppliers	(75,026)	(131,096)	(206,122)
Payments to employees	(36,178)	(27,191)	(63,369)
Miscellaneous revenue	637	6,966	7,603
Net cash flows - operating activities	<u>25,687</u>	<u>103,731</u>	<u>129,418</u>
<b>Cash Flows - Noncapital Financing Activities</b>			
Transfer from other funds	<u>17,160</u>	<u>-</u>	<u>17,160</u>
<b>Cash Flows - Capital And Related Financing Activities</b>			
Principal paid on debt	(105,000)	(485,479)	(590,479)
Interest paid on debt	(35,805)	(64,916)	(100,721)
Property tax and special assessment revenues received	<u>2,198</u>	<u>543,685</u>	<u>545,883</u>
Net cash flows - capital and related financing activities	<u>(138,607)</u>	<u>(6,710)</u>	<u>(145,317)</u>
<b>Cash Flows - Investing Activities</b>			
Interest and dividends received	<u>5,786</u>	<u>33,197</u>	<u>38,983</u>
Net change in cash and cash equivalents	(89,974)	130,218	40,244
<b>Cash and Cash Equivalents</b>			
January 1	<u>193,413</u>	<u>2,033,294</u>	<u>2,226,707</u>
December 31	<u>\$ 103,439</u>	<u>\$ 2,163,512</u>	<u>\$ 2,266,951</u>
<b>Reconciliation of Operating Loss to Net Cash Flows - Operating Activities</b>			
Operating loss	\$ (24,880)	\$ (192,578)	\$ (217,458)
Adjustments to reconcile operating loss to net cash flows - operating activities			
Miscellaneous revenue	637	6,966	7,603
Depreciation expense	58,133	284,998	343,131
Net pension expense	1,702	1,296	2,998
Accounts receivable	(8,062)	(2,336)	(10,398)
Due from other governments	(158)	1,640	1,482
Accounts payable	(1,751)	3,392	1,641
Salaries payable	66	353	419
Total adjustments	<u>50,567</u>	<u>296,309</u>	<u>346,876</u>
Net cash flows - operating activities	<u>\$ 25,687</u>	<u>\$ 103,731</u>	<u>\$ 129,418</u>
<b>Noncash Investing, Capital, and Financing Activities</b>			
Debt forgiveness	\$ -	\$ 16,971	\$ 16,971

**City of Rockville**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The City of Rockville is a statutory city governed by an elected mayor and four council members. The accompanying financial statements present the government entities for which the government is considered to be financially accountable.

The financial statements present the City and its component units. The City includes all funds, account groups, organizations, institutions, agencies, departments, and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the City are financially accountable and are included within the basic financial statements of the City because of the significance of their operational or financial relationships with the City.

The City is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities or level of services performed or provided by the organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the City.

As a result of applying the component unit definition criteria above, a certain organization has been defined and is presented in this report as follows:

Blended Component Units – Reported as if they were part of the City.

For the category above, the specific entity is identified as follows:

**1. Blended Component Unit**

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

**B. Government-Wide and Fund Financial Statements**

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

**City of Rockville**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Government-Wide and Fund Financial Statements (Continued)**

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

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

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund 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 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, franchise taxes, licenses, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Only the portion of special assessments receivable due within the current 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.

**City of Rockville**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

**Description of Funds:**

Major Governmental Funds:

General Fund – This Fund is the City’s primary operating fund. It accounts for all financial resources of the general City, except those required to be accounted for in another fund.

Road Maintenance Capital Project Fund – This Fund accounts for the resources accumulated and payments made for road maintenance projects.

City Facilities Debt Service Fund – This Fund accounts for the resources accumulated and payments made for principal and interest on this bond issue.

General Obligation (G.O.) Improvement Bonds of 2004 Debt Service Fund – This Fund accounts for the resources accumulated and payments made for principal and interest on this bond issue.

2008A General Obligation (G.O.) Improvement Bonds Debt Service Fund – This Fund accounts for the resources accumulated and payments made for principal and interest on this bond issue.

Proprietary Funds:

Water Fund – This Fund accounts for the operations of the City’s water utility.

Sewer Fund – This Fund accounts for the operations of the City’s sanitary sewer utility.

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

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

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**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity**

**1. 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.

*Minnesota Statutes* authorizes the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase and reverse repurchase agreements, and commercial paper of the highest quality with a maturity of no longer than 270 days and in the Minnesota Municipal Investment Pool.

Investments for the City are reported at fair value. The Minnesota Municipal Investment Pool is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under Rule 2.a.7. The fair value of the position in the pool is the same as the value of the pool shares.

The City has established formal policies as of December 31, 2015, to address the following risks:

**Custodial Credit Risk – Deposits:** For deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. *Minnesota Statutes* requires all deposits be protected by federal deposit insurance, corporate surety bonds, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds. The City's deposit policy addresses custodial credit risk for deposits by stating collateralization will be required on all demand deposit accounts in excess of federal deposit insurance.

**Custodial Credit Risk:** For an investment, this is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The City's investment policy states that designated depositories shall have insurance through Securities Investor Protection Corporation (SIPC).

**Interest Rate Risk:** The risk the market value of securities will decrease due to changes in general interest rates. The City will minimize interest rate risk by structuring the portfolio to meet cash requirements for ongoing operations and avoid the need to sell securities on the open market prior to maturity.

**Concentration of Credit Risk:** For an investment, this is the risk of loss due to over investment in a particular security or broker. The City's investment policy states it will attempt to diversify its investment according to type and maturity and match its investments with anticipated cash flow requirements.

**City of Rockville**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)**

**1. Deposits and Investments (Continued)**

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's investment policy states investments should be limited to those allowable by *Minnesota Statutes*. State law limits investments in commercial paper, government bonds, and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations.

**2. Receivables and Payables**

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

The City levies its property tax for the subsequent year during the month of December. December 28 is the last day the City can certify a tax levy to the County Auditor for collection the following year. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. The property tax is recorded as revenue when it becomes measurable and available. Stearns County is the collecting agency for the levy and remits the collections to the City three times a year. The tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Taxes not collected as of December 31 each year are shown as delinquent taxes receivable.

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

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

**3. Inventory and Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items are recorded as an expenditure at the time of consumption.

Inventory is valued at cost using the first in, first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

**City of Rockville**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)**

**4. Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost ranging from \$5,000 up to \$25,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	30-40
Park buildings	30-40
Building improvements	30
Machinery and equipment	5-20
Vehicles	5-20
Utility distribution system	10-40
Infrastructure	15-40

**5. Compensated Absences**

Compensated absences are all accounted for under the paid time off (PTO) category. The City does not divide it between sick/vacation/comp times. Employees accrue PTO based on the number of years of employment according to the following schedule:

<u>Years of Employment</u>	<u>Number of Days</u>	<u>Number of Hours</u>
0-6 months	0	0
6 months - 2 years	8	64
2 years	16	128
3-5 years	21	168
6-9 years	26	208
10+ years	31	248

**City of Rockville**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)**

**5. Compensated Absences (Continued)**

Annual leave will not accrue during unpaid leaves. Regular part-time employees working at least an average of 32 hours per week will accrue annual leave on a prorated basis based on regular hours worked.

Annual leave will accrue on an employee anniversary date up to a maximum of 1½ times the employee's maximum annual accrual rate noted above. Employees can carry over any annual leave that does not exceed the stated cap. Payout for the overage is reviewed once per year on the anniversary date. No additional accrual will occur above the cap, except when as a result of converting previous sick or vacation leave. If an emergency prevents an employee from using its annual leave, City Council approval is needed to accrue the leave. Upon termination, an employee leaving the City in good standing will receive 100% of their accrual paid out.

**6. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The City has one item that qualifies for reporting in this category. The City presents deferred outflows of resources on the Statement of Net Position for deferred outflows of resources related to pensions. Deferred outflows of resources related to pensions results from the net effect of the change in proportionate share and employer contributions paid to PERA subsequent to the measurement date

In addition to liabilities, the statement of financial position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City presents deferred inflows of resources on the Governmental Fund Balance Sheet as unavailable revenue. The governmental funds report unavailable revenues from three sources: pensions, property taxes, and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City presents deferred inflows of resources on the Statement of Net Position for deferred inflows of resources related to pensions. Deferred inflows of resources related to pensions results from the net difference between projected and actual earnings on plan investments.

**City of Rockville**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)**

**7. Long-Term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

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

**8. Pensions**

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and the relief association and additions to/deductions from PERA's and the relief association's fiduciary net position have been determined on the same basis as they are reported by PERA and the relief association except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**9. Fund Equity**

**a. Classification**

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in those funds can be spent.

- Nonspendable Fund Balance – These are amounts that cannot be spent because they are not in spendable form.
- Restricted Fund Balance – These are amounts that are restricted to specific purposes either by a) constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through enabling legislation.

**City of Rockville**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)**

**9. Fund Equity (Continued)**

**a. Classification (Continued)**

- Committed Fund Balance – These are amounts consisting of internally imposed constraints. These constraints are established by resolution of the City Council.
- Assigned Fund Balance – These are amounts reflecting a specific purpose for which it is the City’s intended use. These constraints are established by the City Council and/or management. The City Administrator/Clerk is authorized to establish assignments of fund balance.
- Unassigned Fund Balance – These are residual amounts in the General Fund not reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance.

When both restricted and unrestricted resources are available for use, it is the City’s policy to first use restricted resources. It is the City’s policy to use unrestricted resources in the following order: committed, assigned, and unassigned.

**b. Minimum Fund Balance Policy**

The City has set forth a minimum fund balance policy that the City’s unassigned fund balance will be 50% of its annual General Fund budget.

**10. Net Position**

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position are reported as restricted in the government-wide financial statement when there are limitations on use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

**11. Use of Estimates**

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenditures/expense during the reporting period. Actual results could differ from those estimates.

**City of Rockville**  
**Notes to Financial Statements**

**NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Budgetary Information**

1. In August of each year, City staff submits to the City Council, a proposed operating budget for the year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution after obtaining taxpayer comments.
4. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Expenditures may not legally exceed budgeted appropriations at the department level. No fund's budget can be increased without City Council approval. The City Council may authorize transfer of budgeted amounts between departments within any fund.
6. Annual appropriated budgets are adopted during the year for the General and Special Revenue Funds. Annual appropriated budgets are not adopted for Debt Service Funds because effective budgetary control is alternatively achieved through bond indenture provisions. Budgetary control for Capital Projects Funds is accomplished through the use of project controls and formal appropriated budgets are not adopted.
7. Budgeted amounts are as originally adopted or as amended by the City Council. Individual amendments were not material in relation to the original amounts budgeted. Budgeted expenditure appropriations lapse at year-end.

**NOTE 3 – DEPOSITS AND INVESTMENTS**

Cash balances of the City's funds are combined (pooled) and invested to the extent available in various investments authorized by *Minnesota Statutes*. Each fund's portion of this pool (or pools) is displayed in the financial statements as "cash and cash equivalents" or "investments." For purposes of identifying risk of investing public funds, the balances, and related restrictions are summarized as follows.

**A. Deposits**

Custodial Credit Risk: This is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of December 31, 2015, the City's bank balance of \$1,359,113 was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the City's name. The book balance as of December 31, 2015, was \$1,336,793 for deposits.

**City of Rockville**  
**Notes to Financial Statements**

**NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments**

Investment Type	Fair Value	Investment Maturities			Ratings
		Less than One Year	1-5 Years	6-10 Years	
Pooled investments					
FNMA bond	\$ 149,101	\$ -	\$ -	\$149,101	AAA
Brokered certificates					
Of deposit	3,054,207	466,092	2,052,555	535,560	N/A
Money market	544	544	-	-	N/A
4M money market	13,019	13,019	-	-	N/A
<b>Total</b>	<b>3,216,871</b>	<b>479,655</b>	<b>2,052,555</b>	<b>684,661</b>	
Non-pooled investments					
Cash	507,007	507,007	-	-	N/A
<b>Total investments</b>	<b>\$ 3,723,878</b>	<b>\$ 986,662</b>	<b>\$ 2,052,555</b>	<b>\$ 684,661</b>	

Non-pooled cash is restricted through bond documents for the future refunding of a portion of the G.O. Utility Revenue Refunding Bond, Series 2009A.

Concentration of Credit Risk: The City had more than 5% of their total investments in State Bank of India CD (5.6%), World Financial Network Bank Wilmington DE (6.3%), World Financial Capital Bank Salt Lake City UT CD (5.5%), Discover BK Greenwood DE CD (7.6%), American Exp Salt Lake City UT CD (5.0%), and Gulf Coast BK CD New Orleans LA CD (6.1%), Cit Salt Lake City UT CD (7.5%), AMEX Centurion Salt Lake City UT CD (5.3%), Sallie Mae Bk CD Salt Lake City CD (6.6%).

**City of Rockville**  
**Notes to Financial Statements**

**NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments (Continued)**

Summary of cash deposits and investments as of December 31, 2015, were as follows:

Deposits (Note 3.A.)	\$ 1,336,793
Investments (Note 3.B.)	3,723,878
Petty cash	<u>378</u>
Total deposits and investments	<u><u>\$ 5,061,049</u></u>

Deposits and investments are presented in the December 31, 2015, basic financial statements as follows:

Statement of Net Position	
Cash and investments	\$ 4,554,042
Cash with fiscal agent	<u>507,007</u>
Total deposits and investments	<u><u>\$ 5,061,049</u></u>

**NOTE 4 – INTERFUND TRANSFERS**

Transfers during the year ended December 31, 2015, were as follows:

	<u>Transfers In</u>		
	<u>G.O. Improvement Bonds of 2004</u>	<u>Water</u>	<u>Total</u>
Transfers out			
General Fund	\$ 250,323	\$ 10,435	\$ 260,758
Road Maintenance Fund	<u>-</u>	<u>6,725</u>	<u>6,725</u>
Total transfers out	<u><u>\$ 250,323</u></u>	<u><u>\$ 17,160</u></u>	<u><u>\$ 267,483</u></u>

Transfers were completed for operations, to contribute a portion of the antenna rent to the Water Fund, operations, and close funds.

**City of Rockville**  
**Notes to Financial Statements**

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2015, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 456,118	\$ -	\$ -	\$ 456,118
Capital assets being depreciated				
Buildings	2,620,874	-	-	2,620,874
Infrastructure	2,853,824	-	-	2,853,824
Machinery and equipment	1,227,679	5,600	(3,745)	1,229,534
Total capital assets being depreciated	<u>6,702,377</u>	<u>5,600</u>	<u>(3,745)</u>	<u>6,704,232</u>
Less accumulated depreciation for				
Buildings	(471,955)	(65,960)	-	(537,915)
Infrastructure	(1,352,718)	(106,307)	-	(1,459,025)
Machinery and equipment	(563,834)	(74,164)	2,309	(635,689)
Total accumulated depreciation	<u>(2,388,507)</u>	<u>(246,431)</u>	<u>2,309</u>	<u>(2,632,629)</u>
Total capital assets being depreciated, net	<u>4,313,870</u>	<u>(240,831)</u>	<u>(1,436)</u>	<u>4,071,603</u>
Governmental activities capital assets, net	<u>\$ 4,769,988</u>	<u>\$ (240,831)</u>	<u>\$ (1,436)</u>	<u>\$ 4,527,721</u>

**City of Rockville**  
**Notes to Financial Statements**

**NOTE 5 – CAPITAL ASSETS**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets not being depreciated				
Land	\$ 98,295	\$ -	\$ -	\$ 98,295
Capital assets being depreciated				
Buildings and systems	13,529,751	-	-	13,529,751
Machinery and equipment	<u>58,553</u>	<u>-</u>	<u>-</u>	<u>58,553</u>
Total capital assets Being depreciated	<u>13,588,304</u>	<u>-</u>	<u>-</u>	<u>13,588,304</u>
Less accumulated depreciation for				
Buildings and systems	(2,939,167)	(335,035)	-	(3,274,202)
Machinery and equipment	<u>(44,835)</u>	<u>(8,096)</u>	<u>-</u>	<u>(52,931)</u>
Total accumulated Depreciation	<u>(2,984,002)</u>	<u>(343,131)</u>	<u>-</u>	<u>(3,327,133)</u>
Business-type activities capital assets, net	<u>\$ 10,702,597</u>	<u>\$ (343,131)</u>	<u>\$ -</u>	<u>\$ 10,359,466</u>

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

Governmental activities	
General government	\$ 65,978
Public safety	46,414
Public works	121,519
Parks and recreation	<u>12,520</u>
Total depreciation expense - governmental activities	<u>\$ 246,431</u>
Business-type activities	
Water	\$ 58,133
Sewer	<u>284,998</u>
Total depreciation expense - business-type activities	<u>\$ 343,131</u>

**City of Rockville**  
**Notes to Financial Statements**

**NOTE 6 – LONG-TERM DEBT**

**A. Components of Long-Term Liabilities**

On May 1, 2014, the City issued \$1,925,000 G.O. Capital Improvement Plan Bonds, Series 2014A for the advance refunding of the \$2,565,000 Public Project Lease Revenue Bonds, Series 2005A. The principal balances of both the refunded and refunding bonds are reported as long-term debt of the City until the call date of the refunded bonds, at which time the refunded bonds will be considered defeased and the related liability will be removed from the Statement of Net Position. The call date for the 2005A bond is August 1, 2015. The refunding was done to extend principal payments. The refunding resulted in a decrease in future debt service payments of \$425,250. The net present value cash flow savings from the transaction was \$206,304.

On May 1, 2014, the City issued \$539,000 G.O. Partial Crossover Utility Revenue Bonds, Series 2014C for the advance refunding of a portion of the \$1,320,000 G.O. Utility Revenue Refunding Bonds, Series 2009A. The principal balances of both the refunded and refunding bonds are reported as long-term debt of the City until the call date of the refunded bonds, at which time the refunded bonds will be considered defeased and the related liability will be removed from the Statement of Net Position. The call date for the 2009A bond is February 1, 2016. The refunding was done to extend principal payments. The refunding resulted in an increase in future debt service payments of \$95,627. The net present value cash flow loss from the transaction was \$26,922.

**City of Rockville**  
**Notes to Financial Statements**

**NOTE 6 – LONG-TERM DEBT (CONTINUED)**

**A. Components of Long-Term Liabilities (Continues)**

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities						
Governmental activities						
G.O. Improvement Bonds						
G.O. Improvement Refunding Bonds, Series 2014B	05/01/14	2.10%	\$ 176,000	02/01/23	\$ 157,000	\$ 18,000
G.O. Capital Improvement Plan Bonds, Series 2014A	05/01/14	2.00%-2.75%	1,925,000	02/01/27	1,815,000	100,000
Total G.O. Bonds					<u>1,972,000</u>	<u>118,000</u>
Equipment certificate	11/01/06	5.00%	160,000	02/01/17	39,000	19,000
Unamortized premiums					39,248	-
Compensated absences					19,829	11,368
Total governmental activities					<u>2,070,077</u>	<u>148,368</u>
Business-type activities						
G.O. Bonds						
G.O. Utility Revenue Refunding Bonds, Series 2009A	08/01/09	2.00%-4.35%	1,650,000	02/01/28	1,095,000	600,000
G.O. Utility Revenue Refunding Bonds, Series 2014C	05/01/14	2.60%	539,000	02/01/23	539,000	-
Unamortized Premiums					14,748	-
Total G.O. Bonds					<u>1,648,748</u>	<u>600,000</u>
Notes payable						
G.O. Sewer Revenue Notes of 1996	12/19/95	N/A	1,209,000	08/20/17	99,160	60,450
G.O. Sewer Revenue Notes of 2004	04/22/04	1.34%	9,235,403	08/20/24	4,158,000	438,000
Total notes payable					<u>4,257,160</u>	<u>498,450</u>
Total business activities					<u>5,905,908</u>	<u>1,098,450</u>
Total all long-term liabilities					<u>\$ 7,975,985</u>	<u>\$ 1,246,818</u>

Long-term bonded indebtedness listed above were issued to finance acquisition and construction of capital facilities or to refinance (refund) previous bond issues.

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

**City of Rockville**  
**Notes to Financial Statements**

**NOTE 6 – LONG-TERM DEBT (CONTINUED)**

**B. Minimum Debt Payments**

Minimum annual principal and interest payments required to retire long-term liabilities are:

Year Ending December 31,	G.O. Bonds		Equipment Certificate		Governmental Activities
	Principal	Interest	Principal	Interest	Total
2016	\$ 118,000	\$ 44,246	\$ 19,000	\$ 1,475	\$ 182,721
2017	154,000	41,507	20,000	500	216,007
2018	159,000	38,358	-	-	197,358
2019	164,000	35,109	-	-	199,109
2020	170,000	31,749	-	-	201,749
2021-2025	862,000	100,287	-	-	962,287
2026-2027	345,000	9,556	-	-	354,556
Total	<u>\$ 1,972,000</u>	<u>\$ 300,812</u>	<u>\$ 39,000</u>	<u>\$ 1,975</u>	<u>\$ 2,313,787</u>

Year Ending December 31,	G.O. Revenue Bond		G.O. Note Payable		Business-Type Activities
	Principal	Interest	Principal	Interest	Total
2016	\$ 600,000	\$ 42,792	\$ 498,450	\$ 55,717	\$ 1,196,959
2017	106,000	32,265	482,710	49,848	670,823
2018	108,000	29,185	449,000	43,898	630,083
2019	110,000	26,054	456,000	37,882	629,936
2020	117,000	25,694	462,000	31,771	636,465
2021-2025	458,000	61,672	1,909,000	64,374	2,493,046
2026-2028	135,000	8,591	-	-	143,591
Total	<u>\$ 1,634,000</u>	<u>\$ 226,253</u>	<u>\$ 4,257,160</u>	<u>\$ 283,490</u>	<u>\$ 6,400,903</u>

**City of Rockville**  
**Notes to Financial Statements**

**NOTE 6 – LONG-TERM DEBT (CONTINUED)**

**C. Changes in Long-Term Liabilities**

Long-term liability activity for the year ended December 31, 2015, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Governmental activities				
Bonds payable				
G.O. improvement bonds	\$ 2,216,000	\$ -	\$ 244,000	\$ 1,972,000
Revenue bonds	2,000,000	-	2,000,000	-
Equipment certificate	57,100	-	18,100	39,000
Loan payable	36,000	-	36,000	-
Unamortized premiums	42,816	-	3,568	39,248
Compensated absences	35,414	27,358	42,943	19,829
Severance payable	12,605	-	12,605	-
Total governmental activities	<u>\$ 4,399,935</u>	<u>\$ 27,358</u>	<u>\$ 2,357,216</u>	<u>\$ 2,070,077</u>
Business-type activities				
Bonds payable				
G. O. Bonds	\$ 1,749,000	\$ -	\$ 115,000	\$ 1,634,000
Unamortized premiums	15,884	-	1,136	14,748
Notes payable	4,749,610	-	492,450	4,257,160
Total business-type activities	<u>\$ 6,514,494</u>	<u>\$ -</u>	<u>\$ 608,586</u>	<u>\$ 5,905,908</u>

The General Fund typically liquidates the liability related to compensated absences and severance.

**City of Rockville**  
**Notes to Financial Statements**

**NOTE 7 – FUND BALANCE DETAIL**

Fund equity balances are classified as follows to reflect the limitations and restrictions of the respective funds.

	General	Road Maintenance	City Facilities	2008A G.O. Improvement Bonds	Nonmajor Governmental Fund	Total
Restricted						
Debt service	\$ -	\$ -	\$ 146,632	\$ 62,616	\$ -	\$ 209,248
Park dedication	-	-	-	-	43,547	43,547
Assigned						
Economic development	-	-	-	-	267,223	267,223
Lake improvement district	-	-	-	-	34,551	34,551
Road maintenance	-	744,556	-	-	-	744,556
General government	214,856	-	-	-	-	214,856
Fire	63,734	-	-	-	-	63,734
Civil defense	13,374	-	-	-	-	13,374
Street maintenance	93,131	-	-	-	-	93,131
Park and recreation	49,516	-	-	-	-	49,516
Ball program	7,755	-	-	-	-	7,755
Rocori Trail	17,932	-	-	-	-	17,932
Eagle park	9,894	-	-	-	-	9,894
Unassigned	488,245	-	-	-	-	488,245
<b>Total</b>	<u>\$ 958,437</u>	<u>\$ 744,556</u>	<u>\$ 146,632</u>	<u>\$ 62,616</u>	<u>\$ 345,321</u>	<u>\$ 2,257,562</u>

**NOTE 8 – RISK MANAGEMENT**

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

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

**City of Rockville**  
**Notes to Financial Statements**

**NOTE 8 – RISK MANAGEMENT (CONTINUED)**

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for 2015 was estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2015, there were no other claims liabilities reported in the fund based on the requirements of GASB Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

**NOTE 9 – PENSION PLANS**

**Public Employees' Retirement Association**

**A. Plan Description**

The City participates in the following cost-sharing multiple-employer defined benefit pension plans administered by PERA. PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

**General Employees Retirement Fund (GERF)**

All full-time and certain part-time employees of the City are covered by the GERF. GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

**Public Employees Police and Fire Fund (PEPFF)**

The PEPFF, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the PEPFF also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

**B Benefits Provided**

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

**City of Rockville**  
**Notes to Financial Statements**

**NOTE 9 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**B Benefits Provided (Continued)**

The benefit provisions stated in the following 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.

**GERF Benefits**

Benefits are based on a member's highest average salary for any five successive years of allowable service, age and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

**PEPFF Benefits**

Benefits for the PEPFF members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for PEPFF members first hired after June 30, 2014, vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. For PEPFF who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

**City of Rockville**  
**Notes to Financial Statements**

**NOTE 9 –PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**C. Contributions**

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The City's contributions to the GERF for the year ended December 31, 2015, were \$17,912. The City's contributions were equal to the required contributions as set by state statute.

**D. Pension Costs**

GERF Pension Costs

At December 31, 2015, the City reported a liability of \$202,118 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was 0.0039%.

For the year ended December 31, 2015, the City recognized pension expense of \$31,639 for its proportionate share of GERF's pension expense.

**City of Rockville**  
**Notes to Financial Statements**

**NOTE 9 –PENSION PLANS**

**Public Employees' Retirement Association (Continued)**

**D. Pension Costs (Continued)**

At December 31, 2015, the City reported its proportionate share of GERS's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 10,190
Difference between projected and actual investment earnings	19,134	-
Changes in proportion	14,092	-
Contributions paid to PERA subsequent to the measurement date	<u>8,956</u>	<u>-</u>
Total	<u>\$ 42,182</u>	<u>\$ 10,190</u>

\$8,956 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Pension Expense Amount</u>
2016	\$ 6,084
2017	6,084
2018	6,086
2019	4,782

**E. Actuarial Assumptions**

The total pension liability in the June 30, 2015, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.75 % Per year
Active member payroll growth	3.50 % Per year
Investment rate of return	7.90 %

**City of Rockville  
Notes to Financial Statements**

**NOTE 9 –PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**E. Actuarial Assumptions (Continued)**

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1% effective every January 1<sup>st</sup> through 2026 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERS was for the period July 1, 2004 through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	45%	5.50 %
International stocks	15%	6.00
Bonds	18%	1.45
Alternative assets	20%	6.40
Cash	2%	0.50
	<hr/>	
Total	<u>100%</u>	

**City of Rockville  
Notes to Financial Statements**

**NOTE 9 –PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**F. Discount Rate**

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on those assumptions, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**G. Pension Liability Sensitivity**

The following table presents the City's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
Discount rate	6.9%	7.9%	8.9%
City's proportionate share of the GERF net pension liability	\$ 317,802	\$ 202,118	\$ 164,412

**Pension Plan Fiduciary Net Position**

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

**Defined Benefit Pension Plan – Volunteer Fire Fighter's Relief Association**

**A. Plan Description**

The Rockville Fire Fighter's Relief Association is the administrator of a single employer defined benefit pension plan established to provide benefits for members of the Rockville Fire Department per *Minnesota State Statutes*.

The Association issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Rockville Fire Fighter's Association, 229 Broadway Street East, Rockville, Minnesota 56369 or by calling 320-251-5836.

**City of Rockville  
Notes to Financial Statements**

**NOTE 9 – PENSION PLANS (CONTINUED)**

**Defined Benefit Pension Plan – Volunteer Fire Fighter's Relief Association (Continued)**

**B. Benefits Provided**

Volunteer firefighters of the City are members of the Rockville Fire Fighter's Relief Association. Full retirement benefits are payable to members who have reached age 50 and have completed 15 years of service for monthly service pension, or 10 years of service for lump sum service pension. Partial benefits are payable to members who have reached 50 and have completed 10 years of service. Disability benefits and widow and children's survivor benefits are also payable to members or their beneficiaries based upon requirements set forth in the bylaws. These benefit provisions and all other requirements are consistent with enabling state statutes.

**C. Employees Covered by Benefit Terms**

At December 31, 2014, the following employees were covered by the benefit terms:

Inactive members or beneficiaries currently receiving benefits	-
Inactive members entitled to but not yet receiving benefits	5
Active members	20
Total	25

**D. Contributions.**

Minnesota Statutes Chapter 424A.092 specifies minimum support rates required on an annual basis. The minimum support rates from the municipality and from State aids are determined as the amount required to meet the normal cost plus amortizing any existing prior service costs over a ten year period. The City's obligation is the financial requirement for the year less state aids. Any additional payments by the City shall be used to amortize the unfunded liability of the relief association. The Association is comprised of volunteers: therefore, there are no payroll expenditures (i.e. there are no covered payroll percentage calculations). During the year, the City recognized as revenue and as an expenditure an on behalf payment of \$15,825 made by the State of Minnesota for the Relief Association.

**E. Net Pension Liability**

The City's net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

*Actuarial assumptions.*

The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 %
Salary increase	0.00 %, average, including inflation
Investment rate of return	5.00 %, net of pensions plan investment expense: including inflation

**City of Rockville**  
**Notes to Financial Statements**

**NOTE 9 – PENSION PLANS (CONTINUED)**

**Defined Benefit Pension Plan – Volunteer Fire Fighter's Relief Association (Continued)**

**E. Net Pension Liability (Continued)**

The value of death benefits is similar to the value of the retirement pension. Because of low retirement ages, the plan assumes no pre-retirement mortality. Post-retirement mortality does not apply as the benefit structure and form of payment do not reflect lifetime benefits.

The long-term return on assets has been set based on the plan's target investment allocation along with long-term return expectations by asset class. When there is sufficient historical evidence of market outperformance, historical average returns may be considered. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of the measurement date are summarized in the table on the following page.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	36.4%	5.25%
International Equity	17.6%	5.25%
Fixed Income	35.8%	1.75%
Real Estate and Alternatives	1.7%	3.75%
Cash and equivalents	8.5%	0.25%
Total	<u>100.0%</u>	

**F. Discount rate**

The discount rate used to measure the total pension liability was 5.00%. Assets were projected using expected benefit payments and expected asset returns. Expected benefit payments by year were discounted using the expected asset return assumption for years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the municipal bond rate. The equivalent single rate is the discount rate.

**City of Rockville**  
**Notes to Financial Statements**

**NOTE 9 – PENSION PLANS (CONTINUED)**

**Defined Benefit Pension Plan – Volunteer Fire Fighter's Relief Association (Continued)**

**G. Changes in the Net Pension Liability**

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at January 1, 2014	\$ 502,578	\$ 433,726	\$ 68,852
Changes for the year:			
Service cost	18,132	-	18,132
Interest	25,660	-	25,660
Contributions	-	29,544	(29,544)
Projected investment return			
Gain or loss	-	13,120	(13,120)
Benefit payments, including refunds of employee contributions	(15,040)	(15,040)	-
Net charges	28,752	27,624	1,128
Balances at December 31, 2014	\$ 531,330	\$ 461,350	\$ 69,980

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the City, calculated using the discount rate of 5.00%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.00%) or 1-percentage-point higher (6.00%) than the current rate:

	1% Decrease (4.00%)	Current Discount Rate (5.00%)	1% Increase (6.00%)
Relief's net pension liability	\$ 79,252	\$ 69,980	\$ 60,855

**City of Rockville  
Notes to Financial Statements**

**NOTE 9 – PENSION PLANS (CONTINUED)**

**Defined Benefit Pension Plan – Volunteer Fire Fighter's Relief Association (Continued)**

**G. Changes in the Net Pension Liability (Continued)**

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued relief association financial report.

**H. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended December 31, 2014, the City recognized pension expense of \$23,600. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 7,072	\$ -
Contributions paid to Volunteer Firefighter's Relief Association subsequent to the measurement date	28,594	-
Total	\$ 35,666	\$ -

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2016	\$ 1,768
2017	1,768
2018	1,768
2019	1,768
Total	\$ 7,072

**City of Rockville**  
**Notes to Financial Statements**

**NOTE 9 – PENSION PLANS (CONTINUED)**

**Defined Benefit Pension Plan – Volunteer Fire Fighter's Relief Association (Continued)**

**I. Payable to the Pension Plan**

At December 31, 2015, the City reported a payable of \$23,594 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

**NOTE 10 – GASB STATEMENTS ISSUED BUT NOT YET IMPLEMENTED**

GASB has issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The new statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about OPEB liabilities.

**NOTE 11 – CHANGE IN ACCOUNTING PRINCIPLE**

For the year ended December 31, 2015, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This resulted in an adjustment to the beginning net position on the Statement of Activities of \$196,070 to add the beginning net pension liability, and an adjustment to the beginning net position on the Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds of \$35,167 to add the beginning net pension liability.

**REQUIRED SUPPLEMENTARY INFORMATION**

**City of Rockville**  
**Schedule of City's Proportionate Share**  
**of Net Pension Liability - GERS Retirement Fund**  
**Last Ten Years\***

<u>For Fiscal Year Ended June 30,</u>	<u>City's Proportion of the Net Pension Liability (Asset)</u>	<u>City's Proportionate Share of the Net Pension Liability (Asset)</u>	<u>City's Covered- Employee Payroll</u>	<u>City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
2015	0.0039%	\$ 202,118	\$ 226,307	89.3%	78.19%

\* This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

**City of Rockville  
Schedule of City Contributions -  
GERF Retirement Fund  
Last Ten Years\***

<u>Fiscal Year Ending June 30,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>City's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2015	\$ 16,973	\$ 16,973	\$ -	\$ 226,307	7.50%

\* This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

**City of Rockville**  
**Schedule of Changes in Net Pension Liability**  
**and Related Ratios - Fire Relief Association**

	2014
Total Pension Liability (TPL)	
Service cost	\$ 18,132
Interest	25,660
Benefit payments, including refunds or member contributions	(15,040)
Net change in total pension liability	28,752
Beginning of year (1)	502,578
End of year	\$ 531,330
Plan Fiduciary Net Pension (FNP)	
Contributions - employer	\$ 29,544
Net investment income	13,120
Benefit payments, including refunds of member contributions	(15,040)
Net change in plan fiduciary net position	27,624
Beginning of year	433,726
End of year	\$ 461,350
Net Pension Liability (NPL)	\$ 69,980

The City implemented the Provisions of Governmental Accounting Standards Board Statement No. 68 for the year ended December 31, 2015. The schedules within the Required Supplementary Information section required a ten-year presentation, but does not require retroactive reporting. Information prior to 2014 is not available.

**City of Rockville**  
**Schedule of Employer Contributions**  
**and Non-Employer Contributing**  
**Entities - Fire Relief Association**

	2014
Employer	
Statutorily determined contribution (SDC)	\$ 15,767
Contribution SDC	15,767
Contribution deficiency (excess)	\$ -
Non-employer	
2% aid	\$ 15,825

The City implemented the Provisions of Governmental Accounting Standards Board Statement No. 68 for the year ended December 31, 2015. The schedules within the Required Supplementary Information section required a ten-year presentation, but does not require retroactive reporting. Information prior to 2014 is not available.

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**SUPPLEMENTARY INFORMATION**

**City of Rockville**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances -**  
**Budget And Actual - General Fund**  
**Year Ended December 31, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues</b>				
Property taxes	\$ 583,140	\$ 583,140	\$ 599,025	\$ 15,885
Miscellaneous taxes	-	-	151	151
Licenses and permits	26,884	26,884	35,101	8,217
Intergovernmental revenue				
Local government aid	175,077	175,077	175,077	-
Market value credit	2,647	2,647	5,744	3,097
PERA Aid	60	60	60	-
Fire aid	18,031	18,031	16,506	(1,525)
Total intergovernmental revenue	<u>195,815</u>	<u>195,815</u>	<u>197,387</u>	<u>1,572</u>
Charges for services				
General government	5,250	5,250	8,259	3,009
Public safety	22,503	22,503	18,818	(3,685)
Public works	500	500	245	(255)
Culture and recreation	7,200	7,200	4,998	(2,202)
Economic development	500	500	88	(412)
Total charges for services	<u>35,953</u>	<u>35,953</u>	<u>32,408</u>	<u>(3,545)</u>
Fines and forfeitures	10,000	10,000	13,537	3,537
Miscellaneous revenues				
Investment income	20,000	20,000	19,643	(357)
Other	9,170	9,170	14,589	5,419
Total miscellaneous revenues	<u>29,170</u>	<u>29,170</u>	<u>34,232</u>	<u>5,062</u>
Total revenues	<u>880,962</u>	<u>880,962</u>	<u>911,841</u>	<u>30,879</u>
<b>Expenditures</b>				
General government				
Mayor and council	16,930	16,930	16,799	(131)
Administrative and finance	163,935	163,935	166,450	2,515
Other general government	188,817	188,817	182,333	(6,484)
Capital outlay	4,000	4,000	885	(3,115)
Total general government	<u>373,682</u>	<u>373,682</u>	<u>366,467</u>	<u>(7,215)</u>
Public safety				
Police				
Current	20,520	20,520	19,823	(697)
Fire				
Current	131,943	132,443	139,150	6,707
Capital outlay	41,500	63,741	40,597	(23,144)
Total fire	<u>173,443</u>	<u>196,184</u>	<u>179,747</u>	<u>(16,437)</u>

**City of Rockville**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances -**  
**Budget and Actual - General Fund**  
**Year Ended December 31, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Expenditures (Continued)</b>				
Public safety (continued)				
Other				
Current	\$ 4,905	\$ 4,905	\$ 3,270	\$ (1,635)
Capital outlay	3,800	3,800	1,000	(2,800)
Total other	8,705	8,705	4,270	(4,435)
Total public safety	202,668	225,409	203,840	(21,569)
Public works				
Streets and highways				
Street maintenance and				
Storm sewers	151,694	179,605	174,740	(4,865)
Snow and ice removal	39,023	39,023	24,659	(14,364)
Street lighting	14,500	14,500	12,583	(1,917)
Street - other capital outlay	13,000	13,000	11,813	(1,187)
Total streets and highways	218,217	246,128	223,795	(22,333)
Culture and recreation				
Current expenditures	42,156	42,156	35,014	(7,142)
Capital outlay	14,000	14,000	1,522	(12,478)
Total culture and recreation	56,156	56,156	36,536	(19,620)
Debt service				
Principal	18,100	18,100	18,100	-
Interest and other charges	2,403	2,403	2,403	-
Total debt service	20,503	20,503	20,503	-
Total expenditures	871,226	921,878	851,141	(70,737)
Excess of revenues over (under) expenditures	9,736	(40,916)	60,700	101,616
<b>Other Financing Sources</b>				
Transfers in	300	300	-	(300)
Transfers out	(10,436)	(10,436)	(260,758)	(250,322)
Total other financing sources (uses)	(10,136)	(10,136)	(260,758)	(250,622)
Net change in fund balances	\$ (400)	\$ (51,052)	(200,058)	\$ (149,006)
<b>Fund Balances</b>				
Beginning of year			1,158,495	
End of year			\$ 958,437	

**City of Rockville  
Combining Balance Sheet -  
Nonmajor Governmental Funds  
December 31, 2015**

	Special Revenue	
	Public Land Dedication (202)	Economic Development Authority (209)
<b>Assets</b>		
Cash and investments	\$ 43,541	\$ 266,482
Taxes receivable - delinquent	-	25
Interest receivable	6	722
Due from other governments	-	19
	<u>\$ 43,547</u>	<u>\$ 267,248</u>
<b>Deferred Inflows of Resources</b>		
Unavailable revenue - property taxes	\$ -	\$ 25
<b>Fund Balances</b>		
Restricted	43,547	-
Assigned	-	267,223
Total fund balances	<u>43,547</u>	<u>267,223</u>
Total deferred inflows of resources and fund balances	<u>\$ 43,547</u>	<u>\$ 267,248</u>

<u>Special Revenue</u>	
<u>Lake Improvement District (221)</u>	<u>Total Governmental Funds</u>
\$ 34,493	\$ 344,516
20	45
-	728
58	77
<u>\$ 34,571</u>	<u>\$ 345,366</u>
\$ 20	\$ 45
-	43,547
34,551	301,774
<u>34,551</u>	<u>345,321</u>
<u>\$ 34,571</u>	<u>\$ 345,366</u>

**City of Rockville**  
**Combining Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances - Nonmajor Governmental Funds**  
**Year Ended December 31, 2015**

	Special Revenue	
	Public Land Dedication (202)	Economic Development Authority (209)
<b>Revenues</b>		
Property taxes	\$ -	\$ 992
Intergovernmental	-	10
Miscellaneous		
Investment income	101	5,831
Other	400	-
Total revenues	501	6,833
 <b>Expenditures</b>		
Current		
General government	-	-
Economic development	-	376
Capital outlay		
Culture and recreation	20,045	-
Total expenditures	20,045	376
 Excess of revenues over (under) expenditures	(19,544)	6,457
 <b>Fund Balances</b>		
Beginning of year	63,091	260,766
End of year	\$ 43,547	\$ 267,223

<u>Special Revenue</u>			
<u>Lake Improvement District (221)</u>		<u>Total Other Governmental Funds</u>	
\$	14,505	\$	15,497
	1,095		1,105
	52		5,984
	-		400
	<u>15,652</u>		<u>22,986</u>
	14,764		14,764
	-		376
	-		20,045
	<u>14,764</u>		<u>35,185</u>
	888		(12,199)
	<u>33,663</u>		<u>357,520</u>
\$	<u>34,551</u>	\$	<u>345,321</u>

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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***

**Independent Auditor's Report**

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Rockville, Minnesota, as of and for the year ended December 31, 2015, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 9, 2016.

**Internal Control over Financial Reporting**

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

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

**BerganKDV, Ltd.**

**Cedar Falls**  
602 Main Street  
Suite 100  
P.O. Box 489  
Cedar Falls, IA  
50613-0026  
T 319.268.1715  
F 319.268.1720

**Cedar Rapids**  
2720 1st Avenue NE  
Suite 300  
P.O. Box 10200  
Cedar Rapids, IA  
52402-0200  
T 319.294.8000  
F 319.294.9003

**Coralville**  
2530 Corridor Way  
Suite 301  
P.O. Box 5267  
Coralville, IA  
52241-0267  
T 319.248.0367  
F 319.248.0582

**Des Moines**  
9207 Northpark Drive  
Johnston, IA  
50131-2933  
T 515.727.5700  
F 515.727.5800

**Minneapolis**  
3800 American Blvd W  
Suite 1000  
Bloomington, MN  
55431-4420  
T 952.563.6800  
F 952.563.6801

**St. Cloud**  
220 Park Avenue S  
P.O. Box 1304  
St. Cloud, MN  
56302-3713  
T 320.251.7010  
F 320.251.1784

**Waterloo**  
100 East Park Avenue  
Suite 300  
P.O. Box 2100  
Waterloo, IA  
50704-2100  
T 319.234.6885  
F 319.234.6287

bergankdv.com

### **Internal Control over Financial Reporting (Continued)**

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses on Internal Controls and Legal Compliance to be material weaknesses, listed as Audit Findings 2006-002 and 2009-002.

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 on Internal Controls and Legal Compliance to be a significant deficiency, listed as Audit Finding 2010-001.

### **Compliance and Other Matters**

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

### **City's Response to Findings**

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

### **Purpose of this Report**

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

*Bergan KDV, Ltd.*

St. Cloud, Minnesota  
May 9, 2016



BerganKDV, Ltd.

## Report on Legal Compliance

### Independent Auditor's Report

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

**Cedar Falls**  
602 Main Street  
Suite 100  
P.O. Box 489  
Cedar Falls, IA  
50613-0026  
T 319.268.1715  
F 319.268.1720

**Cedar Rapids**  
2720 1st Avenue NE  
Suite 300  
P.O. Box 10200  
Cedar Rapids, IA  
52402-0200  
T 319.294.8000  
F 319.294.9003

**Coralville**  
2530 Corridor Way  
Suite 301  
P.O. Box 5267  
Coralville, IA  
52241-0267  
T 319.248.0367  
F 319.248.0582

**Des Moines**  
9207 Northpark Drive  
Johnston, IA  
50131-2933  
T 515.727.5700  
F 515.727.5800

**Minneapolis**  
3800 American Blvd W  
Suite 1000  
Bloomington, MN  
55431-4420  
T 952.563.6800  
F 952.563.6801

**St. Cloud**  
220 Park Avenue S  
P.O. Box 1304  
St. Cloud, MN  
56302-3713  
T 320.251.7010  
F 320.251.1784

**Waterloo**  
100 East Park Avenue  
Suite 300  
P.O. Box 2100  
Waterloo, IA  
50704-2100  
T 319.234.6885  
F 319.234.6287

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the controller of the United States, the financial statements of the governmental activities, the business-type activities and each major fund and the aggregate remaining fund information of the City of Rockville, Minnesota as of and for the year ended December 31, 2015, and the related notes to financial statements, and have issued our report thereon dated May 9, 2016.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to *Minnesota Statutes* § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except we did not test for compliance in Tax Increment Financing because the City has no tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Rockville, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, except as described in the accompanying Schedule of Findings and Responses on Internal Controls and Legal Compliance. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

This report is intended solely for the information and use of those charged with governance and management of the City and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

bergankdv.com

St. Cloud, Minnesota  
May 9, 2016

**City of Rockville**  
**Schedule of Findings and Responses**  
**on Internal Control and Legal Compliance**

**CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDINGS:**

**Material Weaknesses:**

**Audit Finding 2006-002 – Preparation of Financial Statements and Related Footnote Disclosures**

As a function of the audit process, auditors are required to gain an understanding of the City's internal control, including the financial reporting process.

The City does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to financial statements. This circumstance is not unusual in a city of your size.

This condition increases the risk that errors could occur which would not be prevented, or detected and corrected in a timely manner. Even though all management decisions related to financial reporting are made by the City's management and approval of the financial statements and related note disclosures lies with management, 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 or other considerations.

**City's Response:**

The City understands most municipalities of our size receive this finding due to the lack of staffing and resources available to generate financial statements internally. The City will continue to monitor this situation and will adjust processes if necessary in future years.

**Audit Finding 2009-002 – Material Audit Adjustments**

During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the City's existing internal controls and, therefore, could have resulted in a material misstatement of the City's financial statements.

In order to ensure financial statements were free from material misstatement, audit adjustments were required in the following areas:

- Special Assessments

**City of Rockville**  
**Schedule of Findings and Responses**  
**on Internal Control and Legal Compliance**

**CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDINGS: (CONTINUED)**

**Audit Finding 2009-002 – Material Audit Adjustments (Continued)**

**City’s Response:**

Management will review and gain an understanding of the audit adjustments in order to reduce the number of entries necessary for future audits. The City recognizes, in keeping with many cities of their size, that auditors assist with making adjustments to the financial statements they themselves need to assist in generating. The City Council encourages City staff to regularly take advantage of ongoing continuing education classes provided by the Minnesota Clerks and Finance Officers Association (MCFOA), League of Minnesota Cities and other such organizations in order to keep up to date on the ever changing and increasingly complex accounting principles generally accepted in the United States of America.

**CURRENT YEAR INTERNAL CONTROL FINDINGS:**

**Significant Deficiency:**

**Audit Finding 2010-001 – Lack of Segregation of Accounting Duties**

The City had a lack of segregation of accounting duties due to a limited number of office employees. In order to have appropriate segregation of accounting duties, the performance of the following duties would need to be completed by a different employee: initiation and authorization of transactions, recording, and processing of transactions, reconciliation and reporting of transactions and financial information and custody of assets.

Although employees may at times have overlapping duties, the City works to segregate duties and has review processes in place for work performed. The lack of adequate segregation of accounting duties could adversely affect the City’s ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. This lack of segregation of accounting duties may, at times, be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The Finance/Utility Billing Clerk/ Administrative Assistant collects receipts, brings deposits to the bank, and makes the entries into the system.
- The Finance/Utility Billing Clerk/ Administrative Assistant prepares the utility bills, records utility payments, and can record adjustments into the utility billing system.
- Finance/Utility Billing Clerk/ Administrative Assistant records deposits into the accounting system, can make adjustments in the system and completes the monthly bank reconciliation.
- Journal entries can be completed and entered into the general ledger without approval or proper documentation by all employees.
- The City Administrator/Clerk has full access to all areas of the finance system.

**City of Rockville**  
**Schedule of Findings and Responses**  
**on Internal Control and Legal Compliance**

**CURRENT YEAR INTERNAL CONTROL FINDINGS (CONTINUED):**

**Significant Deficiency (Continued):**

**Audit Finding 2010-001 – Lack of Segregation of Accounting Duties (Continued)**

We recommend management, along with the City Council, evaluate the risks related to significant deficiencies noted above, and respond with improvements to processes to mitigate these risks. In doing this, management and the City Council must weigh the costs associated with adding more staff or procedures to its operations.

**City's Response:**

While limited staff and resources are available for technical control and oversight purposes, the City has established a number of checks and balances in its system which provides for at least two staff members to be involved with the review of all invoices, the processing of payments and the printing of payroll checks prior to their distribution. The City continues to work closely with its auditors, financial advisor, and legal staff to create and implement reasonable and cost effective processes that provide for ongoing duty segregation and the need for independent oversight of the City's financial system.

**CURRENT YEAR LEGAL COMPLIANCE FINDINGS:**

**PROMPT PAYMENT TO VENDORS**

Minnesota Statutes 471.425, Subdivision 2 states a municipality must pay each vendor obligation according to the terms of the contract or, if no contract terms apply, within the standard payment period unless the municipality in good faith disputes the obligation. Standard payment period is defined as follows: for municipalities whose governing boards regularly meet at least once a month, the standard payment period is defined as 35 days after receipt of the goods or services or the invoice for the goods or services, whichever is later.

During our audit, we noted two invoices selected for testing that were paid past the 35 day deadline for standard payments.

**City's Response:**

Management will more closely monitor department heads and their process in monitoring invoices and invoice due date to insure prompt payments.

**City of Rockville  
Schedule of Findings and Responses  
on Internal Control and Legal Compliance**

**CURRENT YEAR LEGAL COMPLIANCE FINDINGS (CONTINUED):**

**PUBLIC PURPOSE EXPENDITURES**

The opinion of the Attorney General states government entities are not to expend monies unless expressly granted the authority to do so. Items that do not serve a public purpose are covered under this opinion. In addition, *Minnesota Statutes* 123B.02, subd 14a. states a council may establish and operate employee recognition programs and may expend funds as necessary to achieve the objectives of the program. However, the employee recognition program shall not include monetary awards.

During our audit, we noted expenditures were made for items which are not considered to be of a public purpose, including the purchase of food for the Fire Department.

We recommend the City refrain from purchases that do not serve a public purpose.

**City's Response:**

Management will more closely monitor department heads and their process in monitoring invoices to insure that all invoices meet the standards of public purposes.

**OBTAIN SUFFICIENT COLLATERAL**

The depositories of public funds and public investment laws of *Minnesota Statutes* 118A.01 and 118A.08 requires that all deposits with financial institutions must be collateralized in an amount equal to 110% of deposits in excess of Federal Depository Insurance Corporation (FDIC) insurance.

At December 31, 2015, the City's deposits were under collateralized.

**City's Response:**

Management will continue to review the investment and reconciliation statements on a monthly basis to insure sufficient collateral. The account that was under collateralized has subsequently been closed, as the funds that were held there were used to pay off a bond refunding in February 2016.

**OBTAIN FORM IC-134 FOR ALL CONTRACTORS/SUBCONTRACTORS**

*Minnesota Statutes* 270C.66 states before making final settlement with any contractor under a contract requiring the employment of employees for wages by said contractor and by subcontractors, the city should obtain a certificate by the Commissioner of Revenue that the contractor or subcontractor has complied with the withholding requirements of *Minnesota Statutes* 290.92 (Form IC-134).

During our audit, it was noted the City did not receive a certificate from the Commissioner of Revenue stating the contractor was in compliance with the withholding requirements for the road patching project that was completed this year.

**City's Response:**

Management will require all contractors to provide proof of submittal of form IC-134 prior final payment