

**CITY OF ROCKVILLE
Stearns County, Minnesota**

AUDITED FINANCIAL STATEMENTS

For the Year Ended December 31, 2014

CITY OF ROCKVILLE

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CITY OF ROCKVILLE

**ELECTED OFFICIALS AND ADMINISTRATION
December 31, 2014**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Jeff Hagen	Mayor	December 31, 2016
Susan Palmer	Council Member	December 31, 2016
Don Simon	Council Member	December 31, 2016
Duane Willenbring	Council Member	December 31, 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, 2014, and the related Notes to the Financial Statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Rockville, Minnesota, as of December 31, 2014, 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.

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 Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2015 on our consideration of the City of Rockville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Rockville's internal control over financial reporting and compliance.

Kern, DeWenter, Viere, Ltd.
KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
May 11, 2015

CITY OF ROCKVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

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, 2014.

FINANCIAL HIGHLIGHTS

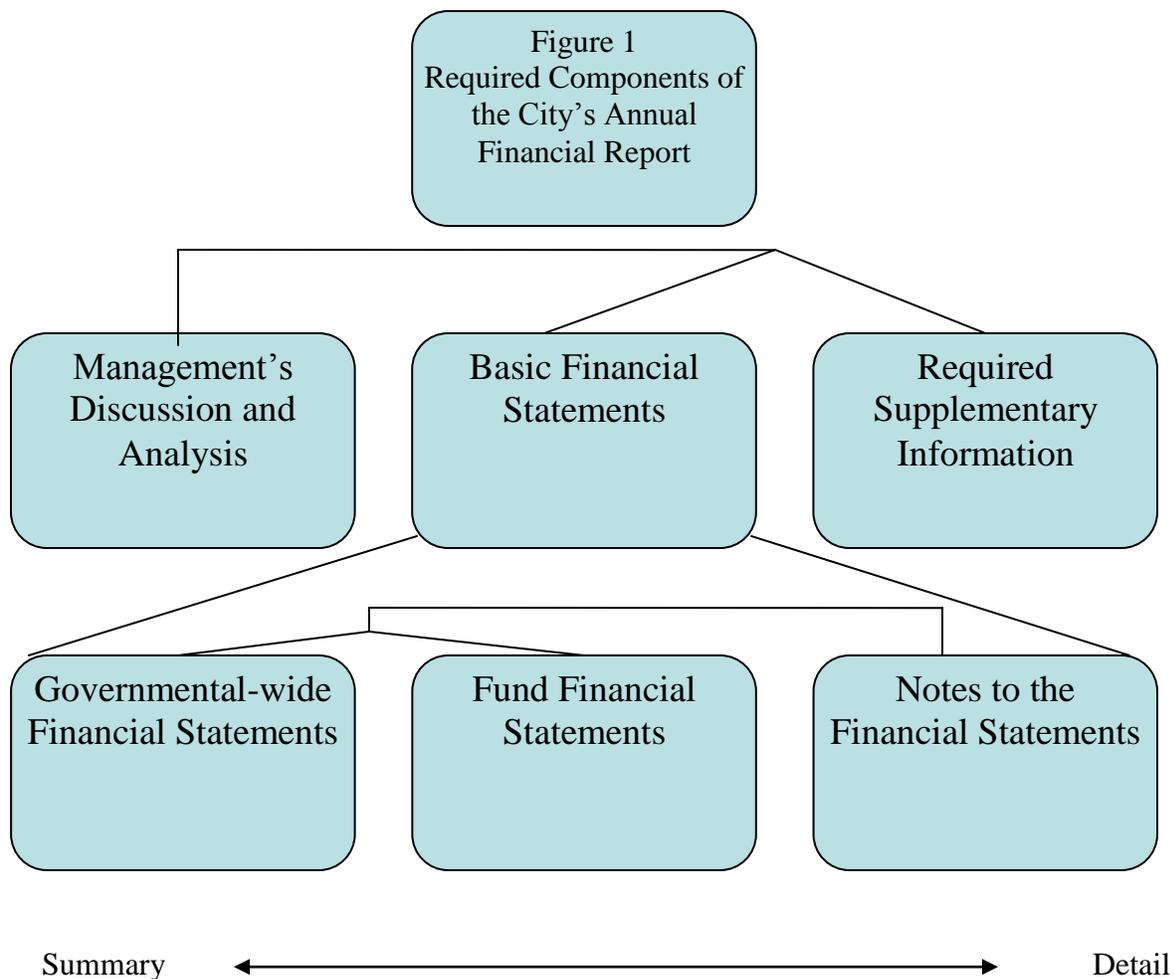
- ◆ The net position of the City exceeded its liabilities at the close of the most recent year by approximately \$ 15,000,017. Of this amount, \$ 6,991,878 may be used to meet government's ongoing obligations to citizens and creditors.
- ◆ The government's total net position increased by \$ 305,269 in 2014. This was attributable due to the city paying off its debt faster than capital assets are depreciating.
- ◆ As of the close of the current year, the City's governmental funds reported combined ending fund balances of \$ 4,026,716, an increase of \$ 2,216,587. 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 \$ 1,158,495, or 125% of total General Fund expenditures. While these funds are not legally reserved, \$ 443,703 is assigned for future purposes, leaving the unassigned fund balance of \$ 714,792, or 77% of current year expenditures, to be used in the event of a major catastrophe.
- ◆ The City's total long-term debt increased by \$ 1,656,932 during the current year because of a crossover refunding bond issued during 2014.

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, 2014

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, 2014

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, 2014

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, 2014

Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and government-wide activities.

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

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

The basic governmental fund financial statements can be found on pages 20-27 of this report.

Proprietary Funds

The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer utilities. Sewer rates for the downtown area have not been raised since the City consolidated in 2002. The Lakes Area Sewer rate has not changed since their inception in 2004 and this needs to be done as costly repairs are occurring.

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

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

Notes to the Financial Statements

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

CITY OF ROCKVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

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 \$ 15,000,017 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	
	2014	2013	2014	2013	2014	2013
Current and Other Assets	\$ 4,495,241	\$ 2,345,471	\$ 6,131,828	\$ 5,893,225	\$ 10,627,069	\$ 8,238,696
Capital Assets	7,158,495	7,024,914	13,686,599	13,686,599	20,845,094	20,711,513
Less Accumulated Depreciation	(2,388,507)	(2,217,267)	(2,984,002)	(2,643,467)	(5,372,509)	(4,860,734)
Total Assets	\$ 9,265,229	\$ 7,153,118	\$ 16,834,425	\$ 16,936,357	\$ 26,099,654	\$ 24,089,475
Long-Term Liabilities						
Outstanding	\$ 2,082,240	\$ 2,670,556	\$ 5,907,044	\$ 6,573,078	\$ 7,989,284	\$ 9,243,634
Other Liabilities	2,444,307	100,218	666,046	50,875	3,110,353	151,093
Total Liabilities	\$ 4,526,547	\$ 2,770,774	\$ 6,573,090	\$ 6,623,953	\$ 11,099,637	\$ 9,394,727
NET POSITION:						
Net Investment in						
Capital Assets	\$ 2,549,927	\$ 2,171,247	\$ 4,727,103	\$ 4,470,054	\$ 7,277,030	\$ 6,641,301
Restricted	171,696	491,692	559,413	35,902	731,109	527,594
Unrestricted	2,017,059	1,719,405	4,974,819	5,806,448	6,991,878	7,525,853
Total Net Position	\$ 4,738,682	\$ 4,382,344	\$ 10,261,335	\$ 10,312,404	\$ 15,000,017	\$ 14,694,748

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 (47%) may be used to meet the government's ongoing obligations to citizens and creditors. This is a decrease of \$ 533,975 from 2013.

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, 2014

Governmental Activities

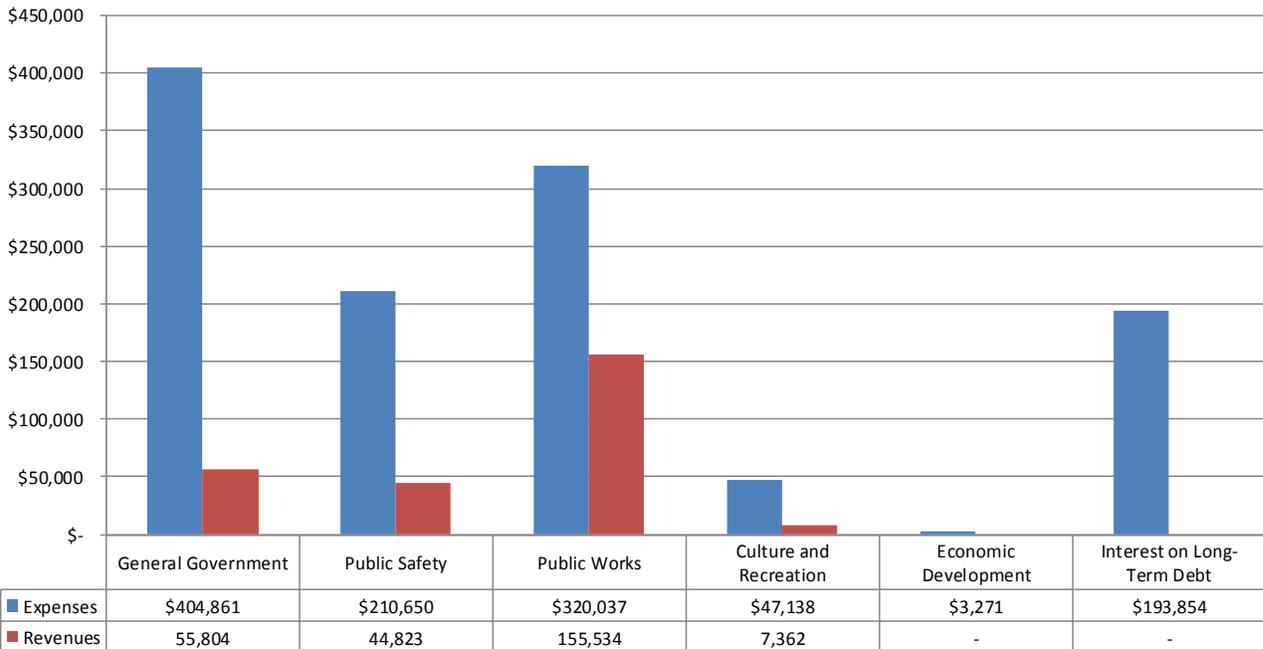
Governmental activities increased the City's net position by \$ 356,338. Key elements of this change are as follows:

Changes in Net Position

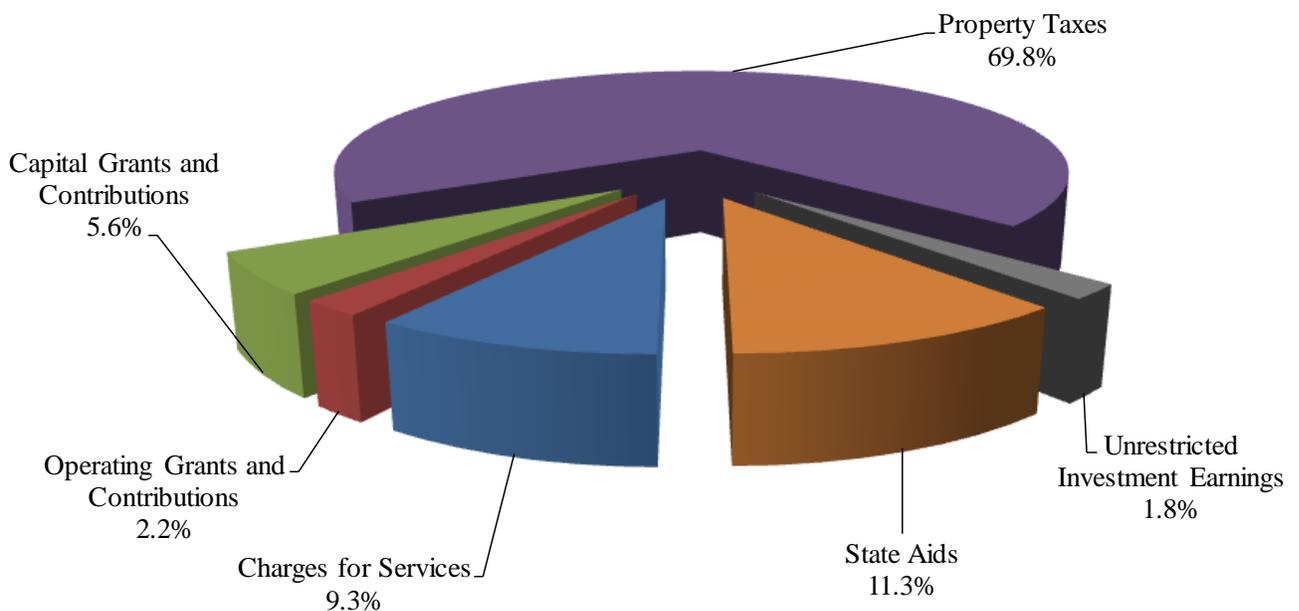
	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
REVENUES:						
Program Revenues:						
Charges for Service	\$ 143,816	\$ 139,454	\$ 390,793	\$ 378,728	\$ 534,609	\$ 518,182
Operating Grants and Contributions	33,442	120,502	21,530	33,583	54,972	154,085
Capital Grants and Contributions	86,265	174,163	194,659	186,808	280,924	360,971
General Revenues:						
Property Taxes	1,083,220	1,041,746	13,877	14,398	1,097,097	1,056,144
Other	174,900	116,973	87	90	174,987	117,063
Investment Income	31,062	(762)	36,186	(724)	67,248	(1,486)
Total Revenues	1,552,705	1,592,076	657,132	612,883	2,209,837	2,204,959
EXPENSES:						
General Government	404,861	388,312	-	-	404,861	388,312
Public Safety	210,650	197,263	-	-	210,650	197,263
Public Works	320,037	279,014	-	-	320,037	279,014
Culture and Recreation	47,138	65,812	-	-	47,138	65,812
Economic Development	3,271	-	-	-	3,271	-
Interest on Long-Term Debt	193,854	122,478	-	-	193,854	122,478
Water	-	-	213,185	156,396	213,185	156,396
Sewer	-	-	511,572	478,481	511,572	478,481
Total Expenses	1,179,811	1,052,879	724,757	634,877	1,904,568	1,687,756
Increase in Net Position						
Before Transfers	372,894	539,197	(67,625)	(21,994)	305,269	517,203
Transfers	(16,556)	(21,238)	16,556	21,238	-	-
Increase in Net Position	356,338	517,959	(51,069)	(756)	305,269	517,203
NET POSITION:						
Beginning of Year	4,382,344	3,707,334	10,312,404	10,017,445	14,694,748	13,724,779
Change in Accounting Principle	-	(5,833)	-	(45,192)	-	(51,025)
Change in Accounting Estimate	-	162,884	-	340,907	-	503,791
Beginning of Year, Restated	4,382,344	3,864,385	10,312,404	10,313,160	14,694,748	14,177,545
End of Year	\$ 4,738,682	\$ 4,382,344	\$ 10,261,335	\$ 10,312,404	\$ 15,000,017	\$ 14,694,748

CITY OF ROCKVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

Expenses and Program Revenues - Governmental Activities



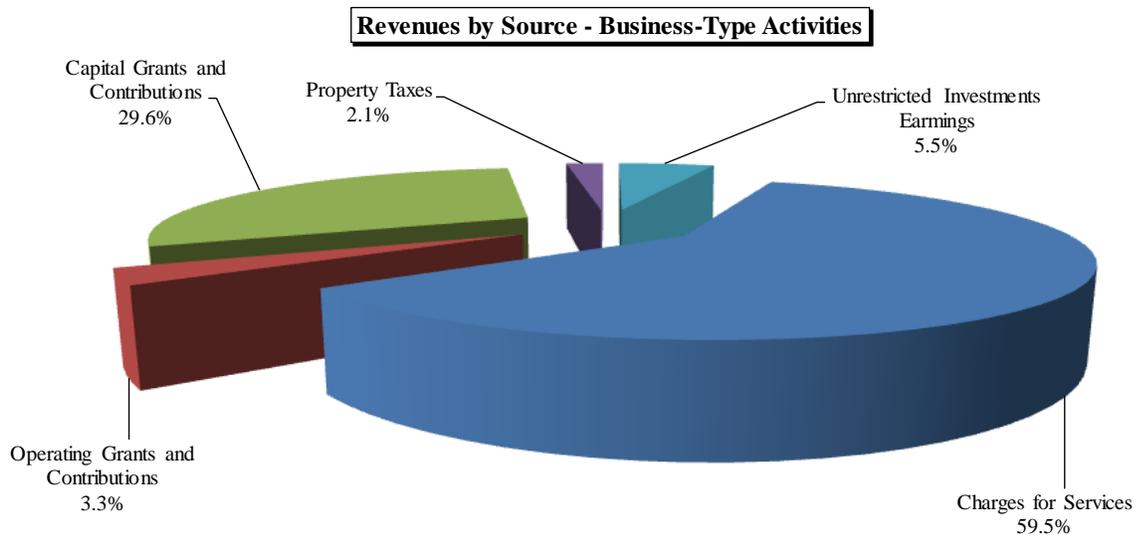
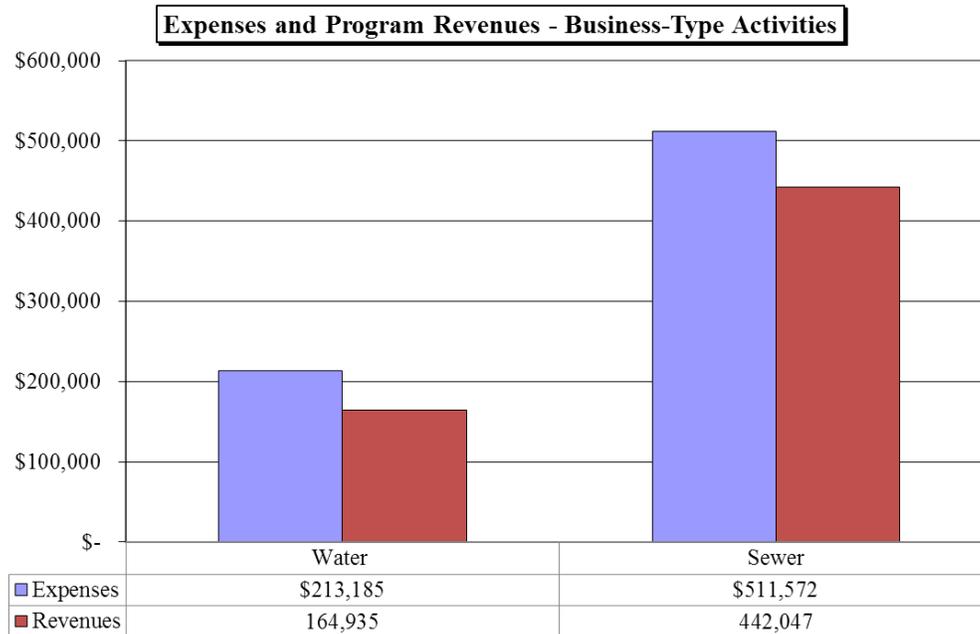
Revenues by Source - Governmental Activities



CITY OF ROCKVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

Business Type Activities

Business type activities decreased the City's net position by \$ 51,069. Key elements of this decrease are as follows:



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

CITY OF ROCKVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

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 \$ 4,026,716, an increase of \$ 2,216,587 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 \$ 1,158,495. 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 77% of total General Fund expenditures, while total fund balance represents 125% of that same amount.

The fund balance of the City's General Fund decreased by \$ 49,628 during the current year. The key factors for the decrease were the purchase of a snow plow, bobcat, and truck for Public Works. In addition there were major equipment repairs to fire trucks.

The Road Maintenance fund balance increased \$ 304,246 as a result of no improvement projects being done in 2014.

The City Facilities fund balance increased \$ 1,928,720 during the current year due to refinancing of the bond.

Proprietary Funds

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

The unrestricted net position in the respective proprietary funds are water, \$ 33,018 and sewer, \$ 4,941,801. The proprietary funds decreased \$ 51,069 in total net position for the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City approved the 2014 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, 2014, amounts to \$ 15,472,585 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, furniture and office equipment, infrastructure and construction in progress. The decrease in the governmental activities and business type activities occurred due depreciation of infrastructure. Additional information on capital assets can be found in Note 6 of this report.

CITY OF ROCKVILLE
MANAGEMENT’S DISCUSSION AND ANALYSIS
December 31, 2014

Long-Term Debt

At the end of the current year, the City had total bonded debt outstanding of \$ 10,866,410.

Outstanding Debt
(General Obligation and Revenue Bonds)

	Governmental Activities	Business-Type Activities	Total
G.O. Improvement Bonds	\$ 2,258,816	\$ -	\$ 2,258,816
Loan Payable	36,000	-	36,000
G.O. Revenue Bonds	-	1,764,884	1,764,884
Revenue Bonds	2,000,000	-	2,000,000
G.O. Notes Payable	57,100	4,749,610	4,806,710
Compensated Absences	35,414	-	35,414
Severance	12,605	-	12,605
 Total	 <u>\$ 4,399,935</u>	 <u>\$ 6,514,494</u>	 <u>\$ 10,914,429</u>

The City’s total debt payments of \$ 1,025,884 were made during the current year. The City established an “AA+” rating from Standard & Poor’s for G.O. debt.

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

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

- The unemployment rate for the Stearns County is currently 3.6%, which is slightly above the state average of 3.7%.
- The City continues to see new construction growth, not only in residential, but in re-construction of cabins into year round homes.
- Local government aid payments have increased for the past two years by \$ 65,525.
- 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 increased this year by \$ 68,734 due to the economy picking up and proper investments being made.

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

CITY OF ROCKVILLE
STATEMENT OF NET POSITION
December 31, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 1,956,078	\$ 2,226,707	\$ 4,182,785
Cash with Fiscal Agent	2,089,039	521,021	2,610,060
Property Tax Receivable	23,018	308	23,326
Accounts Receivable	5,471	119,889	125,360
Interest Receivable	3,520	4,214	7,734
Due from Other Governments	26,619	17,647	44,266
Special Assessments Receivable:			
Delinquent	4,320	638,045	642,365
Deferred	387,176	2,603,997	2,991,173
Capital Assets not being Depreciated:			
Land	456,118	98,295	554,413
Capital Assets being Depreciated:			
Buildings	2,620,874	-	2,620,874
Infrastructure	2,853,824	-	2,853,824
Sewer and Water Improvements	-	13,529,751	13,529,751
Machinery and Equipment	1,227,679	58,553	1,286,232
Less Accumulated Depreciation	(2,388,507)	(2,984,002)	(5,372,509)
Total Capital Assets, Net of Accumulated Depreciation	4,769,988	10,702,597	15,472,585
 Total Assets	 \$ 9,265,229	 \$ 16,834,425	 \$ 26,099,654
 LIABILITIES			
Accounts Payable	\$ 47,286	\$ 12,640	\$ 59,926
Salaries and Benefits Payable	6,725	949	7,674
Interest Payable	72,601	45,007	117,608
Bond Principal Payable (Net of Premium):			
Payable Within One Year	2,244,000	115,000	2,359,000
Payable After One Year	2,014,816	1,649,884	3,664,700
Notes Payable:			
Payable Within One Year	18,100	492,450	510,550
Payable After One Year	39,000	4,257,160	4,296,160
Loan Payable:			
Payable Within One Year	36,000	-	36,000
Compensated Absences Payable:			
Payable Within One Year	19,595	-	19,595
Payable After One Year	15,819	-	15,819
Severance Payable:			
Payable After One Year	12,605	-	12,605
Total Liabilities	4,526,547	6,573,090	11,099,637
 NET POSITION			
Net Investment in Capital Assets	2,549,927	4,727,103	7,277,030
Restricted for:			
Debt Service	171,696	521,021	692,717
Wastewater Replacement	-	38,392	38,392
Unrestricted	2,017,059	4,974,819	6,991,878
Total Net Position	4,738,682	10,261,335	15,000,017
 Total Liabilities and Net Position	 \$ 9,265,229	 \$ 16,834,425	 \$ 26,099,654

CITY OF ROCKVILLE

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2014

Functions/Programs	Program Revenues			Net (Expense) Revenues and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General Government	\$ 404,861	\$ 48,653	\$ 7,151	\$ -	\$ (349,057)	\$ -	\$ (349,057)
Public Safety	210,650	21,421	23,402	-	(165,827)	-	(165,827)
Public Works	320,037	67,461	1,808	86,265	(164,503)	-	(164,503)
Culture and Recreation	47,138	6,281	1,081	-	(39,776)	-	(39,776)
Economic Development	3,271	-	-	-	(3,271)	-	(3,271)
Interest on Long-Term Debt	193,854	-	-	-	(193,854)	-	(193,854)
Total Governmental Activities	<u>1,179,811</u>	<u>143,816</u>	<u>33,442</u>	<u>86,265</u>	<u>(916,288)</u>	<u>-</u>	<u>(916,288)</u>
Business-Type Activities							
Water	213,185	129,176	2,119	33,640	-	(48,250)	(48,250)
Sewer	511,572	261,617	19,411	161,019	-	(69,525)	(69,525)
Total Business-Type Activities	<u>724,757</u>	<u>390,793</u>	<u>21,530</u>	<u>194,659</u>	<u>-</u>	<u>(117,775)</u>	<u>(117,775)</u>
Total Governmental and Business-Type Activities	<u>\$ 1,904,568</u>	<u>\$ 534,609</u>	<u>\$ 54,972</u>	<u>\$ 280,924</u>	<u>(916,288)</u>	<u>(117,775)</u>	<u>(1,034,063)</u>
General Revenues							
Property Taxes					1,083,220	13,877	1,097,097
Unrestricted Grants and Aids					174,900	87	174,987
Unrestricted Investment Earnings					31,062	36,186	67,248
Transfers					(16,556)	16,556	-
Total General Revenues and Transfers					<u>1,272,626</u>	<u>66,706</u>	<u>1,339,332</u>
Change in Net Position					<u>356,338</u>	<u>(51,069)</u>	<u>305,269</u>
Net Position - Beginning					<u>4,382,344</u>	<u>10,312,404</u>	<u>14,694,748</u>
Net Position - Ending					<u>\$ 4,738,682</u>	<u>\$ 10,261,335</u>	<u>\$ 15,000,017</u>

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

CITY OF ROCKVILLE

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2014

		<u>Capital Project</u>	<u>Debt Service</u>
	General Fund (101,212,220)	Road Maintenance (215)	City Facilities (304)
ASSETS			
Cash and Investments	\$ 1,049,899	\$ 364,092	\$ 127,849
Cash with Fiscal Agent	-	-	2,089,039
Taxes Receivable - Delinquent	13,377	4,644	4,543
Special Assessment Receivable:			
Delinquent	2,882	-	-
Deferred	-	99,817	-
Accounts Receivable	5,471	-	-
Interest Receivable	2,100	151	579
Due from Other Funds	140,727	-	-
Due from Other Governments	14,309	5,735	5,626
	<u>1,228,765</u>	<u>474,439</u>	<u>2,227,636</u>
Total Assets	\$ 1,228,765	\$ 474,439	\$ 2,227,636
LIABILITIES			
Accounts Payable	\$ 47,286	\$ -	\$ -
Salaries and Benefits Payable	6,725	-	-
Due to Other Funds	-	-	-
Total Liabilities	<u>54,011</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	13,377	4,644	4,543
Unavailable Revenue - Special Assessments	2,882	99,817	-
Total Deferred Inflows of Resources	<u>16,259</u>	<u>104,461</u>	<u>4,543</u>
FUND BALANCES			
Restricted	-	-	2,223,093
Assigned	443,703	369,978	-
Unassigned	714,792	-	-
Total Fund Balances	<u>1,158,495</u>	<u>369,978</u>	<u>2,223,093</u>
	<u>\$ 1,228,765</u>	<u>\$ 474,439</u>	<u>\$ 2,227,636</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 1,228,765	\$ 474,439	\$ 2,227,636

Debt Service

G.O. Improvement Bonds of 2004 (305)	2008A G.O. Improvement Bonds (308)	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 57,473	\$ 356,765	\$ 1,956,078
-	-	-	2,089,039
67	310	77	23,018
-	1,438	-	4,320
177,247	110,112	-	387,176
-	-	-	5,471
-	44	646	3,520
-	-	-	140,727
69	771	109	26,619
<u>\$ 177,383</u>	<u>\$ 170,148</u>	<u>\$ 357,597</u>	<u>\$ 4,635,968</u>
\$ -	\$ -	\$ -	\$ 47,286
-	-	-	6,725
140,727	-	-	140,727
<u>140,727</u>	<u>-</u>	<u>-</u>	<u>194,738</u>
67	310	77	23,018
177,247	111,550	-	391,496
<u>177,314</u>	<u>111,860</u>	<u>77</u>	<u>414,514</u>
-	58,288	63,091	2,344,472
-	-	294,429	1,108,110
(140,658)	-	-	574,134
<u>(140,658)</u>	<u>58,288</u>	<u>357,520</u>	<u>4,026,716</u>
<u>\$ 177,383</u>	<u>\$ 170,148</u>	<u>\$ 357,597</u>	<u>\$ 4,635,968</u>

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CITY OF ROCKVILLE

**RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS
December 31, 2013**

Total Fund Balances - Governmental Funds \$ 4,026,716

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

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

Cost of Capital Assets	7,158,495
Less Accumulated Depreciation	(2,388,507)

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	(4,216,000)
Notes Payable	(57,100)
Loans Payable	(36,000)
Compensated Absences Payable	(35,414)
Severance Payable	(12,605)
Bond Premium	(42,816)

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	23,018
Special Assessments	4,320

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

Deferred Special Assessments	387,176
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Governmental funds do not report a liability for accrued interest until due and payable.

(72,601)

Total Net Position - Governmental Activities \$ 4,738,682

CITY OF ROCKVILLE

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014**

		Capital Project	Debt Service
	General Fund (101,212,220)	Road Maintenance (215)	City Facilities (304)
REVENUES			
Property Taxes	\$ 586,515	\$ 240,865	\$ 219,906
Miscellaneous Taxes	166	-	-
Special Assessments	-	13,201	-
Licenses and Permits	31,066	-	-
Intergovernmental	188,134	1,511	1,379
Charges for Services	36,232	64,658	-
Fines and Forfeitures	10,471	-	-
Miscellaneous:			
Investment Income	17,992	1,465	5,732
Other	17,298	-	-
Total Revenues	<u>887,874</u>	<u>321,700</u>	<u>227,017</u>
EXPENDITURES			
Current			
General Government	321,759	-	-
Public Safety	157,100	-	-
Public Works	226,408	-	-
Culture and Recreation	31,734	-	-
Economic Development	-	-	-
Debt Service			
Principal	17,300	-	116,000
Interest and Other Charges	3,288	-	150,113
Capital Outlay			
General Government	2,987	-	-
Public Safety	47,031	-	-
Public Works	117,749	10,988	-
Culture and Recreation	989	-	-
Total Expenditures	<u>926,345</u>	<u>10,988</u>	<u>266,113</u>
Excess of Revenues Over (Under) Expenditures	(38,471)	310,712	(39,096)
OTHER FINANCING SOURCES (USES)			
Bond Issuance	-	-	1,925,000
Bond Premium	-	-	42,816
Transfers In	-	-	-
Transfers Out	(11,157)	(6,466)	-
Total Other Financing Sources (Uses)	<u>(11,157)</u>	<u>(6,466)</u>	<u>1,967,816</u>
Net Change in Fund Balances	(49,628)	304,246	1,928,720
FUND BALANCES			
Beginning of Year	<u>1,208,123</u>	<u>65,732</u>	<u>294,373</u>
End of Year	<u>\$ 1,158,495</u>	<u>\$ 369,978</u>	<u>\$ 2,223,093</u>

Debt Service			
G.O. Improvement Bonds of 2004 (305)	2008A G.O. Improvement Bonds (308)	Other Governmental Funds	Total Governmental Funds
\$ 2,953	\$ 13,668	\$ 15,673	\$ 1,079,580
-	-	-	166
136,369	10,590	-	160,160
-	-	-	31,066
19	86	1,096	192,225
-	-	-	100,890
-	-	-	10,471
-	403	5,512	31,104
-	-	-	17,298
<u>139,341</u>	<u>24,747</u>	<u>22,281</u>	<u>1,622,960</u>
-	-	3,862	325,621
-	-	-	157,100
-	-	-	226,408
-	-	-	31,734
-	-	3,271	3,271
110,000	185,000	-	428,300
7,622	9,875	-	170,898
-	-	-	2,987
-	-	-	47,031
-	-	-	128,737
-	-	10,557	11,546
<u>117,622</u>	<u>194,875</u>	<u>17,690</u>	<u>1,533,633</u>
21,719	(170,128)	4,591	89,327
-	176,000	-	2,101,000
-	-	-	42,816
1,067	-	-	1,067
-	-	-	(17,623)
<u>1,067</u>	<u>176,000</u>	<u>-</u>	<u>2,127,260</u>
22,786	5,872	4,591	2,216,587
(163,444)	52,416	352,929	1,810,129
<u>\$ (140,658)</u>	<u>\$ 58,288</u>	<u>\$ 357,520</u>	<u>\$ 4,026,716</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, 2014**

Total Net Change in Fund Balances - Governmental Funds \$ 2,216,587

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	174,551
Depreciation Expense	(201,967)
Loss on Disposal	(10,243)

Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities. (13,863)

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. 428,300

Proceeds from long-term debt are recognized as another financing source in the governmental funds but as a decrease in net position in the Statement of Activities. (2,101,000)

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. (22,956)

Governmental funds report the effects of bond premiums when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. (42,816)

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

Delinquent Property Taxes	3,640
Deferred and Delinquent Special Assessments	(73,895)

Change in Net Position - Governmental Activities \$ 356,338

CITY OF ROCKVILLE

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Property Taxes	\$ 561,740	\$ 584,917	\$ 586,515	\$ 1,598
Miscellaneous Taxes	-	-	166	166
Licenses and Permits	26,731	26,585	31,066	4,481
Intergovernmental	187,504	186,351	188,134	1,783
Charges for Services	29,456	37,539	36,232	(1,307)
Fines and Forfeitures	10,000	10,000	10,471	471
Miscellaneous Revenues:				
Investment Income	26,000	26,000	17,992	(8,008)
Other	7,800	16,092	17,298	1,206
Total Revenues	<u>849,231</u>	<u>887,484</u>	<u>887,874</u>	<u>390</u>
EXPENDITURES				
Current				
General Government	322,676	334,860	321,759	(13,101)
Public Safety	146,657	161,002	157,100	(3,902)
Public Works	193,354	228,441	226,408	(2,033)
Culture and Recreation	32,413	37,332	31,734	(5,598)
Debt Service				
Principal	17,300	17,300	17,300	-
Interest and Other Charges	3,288	3,288	3,288	-
Capital Outlay				
General Government	4,000	4,000	2,987	(1,013)
Public Safety	27,300	58,120	47,031	(11,089)
Public Works	13,000	117,749	117,749	-
Culture and Recreation	10,000	10,000	989	(9,011)
Total Expenditures	<u>769,988</u>	<u>972,092</u>	<u>926,345</u>	<u>(45,747)</u>
Excess of Revenues Over (Under) Expenditures	79,243	(84,608)	(38,471)	46,137
OTHER FINANCING USES				
Transfers Out	<u>(15,898)</u>	<u>(11,156)</u>	<u>(11,157)</u>	<u>(1)</u>
Net Change in Fund Balances	<u>\$ 63,345</u>	<u>\$ (95,764)</u>	<u>(49,628)</u>	<u>\$ 46,136</u>
FUND BALANCES				
Beginning of Year			<u>1,208,123</u>	
End of Year			<u>\$ 1,158,495</u>	

CITY OF ROCKVILLE

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
December 31, 2014

	Water (307,311,312, 601)	Sewer (301,302,309, 310,602)	Total
ASSETS			
Current Assets			
Cash and Investments	\$ 193,413	\$ 2,033,294	\$ 2,226,707
Cash with Fiscal Agent	521,021	-	521,021
Taxes Receivable - Delinquent	-	308	308
Special Assessments Receivable:			
Delinquent	193,733	444,312	638,045
Deferred	166,237	2,437,760	2,603,997
Accounts Receivable	39,955	79,934	119,889
Interest Receivable	620	3,594	4,214
Due from Other Governments	4,312	13,335	17,647
Total Current Assets	<u>1,119,291</u>	<u>5,012,537</u>	<u>6,131,828</u>
Noncurrent Assets			
Capital Assets:			
Land	98,295	-	98,295
Sewer and Water Improvements	2,504,537	11,025,214	13,529,751
Equipment	-	58,553	58,553
Total Capital Assets	<u>2,602,832</u>	<u>11,083,767</u>	<u>13,686,599</u>
Less Accumulated Depreciation	<u>(702,452)</u>	<u>(2,281,550)</u>	<u>(2,984,002)</u>
Net Capital Assets	<u>1,900,380</u>	<u>8,802,217</u>	<u>10,702,597</u>
Total Assets	<u>\$ 3,019,671</u>	<u>\$ 13,814,754</u>	<u>\$ 16,834,425</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 4,370	\$ 8,270	\$ 12,640
Salaries and Benefits Payable	577	372	949
Interest Payable	21,305	23,702	45,007
Long-Term Liabilities Due Within One Year	105,000	502,450	607,450
Total Current Liabilities	<u>131,252</u>	<u>534,794</u>	<u>666,046</u>
Noncurrent Liabilities			
Bonds Payable, Net of Unamortized Premiums	1,605,878	159,006	1,764,884
Notes Payable	-	4,749,610	4,749,610
Less Amount Due Within One Year	<u>(105,000)</u>	<u>(502,450)</u>	<u>(607,450)</u>
Total Noncurrent Liabilities	<u>1,500,878</u>	<u>4,406,166</u>	<u>5,907,044</u>
Total Liabilities	<u>1,632,130</u>	<u>4,940,960</u>	<u>6,573,090</u>
Net Position			
Net Investment in Capital Assets	833,502	3,893,601	4,727,103
Restricted	521,021	38,392	559,413
Unrestricted	33,018	4,941,801	4,974,819
Total Net Position	<u>1,387,541</u>	<u>8,873,794</u>	<u>10,261,335</u>
	<u>\$ 3,019,671</u>	<u>\$ 13,814,754</u>	<u>\$ 16,834,425</u>

CITY OF ROCKVILLE

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION - PROPRIETARY FUNDS
For the Year Ended December 31, 2014**

	Water (307,311,312, 601)	Sewer (301,302,309, 310,602)	Total
OPERATING REVENUES			
Charges for Services	\$ 120,810	\$ 249,371	\$ 370,181
Permits, Hookup Fees and Penalties	8,366	8,683	17,049
Total Operating Revenues	<u>129,176</u>	<u>258,054</u>	<u>387,230</u>
OPERATING EXPENSES			
Wages and Salaries	23,496	20,287	43,783
Employee Benefits	3,994	3,456	7,450
Materials and Supplies	9,587	1,218	10,805
Repairs and Maintenance	29,160	19,432	48,592
Professional Services	7,670	91,961	99,631
Insurance	1,623	5,290	6,913
Utilities	11,430	11,471	22,901
Depreciation	58,876	281,659	340,535
Equipment	4,040	3,336	7,376
Miscellaneous	3,207	4,800	8,007
Total Operating Expenses	<u>153,083</u>	<u>442,910</u>	<u>595,993</u>
Operating Loss	(23,907)	(184,856)	(208,763)
NONOPERATING REVENUES (EXPENSES)			
Investment Income	5,390	30,796	36,186
Special Assessments	34,939	164,582	199,521
Property Taxes	-	13,877	13,877
Grants	-	87	87
Refunds and Reimbursements	820	2,440	3,260
Amortization	991	143	1,134
Interest Expense	(61,093)	(68,805)	(129,898)
Other Income	-	16,971	16,971
Total Nonoperating Revenues (Expenses)	<u>(18,953)</u>	<u>160,091</u>	<u>141,138</u>
Loss before Capital Contributions and Transfers	(42,860)	(24,765)	(67,625)
Transfers In	17,623	-	17,623
Transfers Out	<u>(1,067)</u>	<u>-</u>	<u>(1,067)</u>
Change in Net Position	(26,304)	(24,765)	(51,069)
NET POSITION			
Beginning of Year	<u>1,413,845</u>	<u>8,898,559</u>	<u>10,312,404</u>
End of Year	<u>\$ 1,387,541</u>	<u>\$ 8,873,794</u>	<u>\$ 10,261,335</u>

CITY OF ROCKVILLE

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended December 31, 2014**

	Water (307,311,312, 601)	Sewer (301,302,309, 310,602)	Total
CASH FLOWS - OPERATING ACTIVITIES			
Receipts from Customers and Users	\$ 120,076	\$ 258,919	\$ 378,995
Payments to Suppliers	(65,122)	(134,029)	(199,151)
Payments to Employees	(27,251)	(23,735)	(50,986)
Miscellaneous Revenue	820	2,527	3,347
Net Cash Flows - Operating Activities	<u>28,523</u>	<u>103,682</u>	<u>132,205</u>
CASH FLOWS - NONCAPITAL FINANCING ACTIVITIES			
Transfer from Other Funds	17,623	-	17,623
Transfer to Other Funds	(1,067)	-	(1,067)
Net Cash Flows - Noncapital Financing Activities	<u>16,556</u>	<u>-</u>	<u>16,556</u>
CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal Paid on Debt	(100,000)	(479,479)	(579,479)
Interest Paid on Debt	(38,459)	(71,060)	(109,519)
Property Tax and Special Assessment Revenues Received	7,832	379,735	387,567
Net Cash Flows - Capital and Related Financing Activities	<u>(130,627)</u>	<u>(170,804)</u>	<u>(301,431)</u>
CASH FLOWS - INVESTING ACTIVITIES			
Interest and Dividends Received	5,325	30,418	35,743
Net Change in Cash and Cash Equivalents	(80,223)	(36,704)	(116,927)
CASH AND CASH EQUIVALENTS			
January 1	<u>273,636</u>	<u>2,069,998</u>	<u>2,343,634</u>
December 31	<u>\$ 193,413</u>	<u>\$ 2,033,294</u>	<u>\$ 2,226,707</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS - OPERATING ACTIVITIES			
Operating Loss	\$ (23,907)	\$ (184,856)	\$ (208,763)
Adjustments to Reconcile Operating Loss to Net Cash Flows - Operating Activities:			
Miscellaneous Revenue	820	2,527	3,347
Depreciation Expense	58,876	281,659	340,535
Accounts Receivable	(8,138)	(6,827)	(14,965)
Due from Other Governments	(962)	7,692	6,730
Accounts Payable	1,595	3,479	5,074
Salaries Payable	239	8	247
Total Adjustments	<u>52,430</u>	<u>288,538</u>	<u>340,968</u>
Net Cash Flows - Operating Activities	<u>\$ 28,523</u>	<u>\$ 103,682</u>	<u>\$ 132,205</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Debt Forgiveness	\$ -	\$ 16,971	\$ 16,971

CITY OF ROCKVILLE

NOTES TO THE FINANCIAL STATEMENTS December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

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

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

1. Blended Component Unit

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

B. Government-Wide and Fund Financial Statements

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

CITY OF ROCKVILLE

NOTES TO THE FINANCIAL STATEMENTS December 31, 2014

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, 2014

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.

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

Proprietary Funds:

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

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

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

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

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

CITY OF ROCKVILLE

NOTES TO THE FINANCIAL STATEMENTS December 31, 2014

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.

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

The City has established formal policies as of December 31, 2014 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, 2014

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 recorded as an expenditure at the time of consumption.

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

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, 2014**

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, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

6. Deferred Inflows of Resources

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

7. Long-Term Obligations

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

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

8. Fund Equity

a. Classification

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

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

CITY OF ROCKVILLE

NOTES TO THE FINANCIAL STATEMENTS December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

8. Fund Equity (Continued)

a. Classification (Continued)

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

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

b. Minimum Fund Balance Policy

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

9. Net Position

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

10. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenditures/expense during the reporting period. Actual results could differ from those estimates.

CITY OF ROCKVILLE

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014**

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

B. Excess of Expenditures over Appropriations

For the year ended December 31, 2014, expenditures exceeded appropriations in the following Funds:

	<u>Appropriations</u>	<u>Expenditures</u>
City Facilities	\$ 224,277	\$ 266,113

C. Deficit Fund Balance

Major Governmental Funds:

G.O. Improvement Bonds of 2004	\$ 140,658
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CITY OF ROCKVILLE

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

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, 2014 the City’s bank balance of \$ 1,066,958 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, 2014 was \$ 1,034,947 for deposits.

B. Investments

Investment Type	Fair Value	Investment Maturities			Ratings
		Less than One Year	1-5 Years	6-10 Years	
Pooled Investments					
FNMA Bond	\$ 146,171	\$ -	\$ -	\$ 146,171	AAA
Brokered Certificates of Deposit	2,969,954	364,400	1,977,021	628,533	N/A
Money Market	30,791	30,791	-	-	N/A
4M Money Market	544	544	-	-	N/A
Total	\$ 3,147,460	\$ 395,735	\$ 1,977,021	\$ 774,704	
Non-Pooled Investments:					
Cash	521,021	521,021	-	-	N/A
State and Local Government Securities	2,089,039	2,089,039	-	-	N/A
Total Investments	\$ 5,757,520	\$ 3,005,795	\$ 1,977,021	\$ 774,704	

Concentration of Credit Risk: The City had more than 5% of their total investments in Compass BK CD Birmingham AL CD (5.2%), State Bank of India CD (5.8%), World Financial Network Bank Wilmington DE (6.4%), World Financial Capital Bank Salt Lake City UT CD (5.6%), Discover BK Greenwood DE CD (7.8%), American Exp Salt Lake City UT CD (5.0%), and Gulf Coast BK CD New Orleans LA CD (6.1%), Cit Salt Lake City UT CD (7.6%), Sallie Mae Bk CD Salt Lake City CD (6.7%).

CITY OF ROCKVILLE

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014**

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments (Continued)

Summary of cash deposits and investments as of December 31, 2014 were as follows:

Deposits (Note 3.A.)	\$ 1,034,947
Investments (Note 3.B.)	5,757,520
Petty Cash	<u>378</u>
 Total Deposits and Investments	 <u><u>\$ 6,792,845</u></u>

Deposits and investments are presented in the December 31, 2014 basic financial statements as follows:

Statement of Net Position:	
Cash and Investments	\$ 4,182,785
Cash with Fiscal Agent	<u>2,610,060</u>
 Total Deposits and Investments	 <u><u>\$ 6,792,845</u></u>

NOTE 4 – INTERFUND ASSETS/LIABILITIES

The G.O. Improvements Bond of 2014 has a due to other funds balance of \$ 140,727, representing amounts owed to the General Fund to cover a temporary negative cash balance.

NOTE 5 – INTERFUND TRANSFERS

Transfers during the year ended December 31, 2014 were as follows:

	Transfers In		
	G.O. Improvement Bonds of 2004	Water	Total
Transfers Out:			
General Fund	\$ -	\$ 11,157	\$ 11,157
Road Maintenance Fund	-	6,466	6,466
Water Fund	<u>1,067</u>	<u>-</u>	<u>1,067</u>
 Total Transfers Out	 <u><u>\$ 1,067</u></u>	 <u><u>\$ 17,623</u></u>	 <u><u>\$ 18,690</u></u>

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

CITY OF ROCKVILLE

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014 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>388,381</u>	<u>70</u>	<u>(388,451)</u>	<u>-</u>
Total Capital Assets not being Depreciated	<u>844,499</u>	<u>70</u>	<u>(388,451)</u>	<u>456,118</u>
Capital Assets being Depreciated:				
Buildings	2,620,874	-	-	2,620,874
Infrastructure	2,465,373	388,451	-	2,853,824
Machinery and Equipment	<u>1,094,168</u>	<u>174,481</u>	<u>(40,970)</u>	<u>1,227,679</u>
Total Capital Assets being Depreciated	<u>6,180,415</u>	<u>562,932</u>	<u>(40,970)</u>	<u>6,702,377</u>
Less Accumulated Depreciation for:				
Buildings	(405,995)	(65,960)	-	(471,955)
Infrastructure	(1,270,676)	(82,042)	-	(1,352,718)
Machinery and Equipment	<u>(540,596)</u>	<u>(53,965)</u>	<u>30,727</u>	<u>(563,834)</u>
Total Accumulated Depreciation	<u>(2,217,267)</u>	<u>(201,967)</u>	<u>30,727</u>	<u>(2,388,507)</u>
Total Capital Assets being Depreciated, Net	<u>3,963,148</u>	<u>360,965</u>	<u>(10,243)</u>	<u>4,313,870</u>
Governmental Activities Capital Assets, Net	<u>\$ 4,807,647</u>	<u>\$ 361,035</u>	<u>\$ (398,694)</u>	<u>\$ 4,769,988</u>

CITY OF ROCKVILLE

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

NOTE 6 – CAPITAL ASSETS

	Beginning Balance	Increases	Decreases	Ending Balance
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	13,588,304	-	-	13,588,304
Less Accumulated Depreciation for:				
Buildings and Systems	(2,604,132)	(335,035)	-	(2,939,167)
Machinery and Equipment	(39,335)	(5,500)	-	(44,835)
Total Accumulated Depreciation	(2,643,467)	(340,535)	-	(2,984,002)
Business-Type Activities Capital Assets, Net	\$ 11,043,132	\$ (340,535)	\$ -	\$ 10,702,597

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

Governmental Activities:	
General Government	\$ 65,977
Public Safety	41,307
Public Works	81,825
Parks and Recreation	12,858
Total Depreciation Expense - Governmental Activities	\$ 201,967
Business-Type Activities:	
Water	\$ 58,876
Sewer	281,659
Total Depreciation Expense - Business-Type Activities	\$ 340,535

CITY OF ROCKVILLE

NOTES TO THE FINANCIAL STATEMENTS December 31, 2014

NOTE 7 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

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

On May 1, 2014, the City issued \$ 176,000 G.O. Improvement Refunding Bonds, Series 2014B for the current refunding of the \$ 230,000 G.O. Improvement Bonds, Series 2008A. The refunding was done to extend principal payments. The refunding resulted in an increase in future debt service payments of \$ 64. The net present value cash flow savings from the transaction was \$ 8,716.

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

CITY OF ROCKVILLE

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014**

NOTE 7 – LONG-TERM DEBT

A. Components of Long-Term Liabilities (Continues)

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-Term Liabilities:						
Governmental Activities:						
G.O. Improvement Bonds:						
G.O. Improvement Bonds, Series 2004A	06/01/04	2.20%-4.25%	\$ 990,000	02/01/15	\$ 115,000	\$ 115,000
G.O. Improvement Refunding Bonds, Series 2014B	05/01/14	2.10%	176,000	02/01/23	176,000	19,000
G.O. Capital Improvement Plan Bonds, Series 2014A	05/01/14	2.00%-2.75%	1,925,000	02/01/27	<u>1,925,000</u>	<u>110,000</u>
Total G.O. Bonds					2,216,000	244,000
Revenue Bonds:						
Public Project Lease 2005A	07/27/05	3.00%-5.00%	2,565,000	02/01/27	2,000,000	2,000,000
Loan Payable	09/12/05	N/A	360,000	09/12/15	36,000	36,000
Equipment Certificate	11/01/06	5.00%	160,000	02/01/17	57,100	18,100
Unamortized Premiums					42,816	-
Compensated Absences					35,414	19,595
Severance					<u>12,605</u>	<u>-</u>
Total Governmental Activities					4,399,935	2,317,695
Business-Type Activities:						
G.O. Bonds:						
G.O. Utility Revenue Refunding Bonds, Series 2009A	08/01/09	2.00%-4.35%	1,650,000	02/01/28	1,210,000	115,000
G.O. Utility Revenue Refunding Bonds, Series 2014C	05/01/14	2.60%	539,000	02/01/23	539,000	-
Unamortized Premiums					<u>15,884</u>	<u>-</u>
Total G.O. Bonds					1,764,884	115,000
Notes Payable:						
G.O. Sewer Revenue Notes of 1996	12/19/95	N/A	1,209,000	08/20/17	159,610	60,450
G.O. Sewer Revenue Notes of 2004	04/22/04	1.34%	9,235,403	08/20/24	<u>4,590,000</u>	<u>432,000</u>
Total Notes Payable					4,749,610	492,450
Total Business Activities					<u>6,514,494</u>	<u>607,450</u>
Total all Long-Term Liabilities					<u>\$ 10,914,429</u>	<u>\$ 2,925,145</u>

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

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

CITY OF ROCKVILLE

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

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
2015	\$ 244,000	\$ 59,186	\$ 2,000,000	\$ 92,644
2016	118,000	44,246	-	-
2017	154,000	41,507	-	-
2018	159,000	38,359	-	-
2019	164,000	35,108	-	-
2020-2024	862,000	120,424	-	-
2025-2027	515,000	21,169	-	-
Total	\$ 2,216,000	\$ 359,999	\$ 2,000,000	\$ 92,644

Year Ending December 31,	Equipment Certificate		Loan Payable	Governmental Activities
	Principal	Interest	Principal	Total
2015	\$ 18,100	\$ 2,402	\$ 36,000	\$ 2,452,332
2016	19,000	1,475	-	373,902
2017	20,000	500	-	216,007
2018	-	-	-	197,359
2019	-	-	-	199,108
2020-2024	-	-	-	536,169
2025-2028	-	-	-	536,169
Total	\$ 57,100	\$ 4,377	\$ 36,000	\$ 4,511,046

CITY OF ROCKVILLE

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014**

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
2015	\$ 115,000	\$ 53,229	\$ 492,450	\$ 61,506	\$ 722,185
2016	600,000	42,792	498,450	55,717	1,196,959
2017	106,000	32,265	482,710	49,848	670,823
2018	108,000	29,185	449,000	43,898	630,083
2019	110,000	26,054	456,000	37,882	629,936
2020-2024	530,000	80,560	2,371,000	96,145	3,077,705
2025-2028	180,000	15,398	-	-	195,398
Total	\$ 1,749,000	\$ 279,483	\$ 4,749,610	\$ 344,996	\$ 7,123,089

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2014 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental Activities:				
Bonds Payable:				
G.O. Improvement Bonds	\$ 410,000	\$ 2,101,000	\$ 295,000	\$ 2,216,000
Revenue Bonds	2,080,000	-	80,000	2,000,000
Equipment Certificate	74,400	-	17,300	57,100
Loan Payable	72,000	-	36,000	36,000
Unamortized Premiums	-	42,816	-	42,816
Compensated Absences	23,602	34,434	22,622	35,414
Severance	10,554	2,051	-	12,605
Total Governmental Activities	\$ 2,670,556	\$ 2,180,301	\$ 450,922	\$ 4,399,935
Business-Type Activities:				
Bonds Payable:				
G.O. Bonds	\$ 1,320,000	\$ 539,000	\$ 110,000	\$ 1,749,000
Unamortized Premiums	17,018	-	1,134	15,884
Notes Payable	5,236,060	-	486,450	4,749,610
Total Business-Type Activities	\$ 6,573,078	\$ 539,000	\$ 597,584	\$ 6,514,494

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

CITY OF ROCKVILLE

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014**

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	\$ 2,092,644	\$ 176,050	\$ 219,906

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	2008A G.O. Improvement Bonds	Nonmajor Governmental Fund	Total
Restricted:							
Debt Service	\$ -	\$ -	\$ 2,223,093	\$ -	\$ 58,288	\$ -	\$ 2,281,381
Park Dedication	-	-	-	-	-	63,091	63,091
Assigned:							
Economic Development	-	-	-	-	-	260,766	260,766
Lake Improvement District	-	-	-	-	-	33,663	33,663
Road Maintenance	-	369,978	-	-	-	-	369,978
General Government	214,856	-	-	-	-	-	214,856
Fire	49,734	-	-	-	-	-	49,734
Civil Defense	10,574	-	-	-	-	-	10,574
Street Maintenance	101,042	-	-	-	-	-	101,042
Park and Recreation	36,416	-	-	-	-	-	36,416
Ball Program	3,255	-	-	-	-	-	3,255
Rocori Trail	17,932	-	-	-	-	-	17,932
Eagle Park	9,894	-	-	-	-	-	9,894
Unassigned	714,792	-	-	(140,658)	-	-	574,134
Total	<u>\$ 1,158,495</u>	<u>\$ 369,978</u>	<u>\$ 2,223,093</u>	<u>\$ (140,658)</u>	<u>\$ 58,288</u>	<u>\$ 357,520</u>	<u>\$ 4,026,716</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, 2014

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

At December 31, 2014, 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 – PENSION PLANS

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 by statute 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 five years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% 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, 2014

NOTE 10 –PENSION PLANS

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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERS 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. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2014. PEPFF members were required to contribute 10.2% of their annual covered salary in 2014. In 2014, the City was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.25% for Coordinated Plan members and 15.3% for PEPFF members. The City's contributions to the Public Employees' Retirement Fund for the years ending December 31, 2014, 2013 and 2012 were \$ 15,299, \$ 11,984 and \$ 13,172, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute. Contribution rates will increase on January 1, 2015 in the Coordinated Plan (6.5% for members and 7.5% for employers) and the PEPFF (10.8% for members and 16.2% for employers).

Defined Benefit Pension Plan – Volunteer Firefighters Relief Association

A. Plan Description

The City contributes to the Rockville Fire Fighters' Relief Association (the "Association"), a single-employer, defined benefit pension plan. The plan provides retirement, disability and death benefits to volunteer firefighters of the City. Pension benefits are determined by multiplying the accrued liability, as set forth in *Minnesota Statutes* 424A.092, by the ratio of the lump sum service pension amount provided in the bylaws of the Association to a service pension of \$ 1,500 per year of service. The Association's Board of Trustees has the authority to establish and amend benefit provisions. Benefit provisions are also subject to enabling state statutes; therefore, any amendments to benefit provisions are reviewed by the Office of the State Auditor.

CITY OF ROCKVILLE

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014**

NOTE 10 –PENSION PLANS

Defined Benefit Pension Plan – Volunteer Firefighters Relief Association (Continued)

A. Plan Description (Continued)

The Association issues a publicly available audit report. The report may be obtained by writing to Rockville Fire Fighters’ Relief Association at 229 Broadway Street East, Rockville, Minnesota 56369 or calling (320) 251-5836.

B. Funding Policy

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

Date Certified to City Council: August 1, 2014

Statutory Assumptions:

Investment Rate of Return	5.0%
Administrative Expenses Increase	3.5%
State Aid Contribution	100.0%
Amortization of Surplus (Deficit)	10.0%

C. Three Year Trend Information

<u>Year Ended</u>	<u>Statutory Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>	<u>State Contribution</u>	<u>Percentage Contributed</u>
12/31/14	\$ 15,757	\$ 15,757	100%	\$ 15,825	100%
12/31/13	17,645	17,645	100%	16,031	100%
12/31/12	24,453	24,453	100%	11,178	100%

CITY OF ROCKVILLE

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014**

NOTE 10 – PENSION PLANS

Defined Benefit Pension Plan – Volunteer Firefighters Relief Association (Continued)

D. Required Supplementary Information: Schedule of Funding Progress

Valuation Date	Value of Assets (a)	Statutory Accrued Liability (b)	Excess of Assets Over Liabilities (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess as a Percentage of Covered Payroll ((a-b)/c)
12/31/14	\$ 448,631	\$ 453,861	\$ (5,230)	99%	N/A	N/A
12/31/13	414,609	442,281	(27,672)	94%	N/A	N/A
12/31/12	416,663	489,006	(72,343)	85%	N/A	N/A

E. Contributions Required and Contributions Made

Financial requirements of the Association are determined in accordance with *Minnesota Statutes* as follows:

Normal Cost for Next Year (Increase in Pension Benefit Obligation)
 Plus Estimated Expenses for Next Year and 10% of Any Deficits
 Less Anticipated Income Next Year and 10% of Any Surplus

Contributions totaling \$ 15,757 were made by the City and \$ 15,825 by the State of Minnesota, in accordance with state statute requirements for the year ended December 31, 2014.

NOTE 11 – GASB STATEMENTS ISSUED BUT NOT YET IMPLEMENTED

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 No. 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.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, an amendment of GASB Statement No. 68, requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning new pension liability. The provisions of this Statement should be applied simultaneously with the provisions of Statement 68 which is effective for periods beginning after June 15, 2014.

SUPPLEMENTARY INFORMATION

CITY OF ROCKVILLE
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2014

	Special Revenue	
	Public Land Dedication (202)	Economic Development Authority (209)
ASSETS		
Cash and Investments	\$ 63,085	\$ 260,102
Taxes Receivable - Delinquent	-	22
Interest Receivable	6	640
Due from Other Governments	-	24
	-	24
Total Assets	\$ 63,091	\$ 260,788
 DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue - Property Taxes	\$ -	\$ 22
 Fund Balances		
Restricted	63,091	-
Assigned	-	260,766
Total Fund Balances	63,091	260,766
Total Deferred Inflows of Resources and Fund Balances	\$ 63,091	\$ 260,788

<u>Special Revenue</u>	
<u>Lake Improvement District (221)</u>	<u>Total Governmental Funds</u>
\$ 33,578	\$ 356,765
55	77
-	646
85	109
<u>33,718</u>	<u>357,597</u>

\$ 55	\$ 77
-	63,091
<u>33,663</u>	<u>294,429</u>
<u>33,663</u>	<u>357,520</u>
<u>\$ 33,718</u>	<u>\$ 357,597</u>

CITY OF ROCKVILLE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014**

	Special Revenue	
	Public Land Dedication (202)	Economic Development Authority (209)
REVENUES		
Property Taxes	\$ -	\$ 984
Intergovernmental	-	6
Miscellaneous:		
Investment Income	116	5,358
Total Revenues	116	6,348
EXPENDITURES		
Current		
General Government	-	-
Economic Development	-	3,271
Capital Outlay		
Culture and Recreation	10,557	-
Total Expenditures	10,557	3,271
Excess of Revenues Over (Under) Expenditures	(10,441)	3,077
FUND BALANCES		
Beginning of Year	73,532	257,689
End of Year	\$ 63,091	\$ 260,766

<u>Special Revenue</u>		
<u>Lake Improvement District (221)</u>		<u>Total Other Governmental Funds</u>
\$ 14,689		\$ 15,673
1,090		1,096
38		5,512
<u>15,817</u>		<u>22,281</u>
3,862		3,862
-		3,271
-		10,557
<u>3,862</u>		<u>17,690</u>
11,955		4,591
<u>21,708</u>		<u>352,929</u>
<u>\$ 33,663</u>		<u>\$ 357,520</u>

CITY OF ROCKVILLE

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Property Taxes	\$ 561,740	\$ 584,917	\$ 586,515	\$ 1,598
Miscellaneous Taxes	-	-	166	166
Licenses and Permits	26,731	26,585	31,066	4,481
Intergovernmental Revenue:				
Local Government Aid	168,093	168,093	168,093	-
Market Value Credit	1,320	1,873	3,656	1,783
PERA Aid	60	60	60	-
Fire Aid	18,031	15,825	15,825	-
Other Grants and Aids	-	500	500	-
Total Intergovernmental Revenue	187,504	186,351	188,134	1,783
Charges for Services:				
General Government	4,260	5,760	5,516	(244)
Public Safety	17,300	23,421	23,421	-
Public Works	200	200	143	(57)
Culture and Recreation	7,196	7,196	6,095	(1,101)
Economic Development	500	962	1,057	95
Total Charges for Services	29,456	37,539	36,232	(1,307)
Fines and Forfeitures	10,000	10,000	10,471	471
Miscellaneous Revenues:				
Investment Income	26,000	26,000	17,992	(8,008)
Other	7,800	16,092	17,298	1,206
Total Miscellaneous Revenues	33,800	42,092	35,290	(6,802)
Total Revenues	849,231	887,484	887,874	390
EXPENDITURES				
General Government				
Mayor and Council	16,930	16,930	16,455	(475)
Administrative and Finance	137,349	137,349	135,015	(2,334)
Other General Government	168,397	180,581	170,289	(10,292)
Capital Outlay	4,000	4,000	2,987	(1,013)
Total General Government	326,676	338,860	324,746	(14,114)
Public Safety				
Police:				
Current	20,520	20,520	19,834	(686)
Fire:				
Current	121,447	135,792	134,443	(1,349)
Capital Outlay	23,500	27,132	16,043	(11,089)
Total Fire	144,947	162,924	150,486	(12,438)

CITY OF ROCKVILLE

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
EXPENDITURES				
Public Safety: (Continued)				
Other:				
Current	\$ 4,690	\$ 4,690	\$ 2,823	\$ (1,867)
Capital Outlay	3,800	30,988	30,988	-
Total Other	<u>8,490</u>	<u>35,678</u>	<u>33,811</u>	<u>(1,867)</u>
Total Public Safety	173,957	219,122	204,131	(14,991)
Public Works				
Streets and Highways:				
Street Maintenance and Storm Sewers	148,878	170,992	170,118	(874)
Snow and Ice Removal	31,276	44,249	43,468	(781)
Street Lighting	13,200	13,200	12,822	(378)
Street - Other Capital Outlay	13,000	117,749	117,749	-
Total Streets and Highways	<u>206,354</u>	<u>346,190</u>	<u>344,157</u>	<u>(2,033)</u>
Culture and Recreation				
Current Expenditures	32,413	37,332	31,734	(5,598)
Capital Outlay	<u>10,000</u>	<u>10,000</u>	<u>989</u>	<u>(9,011)</u>
Total Culture and Recreation	42,413	47,332	32,723	(14,609)
Debt Service				
Principal	17,300	17,300	17,300	-
Interest and Other Charges	3,288	3,288	3,288	-
Total Debt Service	<u>20,588</u>	<u>20,588</u>	<u>20,588</u>	<u>-</u>
Total Expenditures	<u>769,988</u>	<u>972,092</u>	<u>926,345</u>	<u>(45,747)</u>
Excess of Revenues Over (Under) Expenditures	79,243	(84,608)	(38,471)	46,137
OTHER FINANCING SOURCES				
Transfers Out	<u>(15,898)</u>	<u>(11,156)</u>	<u>(11,157)</u>	<u>(1)</u>
Net Change in Fund Balances	<u>\$ 63,345</u>	<u>\$ (95,764)</u>	(49,628)	<u>\$ 46,136</u>
FUND BALANCES				
Beginning of Year			<u>1,208,123</u>	
End of Year			<u>\$ 1,158,495</u>	

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Rockville, Minnesota, as of and for the year ended December 31, 2014, and the related Notes to the Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 11, 2015.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings 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 City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses on Internal Controls to be material weaknesses, listed as Audit Findings 2006-002 and 2009-002.



A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses on Internal Controls to be a significant deficiency, listed as Audit Finding 2010-001.

Compliance and Other Matters

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

City's Response to Findings

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

Purpose of this Report

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

Kern, DeWenter, Viere, Ltd.
KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
May 11, 2015



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REPORT ON LEGAL COMPLIANCE

INDEPENDENT AUDITOR'S REPORT

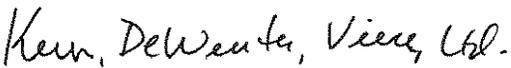
Honorable Mayor and Members
of the City Council
City of Rockville
Rockville, Minnesota

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 controller of the United States, the financial statements of the governmental activities, the business-type activities and each major fund and the aggregate remaining fund information of the City of Rockville, Minnesota as of and for the year ended December 31, 2014, and the related Notes to the Financial Statements, and have issued our report thereon dated May 11, 2015.

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

In connection with our audit, nothing came to our attention that caused us to believe that the City of Rockville, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for 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.
St. Cloud, Minnesota
May 11, 2015

CITY OF ROCKVILLE
SCHEDULE OF FINDINGS AND RESPONSES
ON INTERNAL CONTROL
December 31, 2014

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDINGS:

Material Weaknesses:

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

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

The City does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying Notes to 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 and related note disclosures lies with management, it is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

City's Response:

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

Audit Finding 2009-002 – Material Audit Adjustments

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

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

- Special Assessments

City'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.

CITY OF ROCKVILLE
SCHEDULE OF FINDINGS AND RESPONSES
ON INTERNAL CONTROL
December 31, 2014

CURRENT YEAR INTERNAL CONTROL FINDINGS:

Significant Deficiency:

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

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

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

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

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.