



CITY OF ROCKVILLE
Stearns County, Minnesota

AUDITED FINANCIAL STATEMENTS

For the Year Ended December 31, 2012



CITY OF ROCKVILLE

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CITY OF ROCKVILLE
ELECTED OFFICIALS AND ADMINISTRATION
December 31, 2012

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Jeff Hagen	Mayor	December 31, 2012
Bill Becker	Council Member	December 31, 2012
Don Simon	Council Member	December 31, 2012
Jerry Schmitt	Council Member	December 31, 2012
Duane Willenbring	Council Member	December 31, 2012
Jeff Howe	Council Member	December 31, 2014
Randy Volkmuth	Council Member	December 31, 2014
<u>Administration</u>		
Verena Weber	City Administrator/Clerk	
Judy Neu	Finance/Utility Billing Clerk/Administrative Assistant	



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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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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.



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rockville, Minnesota, as of December 31, 2012, 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 63

As discussed in Note 12 to the financial statements, the City has adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.

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, 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements.

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

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



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2013, 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 City of Rockville's internal control over financial reporting and compliance.

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.

St. Cloud, Minnesota

May 7, 2013

CITY OF ROCKVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

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, 2012.

FINANCIAL HIGHLIGHTS

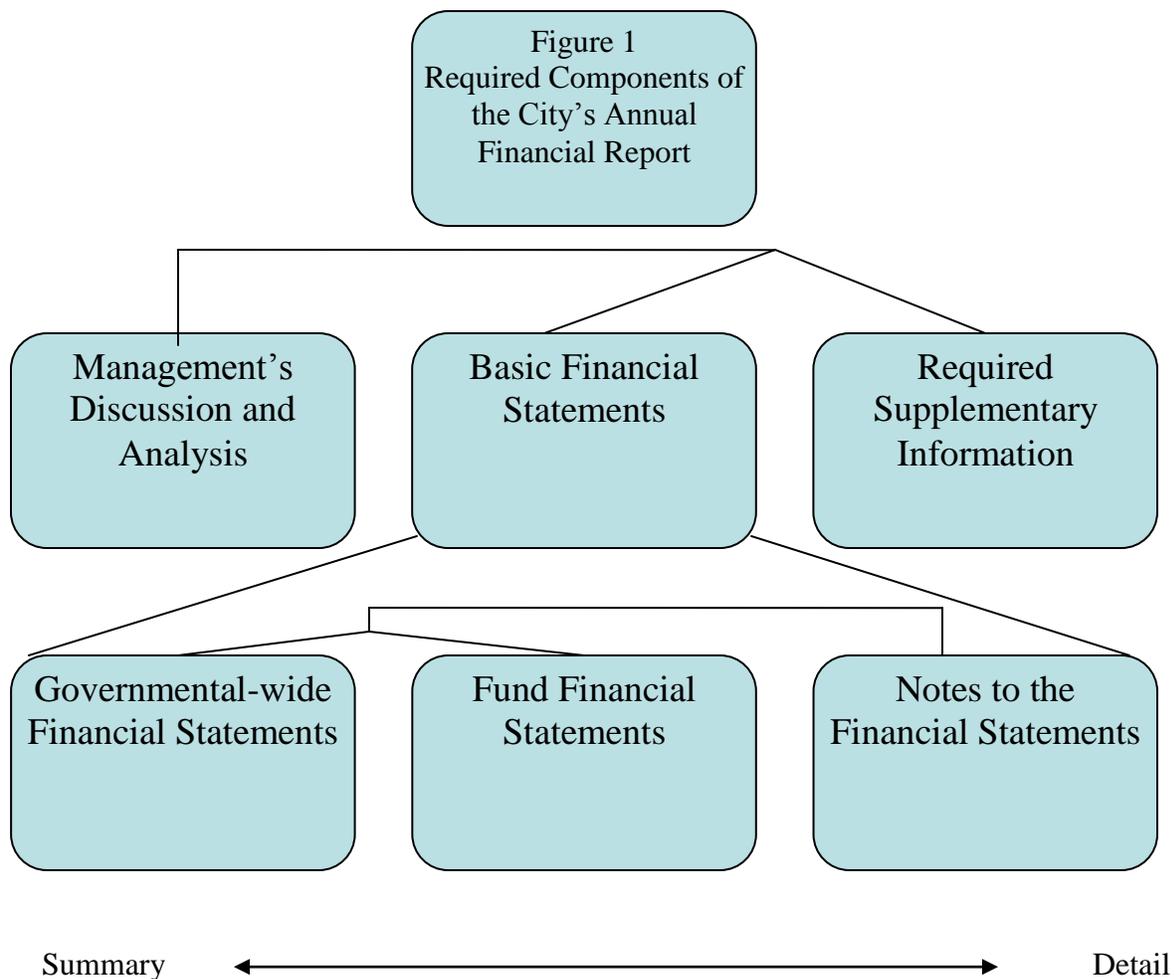
- ◆ The net position of the City exceeded its liabilities at the close of the most recent year by approximately \$ 13,724,779. Of this amount, \$ 7,654,245 may be used to meet government's ongoing obligations to citizens and creditors.
- ◆ The government's total net position decreased by \$ 516,336 in 2012. This was attributable due to the write off of special assessments from forfeiture property.
- ◆ As of the close of the current year, the City's governmental funds reported combined ending fund balances of \$ 1,737,330, an increase of \$ 229,942. 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, unrestricted fund balance for the General Fund was \$ 1,040,375, or 150% of total General Fund expenditures. While these funds are not legally reserved, \$ 473,484 is assigned for future purposes, leaving the unassigned fund balance of \$ 566,891, or 82% of current year expenditures, to be used in the event of a major catastrophe.
- ◆ The City's total long-term debt decreased by \$ 832,050 during the current year.

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
December 31, 2012

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



CITY OF ROCKVILLE
MANAGEMENT’S DISCUSSION AND ANALYSIS
December 31, 2012

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"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Revenues, Expenses and Changes in Fund Net Position • Statement of Cash Flows
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital and short-term and long-term
Type of in flow/out flow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

CITY OF ROCKVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

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 liabilities, with the difference between the two 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
December 31, 2012

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 10 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 and General Obligation (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.

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
December 31, 2012

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 52-57 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 exceeded total liabilities by \$ 13,724,779 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	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$ 2,245,473	\$ 2,550,318	\$ 6,196,831	\$ 6,814,874	\$ 8,442,304	\$ 9,365,192
Capital Assets	6,641,533	6,611,219	13,686,599	13,686,599	20,328,132	20,297,818
Less Accumulated Depreciation	<u>(2,175,586)</u>	<u>(2,008,597)</u>	<u>(2,643,096)</u>	<u>(2,302,189)</u>	<u>(4,818,682)</u>	<u>(4,310,786)</u>
Total Assets	<u>\$ 6,711,420</u>	<u>\$ 7,152,940</u>	<u>\$ 17,240,334</u>	<u>\$ 18,199,284</u>	<u>\$ 23,951,754</u>	<u>\$ 25,352,224</u>
Long-Term Liabilities Outstanding	\$ 2,929,973	\$ 3,173,037	\$ 7,170,661	\$ 7,757,245	\$ 10,100,634	\$ 10,930,282
Other Liabilities	<u>74,113</u>	<u>122,075</u>	<u>52,228</u>	<u>58,752</u>	<u>126,341</u>	<u>180,827</u>
Total Liabilities	<u>\$ 3,004,086</u>	<u>\$ 3,295,112</u>	<u>\$ 7,222,889</u>	<u>\$ 7,815,997</u>	<u>\$ 10,226,975</u>	<u>\$ 11,111,109</u>
NET POSITION:						
Net Investment in Capital Assets	\$ 1,577,147	\$ 1,467,222	\$ 3,872,842	\$ 3,627,165	\$ 5,449,989	\$ 5,094,387
Restricted	587,148	1,106,038	33,397	26,351	620,545	1,132,389
Unrestricted	<u>1,543,039</u>	<u>1,284,568</u>	<u>6,111,206</u>	<u>6,729,771</u>	<u>7,654,245</u>	<u>8,014,339</u>
Total Net Position	<u>\$ 3,707,334</u>	<u>\$ 3,857,828</u>	<u>\$ 10,017,445</u>	<u>\$ 10,383,287</u>	<u>\$ 13,724,779</u>	<u>\$ 14,241,115</u>

An additional portion of the City's net position (5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (56%) may be used to meet the government's ongoing obligations to citizens and creditors. This is a decrease of \$ 355,602 from 2011.

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
December 31, 2012

Governmental Activities

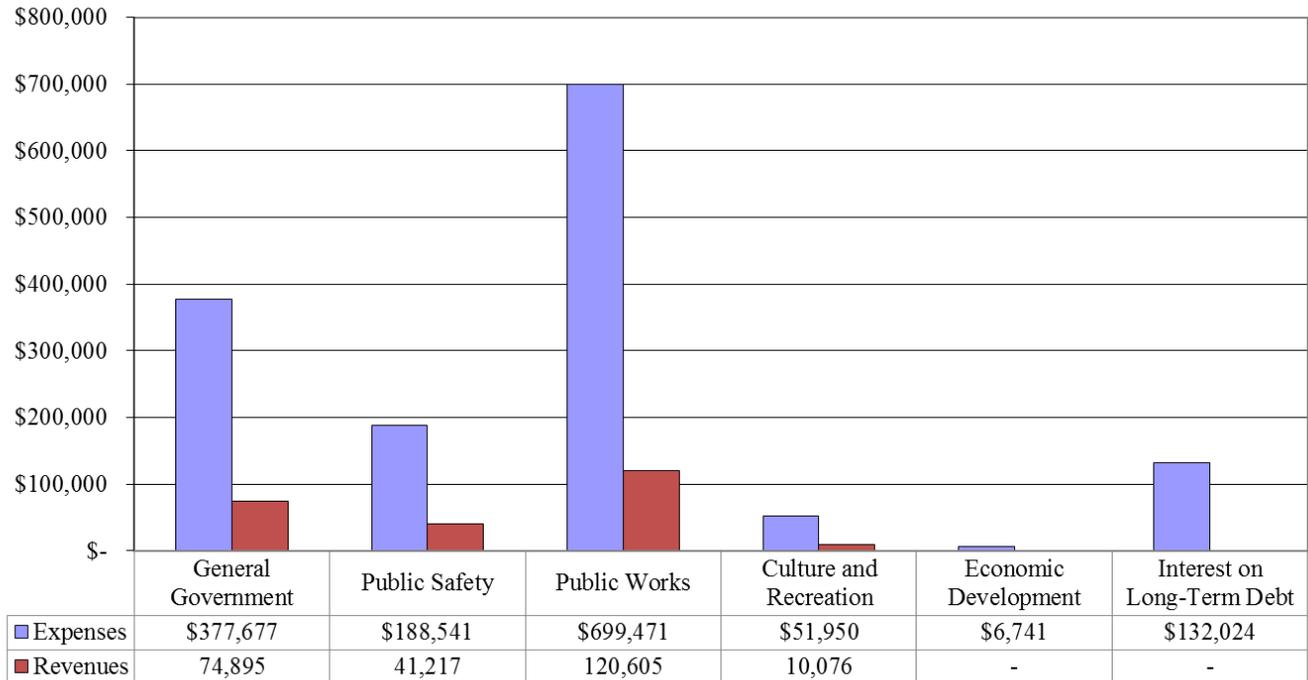
Governmental activities decreased the City's net position by \$ 150,494. Key elements of this decrease are as follows:

Changes in Net Position

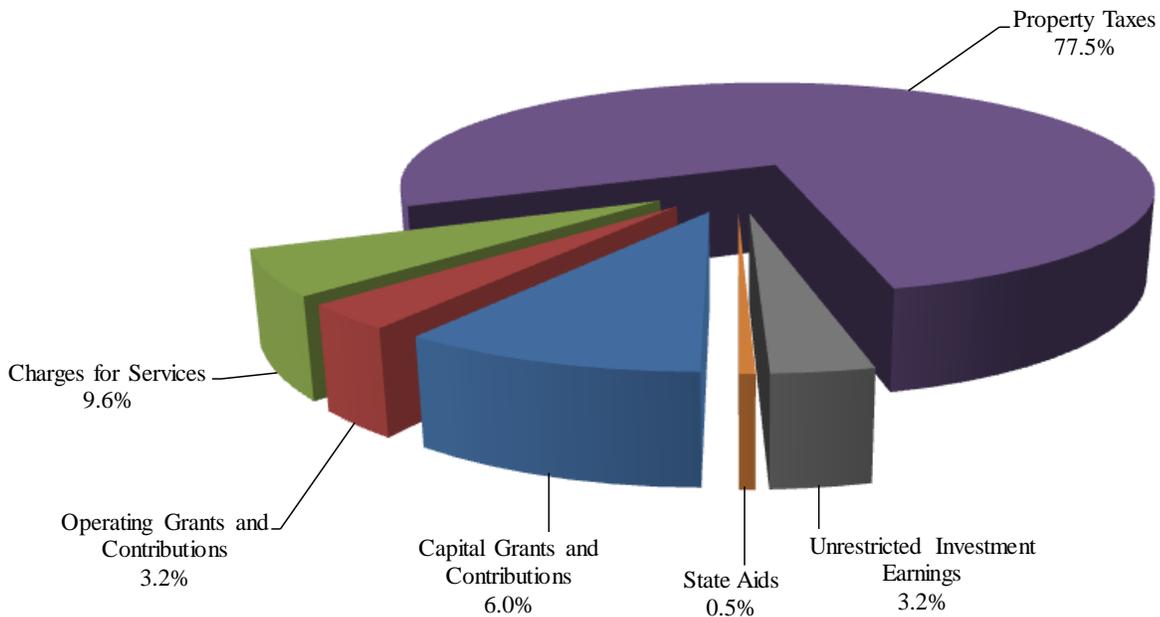
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
REVENUES:						
Program Revenues:						
Charges for Service	\$ 125,991	\$ 127,042	\$ 379,722	\$ 362,389	\$ 505,713	\$ 489,431
Operating Grants and Contributions	42,513	34,107	30,369	27,395	72,882	61,502
Capital Grants and Contributions	78,289	165,565	181,642	255,605	259,931	421,170
General Revenues:						
Property Taxes	1,016,053	940,816	13,009	15,582	1,029,062	956,398
Other Taxes	6,614	119	81	1	6,695	120
Investment Income	42,082	35,064	48,333	45,546	90,415	80,610
Total Revenues	1,311,542	1,302,713	653,156	706,518	1,964,698	2,009,231
EXPENSES:						
General Government	377,677	390,621	-	-	377,677	390,621
Public Safety	188,541	197,376	-	-	188,541	197,376
Public Works	699,471	302,583	-	-	699,471	302,583
Culture and Recreation	51,950	69,767	-	-	51,950	69,767
Economic Development	6,741	5,639	-	-	6,741	5,639
Interest on Long-Term Debt	132,024	157,554	-	-	132,024	157,554
Water	-	-	470,727	158,900	470,727	158,900
Sewer	-	-	553,903	508,141	553,903	508,141
Total Expenses	1,456,404	1,123,540	1,024,630	667,041	2,481,034	1,790,581
Increase in Net Position Before Transfers	(144,862)	179,173	(371,474)	39,477	(516,336)	218,650
Transfers	(5,632)	(5,191)	5,632	5,191	-	-
Increase in Net Position	(150,494)	173,982	(365,842)	44,668	(516,336)	218,650
NET POSITION:						
Beginning of Year	3,857,828	3,683,846	10,383,287	10,338,619	14,241,115	14,022,465
End of Year	\$ 3,707,334	\$ 3,857,828	\$ 10,017,445	\$ 10,383,287	\$ 13,724,779	\$ 14,241,115

CITY OF ROCKVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

Expenses and Program Revenues - Governmental Activities



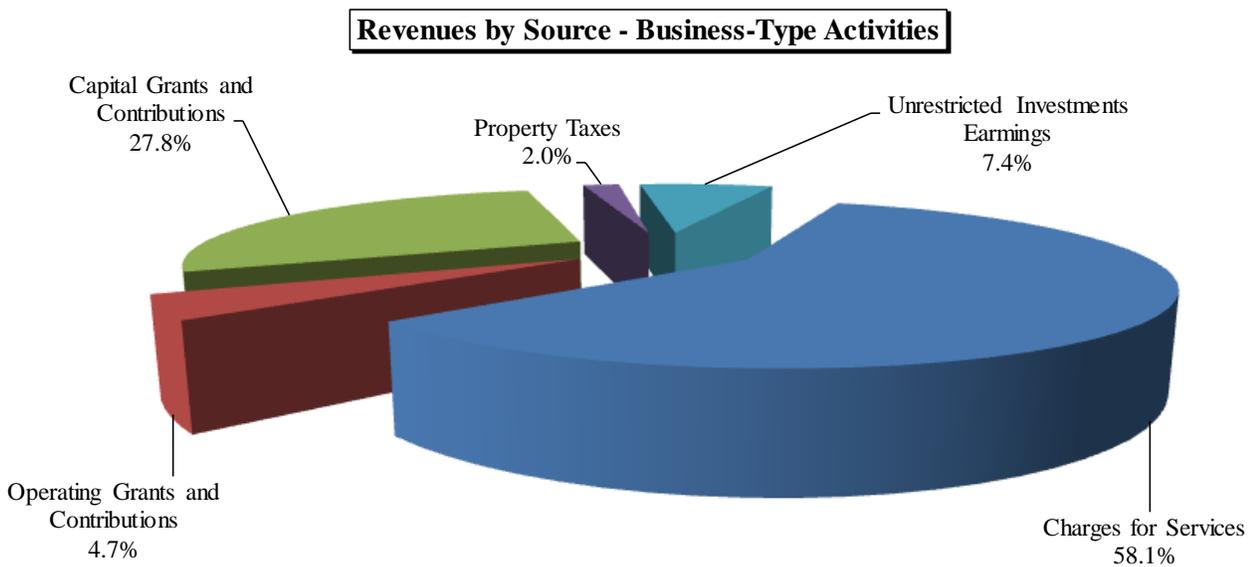
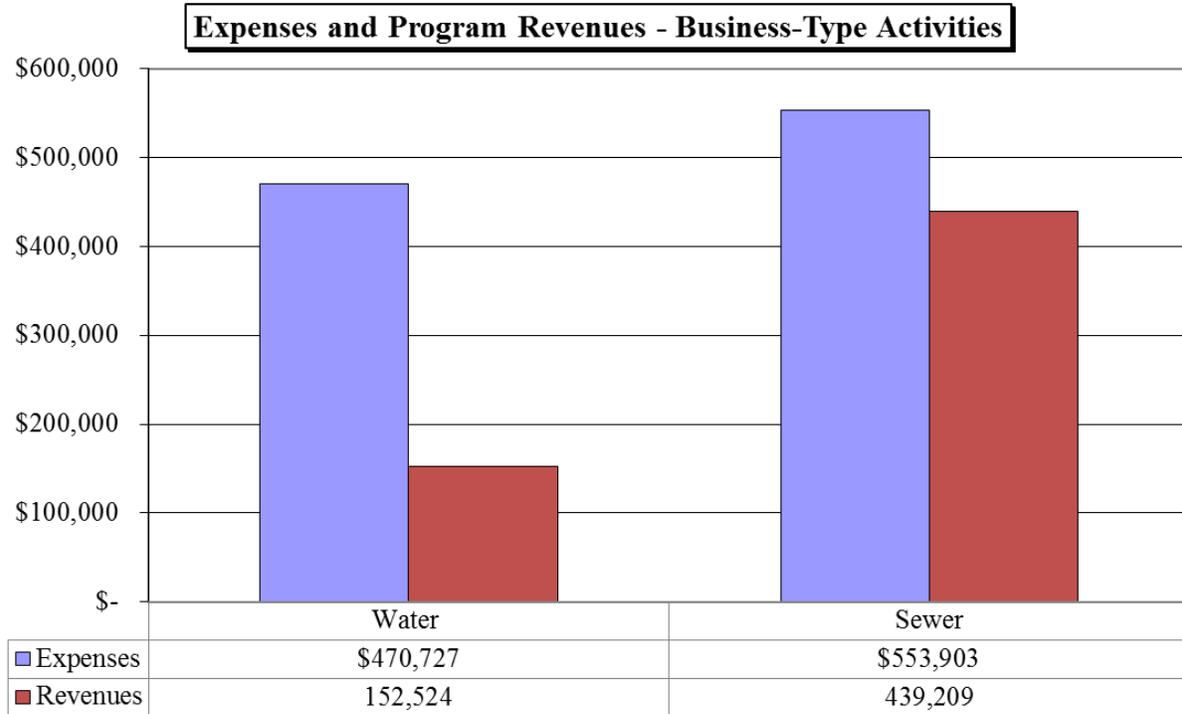
Revenues by Source - Governmental Activities



CITY OF ROCKVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

Business Type Activities

Business type activities decreased the City's net position by \$ 365,842. Key elements of this decrease are as follows:



CITY OF ROCKVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

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.

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 \$ 1,737,330, an increase of \$ 229,942 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 \$ 1,040,375. 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 82% of total General Fund expenditures, while total fund balance represents 150% of that same amount.

The fund balance of the City's General Fund increased by \$ 128,562 during the current year. The key factors for the increase was regulated spending.

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, \$ 634,242 and sewer, \$ 5,476,964. The proprietary funds decreased \$ 365,842 in total net position for the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City approved the 2012 General Fund budget anticipating revenues to balance expenditures. The City amended its budget to recognize additional unplanned obligations during the year and partially offset this with additional revenue streams.

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, 2012, amounts to \$ 15,509,450 (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. Most of the increase in the governmental activities is attributable to street construction. The decrease in 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
December 31, 2012

Long-Term Debt

At the end of the current year, the City had total bonded debt outstanding of \$ 10,059,461.

Outstanding Debt
(General Obligation and Revenue Bonds)

	Governmental Activities	Business-Type Activities	Total
G.O. Improvement Bonds	\$ 530,000	\$ -	\$ 530,000
Loan Payable	108,000	-	108,000
G.O. Revenue Bonds	-	1,453,152	1,453,152
Revenue Bonds	2,160,000	-	2,160,000
G.O. Notes Payable	90,800	5,717,509	5,808,309
Compensated Absences	30,619	-	30,619
Severance	10,554	-	10,554
	<u>\$ 2,929,973</u>	<u>\$ 7,170,661</u>	<u>\$ 10,100,634</u>
Total	<u>\$ 2,929,973</u>	<u>\$ 7,170,661</u>	<u>\$ 10,100,634</u>

The City's total debt payments of \$ 832,050 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 City is currently 5.4%, which is the same as the state average of 5.4%.
- The City continues to see new construction growth, not only in residential, but in re-construction of cabins into year round homes.
- Property tax reforms and budget deficits at the state level have significantly impacted government aid payments made to the City.
- The City is reviewing the 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 been reduced significantly over the past few years due to the dramatically lower interest rates.

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, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 1,731,306	\$ 2,392,689	\$ 4,123,995
Property Tax Receivable	15,123	257	15,380
Accounts Receivable	3,888	113,046	116,934
Interest Receivable	4,398	5,271	9,669
Due from Other Governments	18,478	21,776	40,254
Special Assessments Receivable:			
Delinquent	4,617	356,592	361,209
Deferred	461,830	3,262,008	3,723,838
Deferred Charges	5,833	45,192	51,025
Capital Assets not being Depreciated:			
Land	456,118	98,295	554,413
Capital Assets being Depreciated:			
Buildings	2,620,874	-	2,620,874
Infrastructure	2,465,373	-	2,465,373
Sewer and Water Improvements	-	13,529,751	13,529,751
Machinery and Equipment	1,099,168	58,553	1,157,721
Less Accumulated Depreciation	(2,175,586)	(2,643,096)	(4,818,682)
Total Capital Assets, Net of Accumulated Depreciation	4,465,947	11,043,503	15,509,450
Total Assets	\$ 6,711,420	\$ 17,240,334	\$ 23,951,754
LIABILITIES AND NET POSITION			
Liabilities			
Accounts Payable	\$ 14,218	\$ 5,968	\$ 20,186
Salaries and Benefits Payable	2,669	657	3,326
Interest Payable	53,373	45,603	98,976
Unearned Revenue	3,853	-	3,853
Bond Principal Payable (Net of Premium):			
Payable Within One Year	200,000	115,000	315,000
Payable After One Year	2,490,000	1,338,152	3,828,152
Notes Payable:			
Payable Within One Year	16,400	481,450	497,850
Payable After One Year	74,400	5,236,059	5,310,459
Loan Payable:			
Payable Within One Year	36,000	-	36,000
Payable After One Year	72,000	-	72,000
Compensated Absences Payable:			
Payable Within One Year	15,981	-	15,981
Payable After One Year	14,638	-	14,638
Severance Payable:			
Payable After One Year	10,554	-	10,554
Total Liabilities	3,004,086	7,222,889	10,226,975
Net Position			
Net Investment in Capital Assets	1,577,147	3,872,842	5,449,989
Restricted for:			
Debt Service	587,148	-	587,148
Wastewater Replacement	-	33,397	33,397
Unrestricted	1,543,039	6,111,206	7,654,245
Total Net Position	3,707,334	10,017,445	13,724,779
Total Liabilities and Net Position	\$ 6,711,420	\$ 17,240,334	\$ 23,951,754

CITY OF ROCKVILLE

**STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012**

Functions/Programs	Expenses	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
Governmental Activities							
General Government	\$ 377,677	\$ 42,753	\$ 15,127	\$ 17,015	\$ (302,782)	\$ -	\$ (302,782)
Public Safety	188,541	17,268	23,949	-	(147,324)	-	(147,324)
Public Works	699,471	56,938	2,393	61,274	(578,866)	-	(578,866)
Culture and Recreation	51,950	9,032	1,044	-	(41,874)	-	(41,874)
Economic Development	6,741	-	-	-	(6,741)	-	(6,741)
Interest on Long-Term Debt	132,024	-	-	-	(132,024)	-	(132,024)
Total Governmental Activities	<u>1,456,404</u>	<u>125,991</u>	<u>42,513</u>	<u>78,289</u>	<u>(1,209,611)</u>	<u>-</u>	<u>(1,209,611)</u>
Business-Type Activities							
Water	470,727	123,019	4,979	24,526	-	(318,203)	(318,203)
Sewer	553,903	256,703	25,390	157,116	-	(114,694)	(114,694)
Total Business-Type Activities	<u>1,024,630</u>	<u>379,722</u>	<u>30,369</u>	<u>181,642</u>	<u>-</u>	<u>(432,897)</u>	<u>(432,897)</u>
Total Governmental and Business-Type Activities	<u>\$ 2,481,034</u>	<u>\$ 505,713</u>	<u>\$ 72,882</u>	<u>\$ 259,931</u>	<u>(1,209,611)</u>	<u>(432,897)</u>	<u>(1,642,508)</u>
General Revenues							
Property Taxes					1,016,053	13,009	1,029,062
Unrestricted Grants and Aids					6,614	81	6,695
Unrestricted Investment Earnings					42,082	48,333	90,415
Transfers					(5,632)	5,632	-
Total General Revenues					<u>1,059,117</u>	<u>67,055</u>	<u>1,126,172</u>
Change in Net Position					<u>(150,494)</u>	<u>(365,842)</u>	<u>(516,336)</u>
Net Position - Beginning					<u>3,857,828</u>	<u>10,383,287</u>	<u>14,241,115</u>
Net Position - Ending					<u>\$ 3,707,334</u>	<u>\$ 10,017,445</u>	<u>\$ 13,724,779</u>

CITY OF ROCKVILLE

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2012

		<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>
ASSETS			
Cash and Investments	\$ 912,845	\$ 135,857	\$ 310,843
Taxes Receivable - Delinquent	9,846	1,766	2,996
Special Assessment Receivable:			
Delinquent	3,315	-	-
Deferred	-	56,450	-
Accounts Receivable	1,522	2,366	-
Interest Receivable	2,626	189	724
Due from Other Funds	133,625	-	-
Due from Other Governments	10,497	3,810	3,226
	<u>\$ 1,074,276</u>	<u>\$ 200,438</u>	<u>\$ 317,789</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 14,218	\$ -	\$ -
Salaries and Benefits Payable	2,669	-	-
Due to Other Funds	-	-	-
Deferred Revenue	17,014	58,216	2,996
Total Liabilities	<u>33,901</u>	<u>58,216</u>	<u>2,996</u>
Fund Balances			
Restricted	-	-	314,793
Assigned	473,484	142,222	-
Unassigned	566,891	-	-
Total Fund Balances	<u>1,040,375</u>	<u>142,222</u>	<u>314,793</u>
	<u>\$ 1,074,276</u>	<u>\$ 200,438</u>	<u>\$ 317,789</u>

<u>Debt Service</u>		
<u>G.O.</u>		
<u>Improvement</u>	<u>Other</u>	<u>Total</u>
<u>Bonds of 2004</u>	<u>Governmental</u>	<u>Governmental</u>
<u>(305)</u>	<u>Funds</u>	<u>Funds</u>
\$ -	\$ 371,761	\$ 1,731,306
56	459	15,123
-	1,302	4,617
276,248	129,132	461,830
-	-	3,888
-	859	4,398
-	-	133,625
48	897	18,478
<u>\$ 276,352</u>	<u>\$ 504,410</u>	<u>\$ 2,373,265</u>
\$ -	\$ -	\$ 14,218
-	-	2,669
133,625	-	133,625
276,304	130,893	485,423
<u>409,929</u>	<u>130,893</u>	<u>635,935</u>
-	95,370	410,163
-	278,147	893,853
(133,577)	-	433,314
<u>(133,577)</u>	<u>373,517</u>	<u>1,737,330</u>
<u>\$ 276,352</u>	<u>\$ 504,410</u>	<u>\$ 2,373,265</u>

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CITY OF ROCKVILLE

**RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS
December 31, 2012**

Total Fund Balances - Governmental Funds \$ 1,737,330

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	6,641,533
Less Accumulated Depreciation	(2,175,586)

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	(2,690,000)
Notes Payable	(90,800)
Loans Payable	(108,000)
Compensated Absences Payable	(30,619)
Severance Payable	(10,554)

Deferred charges for bond issuance costs.	5,833
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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	15,123
Special Assessments	4,617

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

Deferred Special Assessments	461,830
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Governmental funds do not report a liability for accrued interest until
due and payable.

(53,373)

Total Net Position - Governmental Activities	<u><u>\$ 3,707,334</u></u>
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CITY OF ROCKVILLE

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012**

		<u>Capital Project</u>	<u>Debt Service</u>
	General Fund (101,212,220)	Road Maintenance (215)	City Facilities (304)
REVENUES			
Property Taxes	\$ 667,398	\$ 149,514	\$ 199,597
Special Assessments	4,363	6,921	-
Licenses and Permits	23,374	-	-
Intergovernmental	33,419	940	1,245
Charges for Services	36,533	56,318	-
Fines and Forfeitures	10,003	-	-
Miscellaneous:			
Investment Income	26,238	1,679	6,431
Contributions and Donations	-	-	-
Other	23,092	-	-
Total Revenues	<u>824,420</u>	<u>215,372</u>	<u>207,273</u>
EXPENDITURES			
Current			
General Government	290,226	-	-
Public Safety	133,638	-	-
Public Works	187,765	-	-
Culture and Recreation	32,434	-	-
Economic Development	-	-	-
Debt Service			
Principal	15,600	-	111,000
Interest and Other Charges	4,930	-	104,048
Capital Outlay			
General Government	1,170	-	-
Public Safety	13,596	-	-
Public Works	6,682	34,558	-
Culture and Recreation	5,803	-	-
Total Expenditures	<u>691,844</u>	<u>34,558</u>	<u>215,048</u>
Excess of Revenues Over (Under) Expenditures	132,576	180,814	(7,775)
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	-
Transfers Out	(4,014)	(5,632)	-
Total Other Financing Sources (Uses)	<u>(4,014)</u>	<u>(5,632)</u>	<u>-</u>
Net Change in Fund Balances	128,562	175,182	(7,775)
FUND BALANCES			
Beginning of Year	<u>911,813</u>	<u>(32,960)</u>	<u>322,568</u>
End of Year	<u>\$ 1,040,375</u>	<u>\$ 142,222</u>	<u>\$ 314,793</u>

The Notes to the Financial Statements are an integral part of this statement.

<u>Debt Service</u>		
G.O.		
Improvement Bonds of 2004 (305)	Other Governmental Funds	Total Governmental Funds
\$ 3,065	\$ 29,602	\$ 1,049,176
56,729	11,882	79,895
-	-	23,374
19	184	35,807
-	-	92,851
-	-	10,003
1	7,733	42,082
-	6,600	6,600
-	-	23,092
<u>59,814</u>	<u>56,001</u>	<u>1,362,880</u>
-	18,456	308,682
-	-	133,638
-	-	187,765
-	13,657	46,091
-	6,741	6,741
105,000	15,000	246,600
16,276	9,338	134,592
-	-	1,170
-	-	13,596
-	-	41,240
-	1,388	7,191
<u>121,276</u>	<u>64,580</u>	<u>1,127,306</u>
(61,462)	(8,579)	235,574
-	4,014	4,014
-	-	(9,646)
-	4,014	(5,632)
(61,462)	(4,565)	229,942
<u>(72,115)</u>	<u>378,082</u>	<u>1,507,388</u>
<u>\$ (133,577)</u>	<u>\$ 373,517</u>	<u>\$ 1,737,330</u>

CITY OF ROCKVILLE

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO
THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012**

Total Net Change in Fund Balances - Governmental Funds \$ 229,942

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	45,753
Depreciation Expense	(182,428)

Compensated absences are recognized as paid in the governmental funds but
recognized as the expense is incurred in the Statement of Activities. (3,536)

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. 246,600

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. 3,541

Governmental funds report the effects of issuance costs when debt is first issued,
whereas these amounts are deferred and amortized in the Statement of Activities. (973)

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	(33,123)
Deferred and Delinquent Special Assessments	(456,270)

Change in Net Position - Governmental Activities \$ (150,494)

CITY OF ROCKVILLE

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Property Taxes	\$ 647,380	\$ 647,380	\$ 667,398	\$ 20,018
Special Assessments	3,712	7,669	4,363	(3,306)
Licenses and Permits	29,130	29,130	23,374	(5,756)
Intergovernmental	60	14,287	33,419	19,132
Charges for Services	32,758	34,121	36,533	2,412
Fines and Forfeitures	10,000	10,000	10,003	3
Miscellaneous Revenues:				
Investment Income	26,725	26,725	26,238	(487)
Other	4,940	36,304	23,092	(13,212)
Total Revenues	<u>754,705</u>	<u>805,616</u>	<u>824,420</u>	<u>18,804</u>
EXPENDITURES				
Current				
General Government	334,488	335,946	290,226	(45,720)
Public Safety	124,540	146,207	133,638	(12,569)
Public Works	193,066	219,183	187,765	(31,418)
Culture and Recreation	29,953	29,953	32,434	2,481
Debt Service				
Principal	15,600	15,600	15,600	-
Interest and Other Charges	4,930	4,930	4,930	-
Capital Outlay				
General Government	2,000	2,000	1,170	(830)
Public Safety	23,635	30,360	13,596	(16,764)
Public Works	8,000	8,000	6,682	(1,318)
Culture and Recreation	9,700	10,700	5,803	(4,897)
Total Expenditures	<u>745,912</u>	<u>802,879</u>	<u>691,844</u>	<u>(111,035)</u>
Excess of Revenues Over Expenditures	8,793	2,737	132,576	129,839
OTHER FINANCING SOURCES (USES)				
Transfers Out	<u>-</u>	<u>(4,014)</u>	<u>(4,014)</u>	<u>-</u>
Net Change in Fund Balances	<u>\$ 8,793</u>	<u>\$ (1,277)</u>	128,562	<u>\$ 129,839</u>
FUND BALANCES				
Beginning of Year			<u>911,813</u>	
End of Year			<u>\$ 1,040,375</u>	

CITY OF ROCKVILLE

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
December 31, 2012

	Water (307,311,312, 601)	Sewer (301,302,309, 310,602)	Total
ASSETS			
Current Assets			
Cash and Investments	\$ 311,255	\$ 2,081,434	\$ 2,392,689
Taxes Receivable - Delinquent	-	257	257
Special Assessments Receivable:			
Delinquent	70,131	286,461	356,592
Deferred	195,566	3,066,442	3,262,008
Accounts Receivable	36,824	76,222	113,046
Interest Receivable	776	4,495	5,271
Due from Other Governments	-	21,776	21,776
Total Current Assets	614,552	5,537,087	6,151,639
Noncurrent Assets			
Deferred Charges	39,483	5,709	45,192
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	2,602,832	11,083,767	13,686,599
Less Accumulated Depreciation	(643,205)	(1,999,891)	(2,643,096)
Net Capital Assets	1,959,627	9,083,876	11,043,503
Total Assets	\$ 2,613,662	\$ 14,626,672	\$ 17,240,334
LIABILITIES AND NET POSITION			
Current Liabilities			
Accounts Payable	\$ 1,925	\$ 4,043	\$ 5,968
Salaries and Benefits Payable	272	385	657
Interest Payable	17,596	28,007	45,603
Long-Term Liabilities Due Within One Year	105,000	491,450	596,450
Total Current Liabilities	124,793	523,885	648,678
Noncurrent Liabilities			
Bonds Payable, Net of Unamortized Premiums	1,273,860	179,292	1,453,152
Notes Payable	-	5,717,509	5,717,509
Less Amount Due Within One Year	(105,000)	(491,450)	(596,450)
Total Noncurrent Liabilities	1,168,860	5,405,351	6,574,211
Total Liabilities	1,293,653	5,929,236	7,222,889
Net Position			
Net Investment in Capital Assets	685,767	3,187,075	3,872,842
Restricted	-	33,397	33,397
Unrestricted	634,242	5,476,964	6,111,206
Total Net Position	1,320,009	8,697,436	10,017,445
Total Liabilities and Net Position	\$ 2,613,662	\$ 14,626,672	\$ 17,240,334

The Notes to the Financial Statements are an integral part of this statement.

CITY OF ROCKVILLE

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION - PROPRIETARY FUNDS
For the Year Ended December 31, 2012**

	Water (307,311,312, 601)	Sewer (301,302,309, 310,602)	Total
OPERATING REVENUES			
Charges for Services	\$ 116,549	\$ 245,843	\$ 362,392
Permits, Hookup Fees and Penalties	6,470	4,090	10,560
Total Operating Revenues	123,019	249,933	372,952
OPERATING EXPENSES			
Wages and Salaries	16,375	13,317	29,692
Employee Benefits	2,939	2,398	5,337
Materials and Supplies	6,300	1,392	7,692
Repairs and Maintenance	5,651	10,282	15,933
Professional Services	2,761	59,693	62,454
Insurance	2,271	2,228	4,499
Utilities	12,588	9,490	22,078
Depreciation	58,505	282,402	340,907
Equipment	17,322	6,544	23,866
Miscellaneous	7,245	2,059	9,304
Total Operating Expenses	131,957	389,805	521,762
Operating Loss	(8,938)	(139,872)	(148,810)
NONOPERATING REVENUES (EXPENSES)			
Investment Income	7,193	41,140	48,333
Special Assessments	24,526	163,886	188,412
Special Assessment Forfeiture	(292,370)	(85,966)	(378,336)
Property Taxes	-	13,009	13,009
Market Value Credit	-	81	81
Refunds and Reimbursements	3,194	8,419	11,613
Amortization Expense	(1,476)	(213)	(1,689)
Interest Expense	(44,924)	(77,919)	(122,843)
Other Income	1,785	16,971	18,756
Total Nonoperating Revenues (Expenses)	(302,072)	79,408	(222,664)
Income before Capital Contributions and Transfers	(311,010)	(60,464)	(371,474)
Transfers In	5,632	-	5,632
Change in Net Position	(305,378)	(60,464)	(365,842)
NET POSITION			
Beginning of Year	1,625,387	8,757,900	10,383,287
End of Year	\$ 1,320,009	\$ 8,697,436	\$ 10,017,445

The Notes to the Financial Statements are an integral part of this statement.

CITY OF ROCKVILLE

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended December 31, 2012**

	Water (307,311,312, 601)	Sewer (301,302,309, 310,602)	Total
CASH FLOWS - OPERATING ACTIVITIES			
Receipts from Customers and Users	\$ 116,972	\$ 284,538	\$ 401,510
Payments to Suppliers	(54,033)	(95,458)	(149,491)
Payments to Employees	(19,241)	(15,721)	(34,962)
Miscellaneous Revenue	4,979	8,500	13,479
Net Cash Flows - Operating Activities	<u>48,677</u>	<u>181,859</u>	<u>230,536</u>
CASH FLOWS - NONCAPITAL FINANCING ACTIVITIES			
Transfer from Other Funds	<u>5,632</u>	<u>-</u>	<u>5,632</u>
CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal Paid on Debt	(101,000)	(467,478)	(568,478)
Interest Paid on Debt	(43,479)	(82,290)	(125,769)
Property Tax and Special Assessment Revenues Received	<u>1,833</u>	<u>482,705</u>	<u>484,538</u>
Net Cash Flows - Capital and Related Financing Activities	<u>(142,646)</u>	<u>(67,063)</u>	<u>(209,709)</u>
CASH FLOWS - INVESTING ACTIVITIES			
Interest and Dividends Received	<u>7,516</u>	<u>42,700</u>	<u>50,216</u>
Net Change in Cash and Cash Equivalents	<u>(80,821)</u>	<u>157,496</u>	<u>76,675</u>
CASH AND CASH EQUIVALENTS			
January 1	<u>392,076</u>	<u>1,923,938</u>	<u>2,316,014</u>
December 31	<u>\$ 311,255</u>	<u>\$ 2,081,434</u>	<u>\$ 2,392,689</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS - OPERATING ACTIVITIES			
Operating Loss	\$ (8,938)	\$ (139,872)	\$ (148,810)
Adjustments to Reconcile Operating Loss to Net Cash Flows - Operating Activities:			
Miscellaneous Revenue	4,979	8,500	13,479
Depreciation Expense	58,505	282,402	340,907
Accounts Receivable	(8,658)	(1,320)	(9,978)
Due from Other Governments	2,611	35,925	38,536
Accounts Payable	105	(3,770)	(3,665)
Salaries Payable	73	(6)	67
Total Adjustments	<u>57,615</u>	<u>321,731</u>	<u>379,346</u>
Net Cash Flows - Operating Activities	<u>\$ 48,677</u>	<u>\$ 181,859</u>	<u>\$ 230,536</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Debt Forgiveness	-	\$ 16,971	\$ 16,971
Special Assessment Forfeitures	(292,370)	(85,966)	(378,336)
Total Noncash Investing, Capital and Financing Activities	<u>\$ (292,370)</u>	<u>\$ (68,995)</u>	<u>\$ (361,365)</u>

CITY OF ROCKVILLE

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Rockville is a statutory city governed by an elected mayor and six 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. The fiduciary funds are only reported in the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position at the fund financial statement level. 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 THE FINANCIAL STATEMENTS December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 THE FINANCIAL STATEMENTS December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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 THE FINANCIAL STATEMENTS December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities 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.

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, 2012 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.

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.

CITY OF ROCKVILLE

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D.Assets, Liabilities and Net Position or Equity (Continued)

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 reported using the consumption method and recorded as expenditures/expenses 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.

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.

CITY OF ROCKVILLE

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D.Assets, Liabilities and Net Position or Equity (Continued)

4. Capital Assets (Continued)

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>
0-2	16	128
3-5	21	168
6-9	26	208
10+	31	248

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.

CITY OF ROCKVILLE

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D.Assets, Liabilities and Net Position or Equity (Continued)

6. 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, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types 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.

7. 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.
- 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.

CITY OF ROCKVILLE

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D.Assets, Liabilities and Net Position or Equity (Continued)

7. Fund Equity (Continued)

a.Classification (Continued)

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.

8.Net Position

Net position represent the difference between assets and liabilities in the government-wide financial statements. Net position invested in capital assets, net of related debt 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 their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

9.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.

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.

CITY OF ROCKVILLE

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information (Continued)

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.

B.Excess of Expenditures Over Appropriations

For the year ended December 31, 2012, expenditures exceeded appropriations in the following Funds:

	<u>Appropriations</u>	<u>Expenditures</u>
G.O. Improvement Bonds of 2004 Debt Service Fund	\$ 121,177	\$ 121,276
City Facilities Debt Service Fund	214,650	215,048

C. Deficit Fund Balance

Major Governmental Funds:

G.O. Improvement Bonds of 2004	\$ 133,577
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CITY OF ROCKVILLE

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**

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, 2012 the City’s bank balance of \$ 1,048,645 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, 2012 was \$ 1,038,954 for deposits.

B. Investments

Investment Type	Fair Value	Investment Maturities			Ratings
		Less than One Year	1-5 Years	6-10 Years	
FHLMC Bond	\$ 255,785	\$ -	\$ -	\$ 255,785	AAA
FNMA Bond	149,658	-	-	149,658	AAA
Brokered Certificates of Deposit	2,670,939	761,820	1,726,776	182,343	N/A
Money Market	7,737	7,737	-	-	N/A
4M Money Market	544	544	-	-	N/A
Total	\$ 3,084,663	\$ 770,101	\$ 1,726,776	\$ 587,786	

Concentration of Credit Risk: As of December 31, 2012, the City had more than 5% of their total investments in Federal Home Loan Mortgage Corporation Bonds (8.3%), Discover Bank Greenwood DE (5.5%) Compass Bank (5.3%), State Bank of India IL (6.0%), World Financial Network Bank Wilmington D.C. (6.4%), Goldman Sachs Bank USA (5.0%) and World Financial Capital UT (5.9%) certificates of deposit

Summary of cash deposits and investments as of December 31, 2012 were as follows:

Deposits (Note 3.A.)	\$ 1,038,954
Investments (Note 3.B.)	3,084,663
Petty Cash	<u>378</u>
Total Deposits and Investments	<u>\$ 4,123,995</u>

CITY OF ROCKVILLE

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments (Continued)

Deposits and investments are presented in the December 31, 2012 basic financial statements as follows:

Statement of Net Position: \$ 4,123,995

NOTE 4 – INTERFUND ASSETS/LIABILITIES

At December 31, 2012, due from/to other funds for the City were as follows:

Fund Type and Fund	Due from General Fund
G.O. Improvements Bonds of 2004	<u>\$ 133,625</u>

The amount due to the General Fund represents an accrual to absorb a temporary negative cash balance.

NOTE 5 – INTERFUND TRANSFERS

Transfers during the year ended December 31, 2012 were as follows:

	Transfers In		
	Other Governmental Funds	Water	Total
Transfers Out:			
General Fund	\$ 4,014	\$ -	\$ 4,014
Road Maintenance Fund	-	5,632	5,632
Total Transfers Out	<u>\$ 4,014</u>	<u>\$ 5,632</u>	<u>\$ 9,646</u>

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

CITY OF ROCKVILLE

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 456,118	\$ -	\$ -	\$ 456,118
Construction in progress	<u>225,016</u>	<u>32,853</u>	<u>(257,869)</u>	<u>-</u>
Total Capital Assets not being Depreciated	<u>681,134</u>	<u>32,853</u>	<u>(257,869)</u>	<u>456,118</u>
Capital Assets being Depreciated:				
Buildings	2,620,874	-	-	2,620,874
Infrastructure	2,207,504	257,869	-	2,465,373
Machinery and Equipment	<u>1,101,707</u>	<u>12,900</u>	<u>(15,439)</u>	<u>1,099,168</u>
Total Capital Assets being Depreciated	<u>5,930,085</u>	<u>270,769</u>	<u>(15,439)</u>	<u>6,185,415</u>
Less Accumulated Depreciation for:				
Buildings	(340,033)	(65,961)	-	(405,994)
Infrastructure	(1,176,012)	(56,524)	-	(1,232,536)
Machinery and Equipment	<u>(492,552)</u>	<u>(59,943)</u>	<u>15,439</u>	<u>(537,056)</u>
Total Accumulated Depreciation	<u>(2,008,597)</u>	<u>(182,428)</u>	<u>-</u>	<u>(2,175,586)</u>
Total Capital Assets being Depreciated, Net	<u>3,921,488</u>	<u>88,341</u>	<u>(15,439)</u>	<u>4,009,829</u>
Governmental Activities Capital Assets, Net	<u>\$ 4,602,622</u>	<u>\$ 121,194</u>	<u>\$ (273,308)</u>	<u>\$ 4,465,947</u>

CITY OF ROCKVILLE

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**

NOTE 6 – 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	58,553	-	-	58,553
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	(2,268,354)	(335,407)	-	(2,603,761)
Machinery and Equipment	(33,835)	(5,500)	-	(39,335)
Total Accumulated Depreciation	<u>(2,302,189)</u>	<u>(340,907)</u>	<u>-</u>	<u>(2,643,096)</u>
Business-Type Activities Capital Assets, Net	<u>\$ 11,384,410</u>	<u>\$ (340,907)</u>	<u>\$ -</u>	<u>\$ 11,043,503</u>

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

Governmental Activities:	
General Government	\$ 65,978
Public Safety	41,307
Public Works	63,575
Parks and Recreation	<u>11,568</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 182,428</u>
Business-Type Activities:	
Water	\$ 58,505
Sewer	<u>282,402</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 340,907</u>

CITY OF ROCKVILLE

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**

NOTE 7 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within One Year</u>
Long-Term Liabilities:						
Governmental Activities:						
G.O. Improvement Bonds:						
G.O. Improvement Bonds, Series 2004A	06/01/04	2.20%-4.25%	\$ 990,000	02/01/15	\$ 330,000	\$ 105,000
G.O. Improvement Bonds, Series 2008A	09/01/08	0.00%-4.50%	230,000	02/01/19	200,000	15,000
Total G.O. Bonds					<u>530,000</u>	<u>120,000</u>
Revenue Bonds:						
Public Project Lease 2005A	07/27/05	3.00%-5.00%	2,565,000	02/01/27	2,160,000	80,000
Loan Payable	09/12/05	N/A	360,000	09/12/15	108,000	36,000
Equipment Certificate	11/01/06	5.00%	160,000	02/01/17	90,800	16,400
Compensated Absences					30,619	15,981
Severance					10,554	-
Total Governmental Activities					<u>2,929,973</u>	<u>268,381</u>
Business-Type Activities:						
G.O. Bonds:						
G.O. Utility Revenue Refunding Bonds, Series 2009A (Net of Premium)	08/01/09	2.00%-4.35%	1,650,000	02/01/28	1,435,000	115,000
Unamortized Premiums					18,152	-
Total G.O. Bonds					<u>1,453,152</u>	<u>115,000</u>
Notes Payable:						
G.O. Sewer Revenue Notes of 1996	12/19/95	N/A	1,209,000	08/20/17	280,509	60,450
G.O. Sewer Revenue Notes of 2004	04/22/04	1.34%	9,235,403	08/20/24	5,437,000	421,000
Total Notes Payable					<u>5,717,509</u>	<u>481,450</u>
Total Business Activities					<u>7,170,661</u>	<u>596,450</u>
Total all Long-Term Liabilities					<u>\$ 10,100,634</u>	<u>\$ 864,831</u>

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

CITY OF ROCKVILLE

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 7 – LONG-TERM DEBT

B. Minimum Debt Payments

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

Year Ending December 31,	G.O. Bonds		Revenue Bond	
	Principal	Interest	Principal	Interest
2013	\$ 120,000	\$ 20,244	\$ 80,000	\$ 99,250
2014	125,000	15,158	80,000	96,050
2015	130,000	9,756	85,000	92,644
2016	15,000	6,638	90,000	88,925
2017	100,000	4,050	130,000	84,250
2018-2022	40,000	1,800	745,000	327,731
2023-2027	-	-	950,000	123,750
Total	\$ 530,000	\$ 57,646	\$ 2,160,000	\$ 912,600

Year Ending December 31,	Equipment Certificate		Loan Payable	Governmental Activities
	Principal	Interest	Principal	Total
2013	\$ 16,400	\$ 4,130	\$ 36,000	\$ 376,024
2014	17,300	3,288	36,000	372,796
2015	18,100	2,402	36,000	373,902
2016	19,000	1,475	-	221,038
2017	20,000	500	-	338,800
2018-2022	-	-	-	1,114,531
2023-2027	-	-	-	1,073,750
Total	\$ 90,800	\$ 11,795	\$ 108,000	\$ 3,870,841

CITY OF ROCKVILLE

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**

NOTE 7 – LONG-TERM DEBT

B. Minimum Debt Payments (Continued)

Year Ending December 31,	G.O. Revenue Bond		G.O. Note Payable		Business-Type Activities
	Principal	Interest	Principal	Interest	Total
2013	\$ 115,000	\$ 45,103	\$ 481,450	\$ 72,856	\$ 714,409
2014	110,000	42,303	486,450	33,607	672,360
2015	115,000	39,215	492,450	61,506	708,171
2016	600,000	28,777	498,450	55,717	1,182,944
2017	35,000	19,174	482,709	49,848	586,731
2018-2022	190,000	76,170	2,309,000	158,442	2,733,612
2023-2027	225,000	33,634	967,000	19,483	1,245,117
2028	45,000	978	-	-	45,978
Total	<u>\$ 1,435,000</u>	<u>\$ 285,354</u>	<u>\$ 5,717,509</u>	<u>\$ 451,459</u>	<u>\$ 7,889,322</u>

C.Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental Activities:				
Bonds Payable:				
G.O. Improvement Bonds	\$ 650,000	\$ -	\$ 120,000	\$ 530,000
Revenue Bonds	2,235,000	-	75,000	2,160,000
Equipment Certificate	106,400	-	15,600	90,800
Loan Payable	144,000	-	36,000	108,000
Compensated Absences	27,083	18,454	14,918	30,619
Severance	10,554	-	-	10,554
Total Governmental Activities	<u>\$ 3,173,037</u>	<u>\$ 18,454</u>	<u>\$ 261,518</u>	<u>\$ 2,929,973</u>
Business-Type Activities:				
Bonds Payable:				
G.O. Bonds	\$ 1,545,000	\$ -	\$ 110,000	\$ 1,435,000
Unammortized Premiums	19,287	-	1,135	18,152
Notes Payable	6,192,958	-	475,449	5,717,509
Total Business-Type Activities	<u>\$ 7,757,245</u>	<u>\$ -</u>	<u>\$ 586,584</u>	<u>\$ 7,170,661</u>

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

CITY OF ROCKVILLE

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**

NOTE 7 – LONG-TERM DEBT

D. Revenues Pledged

Future revenues pledged for the payment of long-term debt is as follows:

Bond Issue	Use of Proceeds	Type	Revenue Pledged		Remaining Principal and Interest	Current Year	
			Percent of Total Debt Service	Taxes Payable Term of Pledge		Principal and Interest Paid	Pledged Revenue Received
2005A Public Project Lease Revenue Bond	City Hall and Fire Hall Construction	Property Taxes	100%	2005-2027	\$ 3,072,600	\$ 215,048	\$ 199,597

NOTE 8 – 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	G.O. Improvement Bonds of 2004	Nonmajor Governmental Fund	Total
Restricted:						
Debt Service	\$ -	\$ -	\$ 314,793	\$ -	\$ 49,363	\$ 364,156
Park Dedication	-	-	-	-	46,007	46,007
Assigned:						
Economic Development	-	-	-	-	257,006	257,006
Annual Event	-	-	-	-	27	27
Rocori Trail	-	-	-	-	31	31
Lake Improvement District	-	-	-	-	21,083	21,083
Road Maintenance	-	142,222	-	-	-	142,222
General Government	212,856	-	-	-	-	212,856
Fire	34,850	-	-	-	-	34,850
Civil Defense	30,962	-	-	-	-	30,962
Street Maintenance	159,006	-	-	-	-	159,006
Park and Recreation	24,416	-	-	-	-	24,416
Ball Program	1,500	-	-	-	-	1,500
Eagle Park	9,894	-	-	-	-	9,894
Unassigned	566,891	-	-	(133,577)	-	433,314
Total	<u>\$ 1,040,375</u>	<u>\$ 142,222</u>	<u>\$ 314,793</u>	<u>\$ (133,577)</u>	<u>\$ 373,517</u>	<u>\$ 1,737,330</u>

NOTE 9 – 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 THE FINANCIAL STATEMENTS December 31, 2012

NOTE 9 – RISK MANAGEMENT

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 2012 was estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2012, 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 10 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association

A. Plan Description

All full-time and certain part-time employees of the City are covered by defined benefit plans administered by the Public Employees' Retirement Association of Minnesota (PERA). PERA administers the General Employees' Retirement Fund (GERF) and the Public Employees' Police and Fire Fund (PEPFF), which are cost-sharing, multiple-employer retirement plans. These Plans are established and administered in accordance with *Minnesota Statutes* Chapters 353 and 356.

GERF members belong to either the Coordinated or Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters and peace officers who qualify for membership are covered by the PEPFF.

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

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of 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 10 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 10 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 PEPFF members, the annuity accrual rate is 3.0% for each year of service. For all GERF and PEPFF members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated Plan members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

CITY OF ROCKVILLE

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 10 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree – no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the Fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active Plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERP and PEPFF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive, #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or (800) 652-9026.

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the State Legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2012. PEPFF members were required to contribute 9.6% of their annual covered salary in 2012. In 2012, the City was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.25% for Coordinated Plan members and 14.4% for PEPFF members. The City's contributions to the Public Employees' Retirement Fund for the years ending December 31, 2012, 2011 and 2010 were \$ 13,172, \$ 13,211 and \$ 12,603, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 11 – SUBSEQUENT EVENTS

The City has evaluated subsequent events through May 7, 2013, the date which the financial statements were available to be issued.

NOTE 12 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended December 31, 2012, the City implemented GASB Statement No. 63. This action resulted in the establishment of categories outside of assets and liabilities titled deferred outflows and deferred inflows. The Statement also retitled Net Assets as Net Position.

CITY OF ROCKVILLE

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012

NOTE 13 – GASB STATEMENTS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Statement establishes standards of financial reporting for deferred outflows and deferred inflows as established by GASB Statement No. 63. This statement will also eliminate the recognition of deferred charges associated with bond issuances.

GASB Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits.

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SUPPLEMENTARY INFORMATION

CITY OF ROCKVILLE

**COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS**

December 31, 2012

	Special Revenue		
	Public Land Dedication (202)	Economic Development Authority (209)	Annual Event (408)
ASSETS			
Cash and Investments	\$ 46,007	\$ 256,189	\$ 27
Taxes Receivable - Delinquent	-	23	13
Special Assessment Receivable:			
Delinquent	-	-	-
Deferred	-	-	-
Interest Receivable	-	801	-
Due from Other Governments	-	16	-
	<u>\$ 46,007</u>	<u>\$ 257,029</u>	<u>\$ 40</u>
Total Assets	<u>\$ 46,007</u>	<u>\$ 257,029</u>	<u>\$ 40</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Deferred Revenue	\$ -	\$ 23	\$ 13
Fund Balances			
Restricted	46,007	-	-
Assigned	-	257,006	27
Total Fund Balances	<u>46,007</u>	<u>257,006</u>	<u>27</u>
Total Liabilities and Fund Balances	<u>\$ 46,007</u>	<u>\$ 257,029</u>	<u>\$ 40</u>

<u>Special Revenue</u>			<u>Debt Service</u>	
<u>Rocori Trail (205)</u>	<u>Lake Improvement District (221)</u>	<u>Total</u>	<u>2008A G.O. Improvement Bonds (308)</u>	<u>Total Governmental Funds</u>
\$ 28	\$ 20,875	\$ 323,126	\$ 48,635	\$ 371,761
-	215	251	208	459
-	-	-	1,302	1,302
-	-	-	129,132	129,132
3	-	804	55	859
-	208	224	673	897
<u>\$ 31</u>	<u>\$ 21,298</u>	<u>\$ 324,405</u>	<u>\$ 180,005</u>	<u>\$ 504,410</u>
<u>\$ -</u>	<u>\$ 215</u>	<u>\$ 251</u>	<u>\$ 130,642</u>	<u>\$ 130,893</u>
-	-	46,007	49,363	95,370
31	21,083	278,147	-	278,147
<u>31</u>	<u>21,083</u>	<u>324,154</u>	<u>49,363</u>	<u>373,517</u>
<u>\$ 31</u>	<u>\$ 21,298</u>	<u>\$ 324,405</u>	<u>\$ 180,005</u>	<u>\$ 504,410</u>

CITY OF ROCKVILLE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012**

	Special Revenue			
	Public Land Dedication (202)	Economic Development Authority (209)	Annual Event (408)	Rocori Trail (205)
REVENUES				
Property Taxes	\$ -	\$ 1,027	\$ 22	\$ -
Special Assessments	-	-	-	-
Intergovernmental	-	6	-	-
Miscellaneous:				
Investment Income	241	7,116	-	(242)
Contributions and Donations	-	-	-	-
Total Revenues	<u>241</u>	<u>8,149</u>	<u>22</u>	<u>(242)</u>
EXPENDITURES				
Current				
General Government	-	-	-	-
Culture and Recreation	7,272	-	269	6,116
Economic Development	-	6,741	-	-
Debt Service				
Principal	-	-	-	-
Interest and Other Charges	-	-	-	-
Capital Outlay				
Culture and Recreation	1,388	-	-	-
Total Expenditures	<u>8,660</u>	<u>6,741</u>	<u>269</u>	<u>6,116</u>
Excess of Revenues Over (Under) Expenditures	(8,419)	1,408	(247)	(6,358)
OTHER FINANCING SOURCES				
Transfers In	-	-	-	-
Net Change in Fund Balances	(8,419)	1,408	(247)	(6,358)
FUND BALANCES				
Beginning of Year	<u>54,426</u>	<u>255,598</u>	<u>274</u>	<u>6,389</u>
End of Year	<u>\$ 46,007</u>	<u>\$ 257,006</u>	<u>\$ 27</u>	<u>\$ 31</u>

<u>Special Revenue</u>		<u>Debt Service</u>	
<u>Lake Improvement District (221)</u>	<u>Total</u>	<u>2008A G.O. Improvement Bonds (308)</u>	<u>Total Other Governmental Funds</u>
\$ 14,371	\$ 15,420	\$ 14,182	\$ 29,602
-	-	11,882	11,882
90	96	88	184
65	7,180	553	7,733
6,600	6,600	-	6,600
<u>21,126</u>	<u>29,296</u>	<u>26,705</u>	<u>56,001</u>
18,456	18,456	-	18,456
-	13,657	-	13,657
-	6,741	-	6,741
-	-	15,000	15,000
-	-	9,338	9,338
-	1,388	-	1,388
<u>18,456</u>	<u>40,242</u>	<u>24,338</u>	<u>64,580</u>
2,670	(10,946)	2,367	(8,579)
<u>4,014</u>	<u>4,014</u>	<u>-</u>	<u>4,014</u>
6,684	(6,932)	2,367	(4,565)
<u>14,399</u>	<u>331,086</u>	<u>46,996</u>	<u>378,082</u>
<u>\$ 21,083</u>	<u>\$ 324,154</u>	<u>\$ 49,363</u>	<u>\$ 373,517</u>

CITY OF ROCKVILLE

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2012**

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget -</u>
REVENUES				
Property Taxes	\$ 647,380	\$ 647,380	\$ 667,398	\$ 20,018
Special Assessments	3,712	7,669	4,363	(3,306)
Licenses and Permits	29,130	29,130	23,374	(5,756)
Intergovernmental Revenue:				
Market Value Credit	-	2,049	4,166	2,117
PERA Aid	60	60	60	-
Fire Aid	-	11,178	11,178	-
Federal Grants	-	-	17,015	17,015
Other Grants and Aids	-	1,000	1,000	-
Total Intergovernmental Revenue	<u>60</u>	<u>14,287</u>	<u>33,419</u>	<u>19,132</u>
Charges for Services:				
General Government	5,008	5,008	6,986	1,978
Public Safety	18,000	18,000	19,268	1,268
Public Works	-	595	595	-
Culture and Recreation	9,750	9,750	8,916	(834)
Economic Development	-	768	768	-
Total Charges for Services	<u>32,758</u>	<u>34,121</u>	<u>36,533</u>	<u>2,412</u>
Fines and Forfeitures	10,000	10,000	10,003	3
Miscellaneous Revenues:				
Investment Income	26,725	26,725	26,238	(487)
Other	4,940	36,304	23,092	(13,212)
Total Miscellaneous Revenues	<u>31,665</u>	<u>63,029</u>	<u>49,330</u>	<u>(13,699)</u>
Total Revenues	<u>754,705</u>	<u>805,616</u>	<u>824,420</u>	<u>18,804</u>
EXPENDITURES				
General Government				
Mayor and Council	27,226	27,226	20,422	(6,804)
Administrative and Finance	132,682	132,682	115,012	(17,670)
Other General Government	174,580	176,038	154,792	(21,246)
Capital Outlay	2,000	2,000	1,170	(830)
Total General Government	<u>336,488</u>	<u>337,946</u>	<u>291,396</u>	<u>(46,550)</u>
Public Safety				
Police:				
Current	20,520	20,520	19,710	(810)
Fire:				
Current	99,635	121,302	112,834	(8,468)
Capital Outlay	19,835	25,752	13,551	(12,201)
Total Fire	<u>119,470</u>	<u>147,054</u>	<u>126,385</u>	<u>(20,669)</u>

CITY OF ROCKVILLE

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
EXPENDITURES				
Public Safety: (Continued)				
Other:				
Current	\$ 4,385	\$ 4,385	\$ 1,094	\$ (3,291)
Capital Outlay	3,800	4,608	45	(4,563)
Total Other	8,185	8,993	1,139	(7,854)
Total Public Safety	148,175	176,567	147,234	(29,333)
Public Works				
Streets and Highways:				
Street Maintenance and Storm Sewers	145,011	171,128	152,006	(19,122)
Snow and Ice Removal	35,905	35,905	23,081	(12,824)
Street Lighting	12,150	12,150	12,678	528
Street - Other Capital Outlay	8,000	8,000	6,682	(1,318)
Total Streets and Highways	201,066	227,183	194,447	(32,736)
Culture and Recreation				
Current Expenditures	29,953	29,953	32,434	2,481
Capital Outlay	9,700	10,700	5,803	(4,897)
Total Culture and Recreation	39,653	40,653	38,237	(2,416)
Debt Service				
Principal	15,600	15,600	15,600	-
Interest and Other Charges	4,930	4,930	4,930	-
Total Debt Service	20,530	20,530	20,530	-
Total Expenditures	745,912	802,879	691,844	(111,035)
Excess of Revenues Over (Under) Expenditures	8,793	2,737	132,576	129,839
OTHER FINANCING SOURCES				
Transfers Out	-	(4,014)	(4,014)	-
Net Change in Fund Balances	\$ 8,793	\$ (1,277)	128,562	\$ 129,839
FUND BALANCES				
Beginning of Year			911,813	
End of Year			\$ 1,040,375	

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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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 7, 2013.

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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses on Internal Controls to be material weaknesses, listed as Audit Findings 06-02 and 09-02.



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 to be a significant deficiency, listed as Audit Finding 10-01.

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 compliance 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 result of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Kern, DeWenter, Viere, Ltd.".

KERN, DEWENTER, VIERE, LTD.

St. Cloud, Minnesota

May 7, 2013



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REPORT ON LEGAL COMPLIANCE

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, the financial statements of the governmental activities, the business-type activities and each major fund and the aggregate remaining fund information of City of Rockville, Minnesota as of and for the year ended December 31, 2012, and the related Notes to the Financial Statements, and have issued our report thereon dated May 7, 2013.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except 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 Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

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.

Kern, DeWenter, Viere, Ltd.
KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
May 7, 2013

CITY OF ROCKVILLE
SCHEDULE OF FINDINGS AND RESPONSES
ON INTERNAL CONTROL
December 31, 2012

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDINGS:

Material Weaknesses:

Audit Finding 06-02 – Preparation of Financial Statements

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

Audit Finding 09-02 – 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
- Accounts Payable
- Debt

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. Management has reduced the number of adjustments significantly this year.

CITY OF ROCKVILLE
SCHEDULE OF FINDINGS AND RESPONSES
ON INTERNAL CONTROL
December 31, 2012

CURRENT YEAR INTERNAL CONTROL FINDINGS:

Significant Deficiency:

Audit Finding 10-01 – Lack of Segregation of Accounting Duties

During the year ended December 31, 2012, 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 Utility Clerk collects receipts, brings deposits to the bank and makes the entries into the system.
- The Utility Clerk prepares the utility bills, records utility payments and can record adjustments into the utility billing system.
- The 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.

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:

Management will continue to review the investment and reconciliation statements on a monthly basis. Further, Management will be apprised of any need to fill the open position of Finance Director should the work load change and require replacement.