

**City of Rockville
Stearns County, Minnesota**

Financial Statements

December 31, 2016



**City of Rockville
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**City of Rockville
Elected Officials and Administration
December 31, 2016**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Jeff Hagen	Mayor	December 31, 2016
Susan Palmer	Council Member	December 31, 2016
Don Simon	Council Member	December 31, 2016
Duane Willenbring	Council Member	December 31, 2018
Richard Tallman	Council Member	December 31, 2018
<u>Administration</u>		
Martin Bode	City Administrator/Clerk	
Judy Neu	Finance/Utility Billing Clerk/ Administrative Assistant	

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rockville, Minnesota, as of and for the year ended December 31, 2016, and the related notes to financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



Opinions

In our opinion, the financial statements referred to in the first paragraph 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, 2016, 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, and Required Supplementary information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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 presented for purposes of additional analysis and are not a required part of the basic financial statements.



Other Matters (Continued)

Other Information (Continued)

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relates 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 1, 2017, on our consideration of the City of Rockville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Rockville's internal control over financial reporting and compliance.

Bergan KDV, Ltd.

St. Cloud, Minnesota
May 1, 2017

City of Rockville Management's Discussion And Analysis

The City of Rockville (the "City") would like to offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the year ended December 31, 2016.

FINANCIAL HIGHLIGHTS

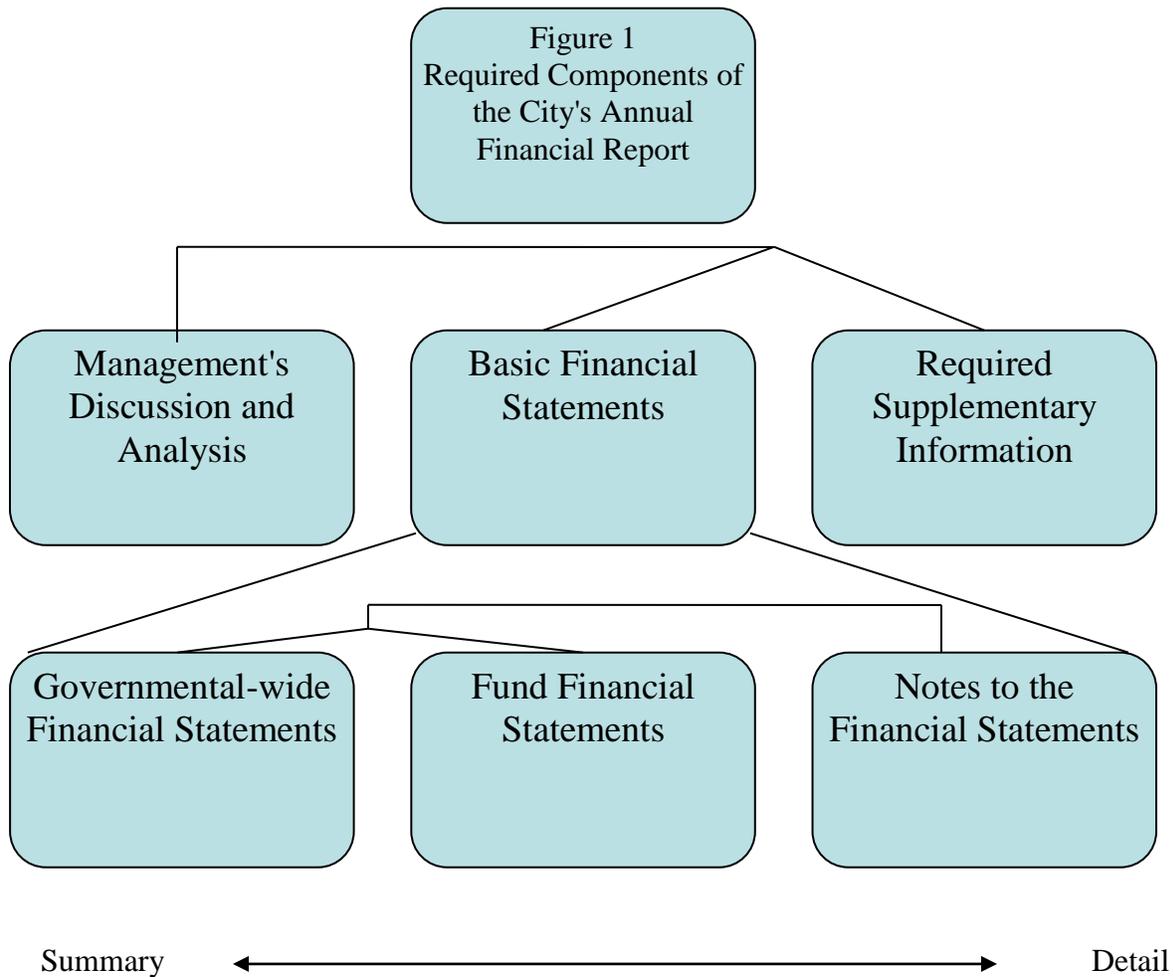
- ◆ The net position of the City at the close of the most recent year was approximately \$14,779,622. Of this amount, \$6,293,582 may be used to meet government's ongoing obligations to citizens and creditors.
- ◆ The government's total net position increased by \$128,259 in 2016. This was attributable due to the city's positive operations of its governmental funds.
- ◆ As of the close of the current year, the City's governmental funds reported combined ending fund balances of \$2,517,829, an increase of \$260,267. These dollars are available for spending at the City's discretion, but some have been designated for specific purposes.
- ◆ At the end of the current year, fund balance for the General Fund was \$981,862, or 93% of total General Fund expenditures. While these funds are not legally restricted, \$478,760 is assigned for future purposes, leaving the unassigned fund balance of \$503,102, or 48% of current year expenditures, to be used in the event of a major catastrophe.
- ◆ The City's total long-term debt decreased by \$1,235,450 during the current year because of a balloon payment on a portion of the City's debt.

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 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

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**

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 and deferred outflows/liability and deferred inflows of information	All assets and deferred outflows and liabilities and deferred inflows, both financial and capital, and short-term and long-term	Only assets and deferred outflows expected to be used up and liabilities and deferred inflows that come due during the year or soon thereafter, no capital assets included	All assets and deferred outflows and liabilities and deferred inflows, both financial and capital and short-term and long-term
Type of in flow/out flow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

City of Rockville Management's Discussion And Analysis

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The Statement of Net Position presents information on all of the City's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

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

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate Economic Development Authority (EDA) of Rockville. Financial information for this blended component unit is reported as if it were part of the City. The government-wide financial statements can be found on pages 18-19 of this report.

Fund Financial Statements

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

City of Rockville Management's Discussion And Analysis

Governmental Funds

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

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

The City maintains 8 individual governmental funds. Information is presented separately in the governmental funds Balance Sheet and in the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund, Road Maintenance Capital Project Fund and the City Facilities Debt Service Fund, all of which are considered to be major funds. Data from the other nonmajor governmental funds are combined into a single, aggregated presentation. Individual 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 Financial Statements

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

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

Other Information

The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the Notes to Financial Statements. Combining and individual fund statements and schedules can be found on pages 68-73 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, total assets and deferred outflows exceeded total liabilities and deferred inflows by \$14,799,622 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	
	2016	2015	2016	2015	2016	2015
Current and Other Assets	\$ 2,947,809	\$ 2,707,596	\$ 4,421,982	\$ 5,391,370	\$ 7,369,791	\$ 8,098,966
Capital Assets	7,339,236	7,160,350	13,767,714	13,686,599	21,106,950	20,846,949
Less Accumulated Depreciation	<u>(2,835,472)</u>	<u>(2,632,629)</u>	<u>(3,662,878)</u>	<u>(3,327,133)</u>	<u>(6,498,350)</u>	<u>(5,959,762)</u>
Total Assets	<u>\$ 7,451,573</u>	<u>\$ 7,235,317</u>	<u>\$ 14,526,818</u>	<u>\$ 15,750,836</u>	<u>\$ 21,978,391</u>	<u>\$ 22,986,153</u>
Deferred Outflows	<u>\$ 150,537</u>	<u>\$ 68,385</u>	<u>\$ 37,003</u>	<u>\$ 9,463</u>	<u>\$ 187,540</u>	<u>\$ 77,848</u>
Long-Term Liabilities						
Outstanding	\$ 2,089,600	\$ 2,148,465	\$ 4,301,585	\$ 4,852,800	\$ 6,391,185	\$ 7,001,265
Other Liabilities	<u>277,576</u>	<u>225,367</u>	<u>667,225</u>	<u>1,155,816</u>	<u>944,801</u>	<u>1,381,183</u>
Total Liabilities	<u>\$ 2,367,176</u>	<u>\$ 2,373,832</u>	<u>\$ 4,968,810</u>	<u>\$ 6,008,616</u>	<u>\$ 7,335,986</u>	<u>\$ 8,382,448</u>
Deferred Inflows	<u>\$ 23,583</u>	<u>\$ 7,904</u>	<u>\$ 6,740</u>	<u>\$ 2,286</u>	<u>\$ 30,323</u>	<u>\$ 10,190</u>
NET POSITION:						
Net Investment in						
Capital Assets	\$ 2,629,764	\$ 2,516,721	\$ 5,298,514	\$ 4,992,558	\$ 7,928,278	\$ 7,509,279
Restricted	531,958	305,826	45,804	549,185	577,762	855,011
Unrestricted	<u>2,049,629</u>	<u>2,099,419</u>	<u>4,243,953</u>	<u>4,207,654</u>	<u>6,293,582</u>	<u>6,307,073</u>
Total Net Position	<u>\$ 5,211,351</u>	<u>\$ 4,921,966</u>	<u>\$ 9,588,271</u>	<u>\$ 9,749,397</u>	<u>\$ 14,799,622</u>	<u>\$ 14,671,363</u>

An additional portion of the City's net position (6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (43%) may be used to meet the government's ongoing obligations to citizens and creditors. This is a decrease of \$13,491 from 2015.

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

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

Governmental Activities

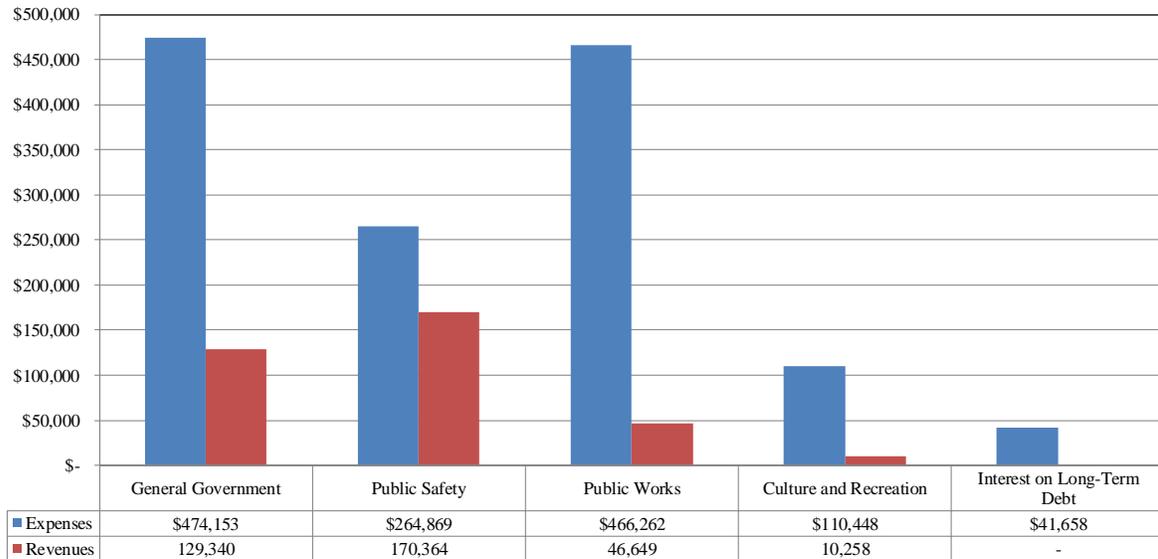
Governmental activities increased the City's net position by \$289,385. The key element of this increase is due to setting aside funds for future road maintenance.

Changes in Net Position

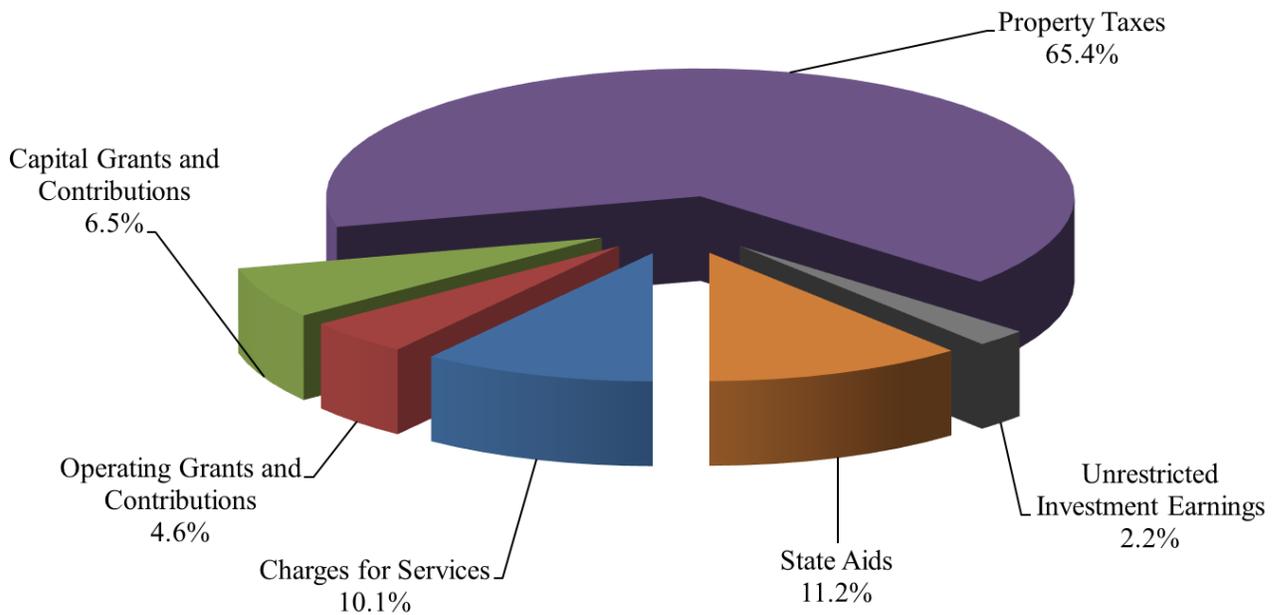
	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
REVENUES:						
Program Revenues:						
Charges for Service	\$ 169,629	\$ 151,556	\$ 451,154	\$ 403,363	\$ 620,783	\$ 554,919
Operating Grants and Contributions	77,221	31,408	23,172	26,052	100,393	57,460
Capital Grants and Contributions	109,761	57,758	124,555	122,580	234,316	180,338
General Revenues:						
Property Taxes	1,102,877	1,089,467	17,771	10,977	1,120,648	1,100,444
Other	188,412	185,560	176	105	188,588	185,665
Investment Income	37,687	33,375	47,749	39,522	85,436	72,897
Total Revenues	1,685,587	1,549,124	664,577	602,599	2,350,164	2,151,723
EXPENSES:						
General Government	474,153	424,149	-	-	474,153	424,149
Public Safety	264,869	245,263	-	-	264,869	245,263
Public Works	466,262	351,138	-	-	466,262	351,138
Culture and Recreation	110,448	69,604	-	-	110,448	69,604
Economic Development	-	376	-	-	-	376
Interest on Long-Term Debt	41,658	97,247	-	-	41,658	97,247
Water	-	-	265,426	217,087	265,426	217,087
Sewer	-	-	599,089	879,443	599,089	879,443
Total Expenses	1,357,390	1,187,777	864,515	1,096,530	2,221,905	2,284,307
Increase in Net Position						
Before Transfers	328,197	361,347	(199,938)	(493,931)	128,259	(132,584)
Transfers	(38,812)	(17,160)	38,812	17,160	-	-
Increase in Net Position	289,385	344,187	(161,126)	(476,771)	128,259	(132,584)
NET POSITION:						
Beginning of Year	4,921,996	4,738,682	9,749,397	10,261,335	14,671,393	15,000,017
Change in Accounting Principle	-	(160,903)	-	(35,167)	-	(196,070)
Beginning of Year, Restated	4,921,996	4,577,779	9,749,397	10,226,168	14,671,393	14,803,947
End of Year	\$ 5,211,381	\$ 4,921,966	\$ 9,588,271	\$ 9,749,397	\$ 14,799,652	\$ 14,671,363

City of Rockville Management's Discussion And Analysis

Expenses and Program Revenues - Governmental Activities



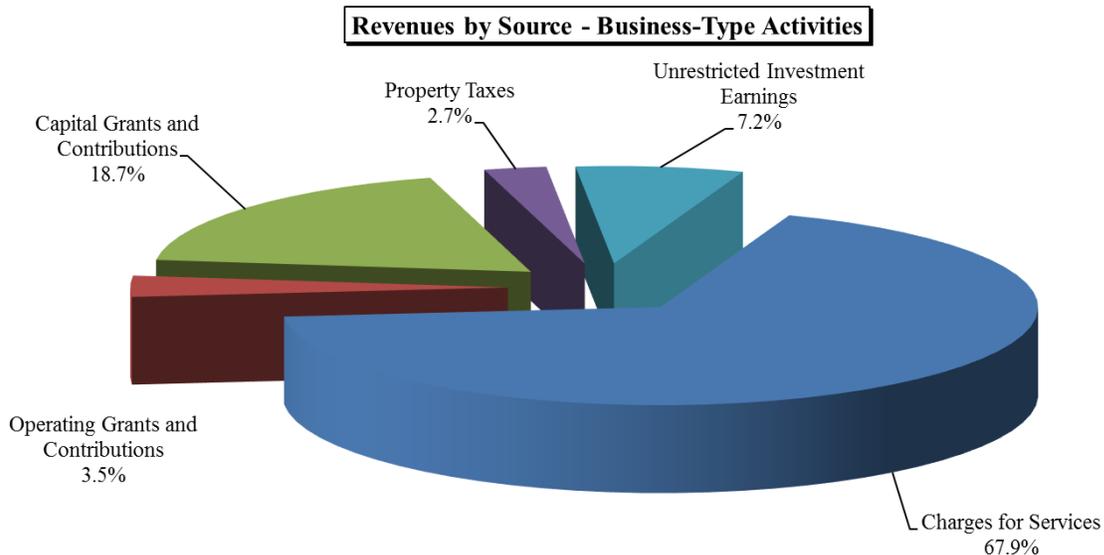
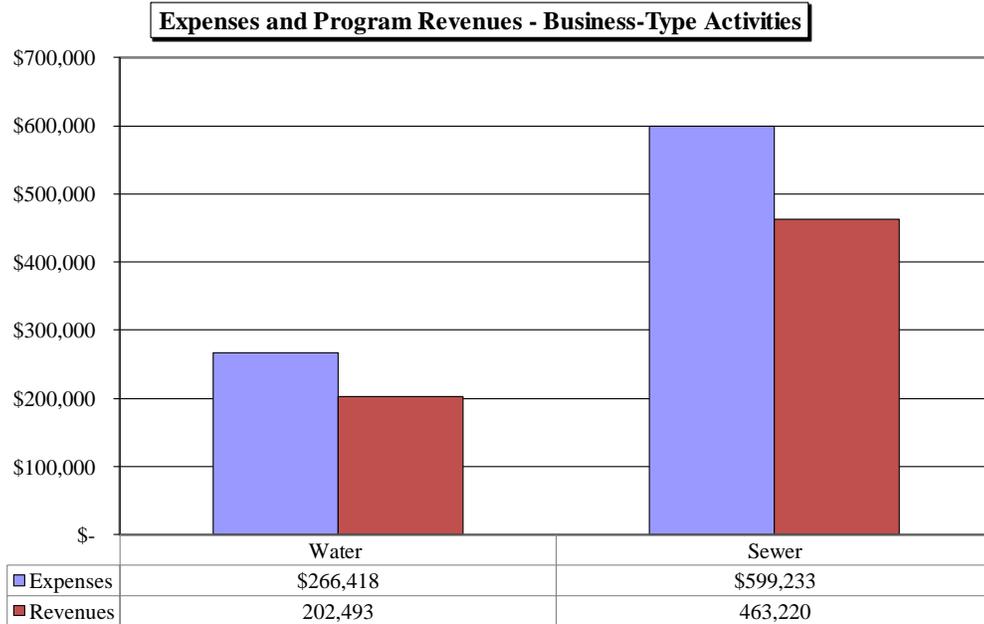
Revenues by Source - Governmental Activities



City of Rockville Management's Discussion And Analysis

Business Type Activities

Business type activities decreased the City's net position by \$161,126. Key elements of this decrease are as follows: depreciation expense and special assessment forfeitures.



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

City of Rockville Management's Discussion And Analysis

Governmental Funds

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

As of the end of the current year, the City's governmental funds reported combined ending fund balances of \$2,517,829, an increase of \$260,267 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 \$981,862. 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 48% of total General Fund expenditures, while total fund balance represents 93% of that same amount.

The fund balance of the City's General Fund increased by \$23,425 during the current year. The key factor for the increase was a payment from a settlement agreement.

The Road Maintenance fund balance increased \$194,295 as a result of small improvement projects being done in 2016, but continuing to levy for larger future maintenance projects.

The City Facilities fund balance increased \$294,288 during the current year due to a transfer in from the Economic Development Authority fund.

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, \$438,739 and sewer, \$3,805,214. The proprietary funds decreased \$161,126 in total net position for the year; this decrease is primarily due to depreciation expense of \$335,745 in the funds as well as \$43,172 in special assessment forfeitures.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City approved the 2016 General Fund budget anticipating revenues to exceed expenditures by \$74,922. The City amended its budget to recognize additional unplanned obligations during the year, for a planned reduction in fund balance of \$26,042. The City ended the year with an increase to the General Fund of \$23,425, as previously discussed.

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, 2016, amounts to \$14,608,600 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, furniture and office equipment, infrastructure and construction in progress. The decrease in the governmental activities and business type activities occurred due depreciation of infrastructure. Additional information on capital assets can be found in Note 6 of this report.

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

Long-Term Debt

At the end of the current year, the City had total bonded debt outstanding of \$6,666,710, compensated absences of \$18,221, and severance of \$18,922.

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

	Governmental Activities	Business-Type Activities	Total
G.O. Improvement Bonds	\$ 1,854,000	\$ -	\$ 1,854,000
G.O. Revenue Bonds	-	1,034,000	1,034,000
G.O. Notes/Certificates Payable	20,000	3,758,710	3,778,710
Compensated Absences	18,221	-	18,221
Severance	18,922	-	18,922
Total	<u>\$ 1,911,143</u>	<u>\$ 4,792,710</u>	<u>\$ 6,703,853</u>

The City's total debt payments of \$1,218,479 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 City continues to see new construction growth, not only in residential but also in commercial development.
- Local government aid payments increased over previous year by \$2,326.
- The City continues to review its fee structures for all licenses and permits and services to recover appropriate costs in lieu of raising property taxes.
- The City's investment earnings have increased this year by \$11,664 due in large part to the economy picking up and proper investments being made.

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

City of Rockville
Statement of Net Position
December 31, 2016

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments	\$ 2,557,507	\$ 2,120,481	\$ 4,677,988
Property tax receivable	15,690	239	15,929
Accounts receivable	2,838	63,728	66,566
Interest receivable	5,237	4,685	9,922
Due from other governments	21,207	44,958	66,165
Special assessments receivable			
Delinquent	1,059	3,714	4,773
Deferred	344,271	1,721,977	2,066,248
Land held for resale	-	462,200	462,200
Capital assets not being depreciated			
Land	456,118	98,295	554,413
Capital assets being depreciated			
Buildings	2,620,874	-	2,620,874
Infrastructure	2,997,543	-	2,997,543
Sewer and water improvements	-	13,529,751	13,529,751
Machinery and equipment	1,264,701	139,668	1,404,369
Less accumulated depreciation	(2,835,472)	(3,662,878)	(6,498,350)
Total capital assets, net of accumulated depreciation	4,503,764	10,104,836	14,608,600
Total assets	7,451,573	14,526,818	21,978,391
Deferred Outflows of Resources			
Deferred outflows of resources related to pensions	150,537	37,003	187,540
Total assets and deferred outflows of resources	\$ 7,602,110	\$ 14,563,821	\$ 22,165,931
Liabilities			
Accounts payable	\$ 57,530	\$ 44,130	\$ 101,660
Due to other governments	115	-	115
Salaries and benefits payable	11,315	3,289	14,604
Interest payable	18,357	32,096	50,453
Bond principal payable (net of premium)			
Payable within one year	154,000	105,000	259,000
Payable after one year	1,735,680	942,612	2,678,292
Notes payable			
Payable within one year	20,000	482,710	502,710
Payable after one year	-	3,276,000	3,276,000
Compensated absences payable			
Payable within one year	16,259	-	16,259
Payable after one year	2,940	-	2,940
Severance payable			
Payable after one year	18,922	-	18,922
Net pension liability	332,058	82,973	415,031
Total liabilities	2,367,176	4,968,810	7,335,986
Deferred Inflows of Resources			
Deferred inflows of resources related to pensions	23,583	6,740	30,323
Net Position			
Net investment in capital assets	2,629,764	5,298,514	7,928,278
Restricted for			
Debt service	488,437	-	488,437
Other purposes	43,521	-	43,521
Wastewater replacement	-	45,804	45,804
Unrestricted	2,049,629	4,243,953	6,293,582
Total net position	5,211,351	9,588,271	14,799,622
Total liabilities, deferred inflows of resources, and net position	\$ 7,602,110	\$ 14,563,821	\$ 22,165,931

See notes to financial statements.

**City of Rockville
Statement of Activities
Year Ended December 31, 2016**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities							
General government	\$ 474,153	\$ 107,538	\$ 21,802	\$ -	\$ (344,813)	\$ -	\$ (344,813)
Public safety	264,869	20,178	45,186	105,000	(94,505)	-	(94,505)
Public works	466,262	38,975	2,913	4,761	(419,613)	-	(419,613)
Culture and recreation	110,448	2,938	7,320	-	(100,190)	-	(100,190)
Interest on long-term debt	41,658	-	-	-	(41,658)	-	(41,658)
Total governmental activities	<u>1,357,390</u>	<u>169,629</u>	<u>77,221</u>	<u>109,761</u>	<u>(1,000,779)</u>	<u>-</u>	<u>(1,000,779)</u>
Business-type activities							
Water	265,426	190,986	1,243	2,101	-	(71,096)	(71,096)
Sewer	599,089	260,168	21,929	122,454	-	(194,538)	(194,538)
Total business-type activities	<u>864,515</u>	<u>451,154</u>	<u>23,172</u>	<u>124,555</u>	<u>-</u>	<u>(265,634)</u>	<u>(265,634)</u>
Total governmental and business-type activities	<u>\$ 2,221,905</u>	<u>\$ 620,783</u>	<u>\$ 100,393</u>	<u>\$ 234,316</u>	<u>(1,000,779)</u>	<u>(265,634)</u>	<u>(1,266,413)</u>
General revenues							
Property taxes					1,102,877	17,771	1,120,648
Unrestricted grants and aids					188,412	176	188,588
Unrestricted investment earnings					37,687	47,749	85,436
Transfers					(38,812)	38,812	-
Total general revenues and transfers					<u>1,290,164</u>	<u>104,508</u>	<u>1,394,672</u>
Change in net position					289,385	(161,126)	128,259
Net position - beginning					<u>4,921,966</u>	<u>9,749,397</u>	<u>14,671,363</u>
Net position - ending					<u>\$ 5,211,351</u>	<u>\$ 9,588,271</u>	<u>\$ 14,799,622</u>

City of Rockville
Balance Sheet - Governmental Funds
December 31, 2016

		<u>Capital Project</u>	<u>Debt Service</u>
	<u>General Fund (101)</u>	<u>Road Maintenance (215)</u>	<u>City Facilities (304)</u>
Assets			
Cash and investments	\$ 1,028,729	\$ 932,807	\$ 436,752
Taxes receivable - delinquent	9,409	3,505	2,330
Special assessment receivable			
Delinquent	-	-	-
Deferred	172,945	73,450	-
Accounts receivable	2,838	-	-
Interest receivable	2,884	1,258	895
Due from other funds	1,505	-	-
Due from other governments	12,717	4,786	3,273
	<u>12,717</u>	<u>4,786</u>	<u>3,273</u>
Total assets	<u>\$ 1,231,027</u>	<u>\$ 1,015,806</u>	<u>\$ 443,250</u>
Liabilities			
Accounts payable	\$ 55,438	\$ -	\$ -
Salaries and benefits payable	11,258	-	-
Due to other funds	-	-	-
Due to other governments	115	-	-
Total liabilities	<u>66,811</u>	<u>-</u>	<u>-</u>
Deferred Inflows of Resources			
Unavailable revenue - property taxes	9,409	3,505	2,330
Unavailable revenue - special assessments	172,945	73,450	-
Total deferred inflows of resources	<u>182,354</u>	<u>76,955</u>	<u>2,330</u>
Fund Balances			
Restricted	-	-	440,920
Assigned	478,760	938,851	-
Unassigned	503,102	-	-
Total fund balances	<u>981,862</u>	<u>938,851</u>	<u>440,920</u>
	<u>\$ 1,231,027</u>	<u>\$ 1,015,806</u>	<u>\$ 443,250</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,231,027</u>	<u>\$ 1,015,806</u>	<u>\$ 443,250</u>

Other Governmental Funds	Total Governmental Funds
\$ 159,219	\$ 2,557,507
446	15,690
1,059	1,059
97,876	344,271
-	2,838
200	5,237
-	1,505
431	21,207
<u>\$ 259,231</u>	<u>\$ 2,949,314</u>
\$ 2,092	\$ 57,530
57	11,315
1,505	1,505
-	115
<u>3,654</u>	<u>70,465</u>
446	15,690
98,935	345,330
<u>99,381</u>	<u>361,020</u>
115,808	556,728
41,874	1,459,485
(1,486)	501,616
<u>156,196</u>	<u>2,517,829</u>
<u>\$ 259,231</u>	<u>\$ 2,949,314</u>

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City of Rockville
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
December 31, 2016

Total fund balances - governmental funds \$ 2,517,829

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	7,339,236
Less accumulated depreciation	(2,835,472)

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Bond principal payable	(1,854,000)
Notes payable	(20,000)
Compensated absences payable	(19,199)
Severance payable	(18,922)
Bond premium	(35,680)
Net pension liability	(332,058)

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

Property taxes	15,690
Special assessments	1,059

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

Deferred inflows of resources related to pensions	(23,583)
Deferred outflows of resources related to pensions	150,537

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

Deferred special assessments	344,271
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Governmental funds do not report a liability for accrued interest until due and payable.

(18,357)

Total net position - governmental activities

\$ 5,211,351

City of Rockville
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended December 31, 2016

	General Fund (101)	Capital Project Road Maintenance (215)	Debt Service City Facilities (304)
Revenues			
Property taxes	\$ 675,175	\$ 250,231	\$ 151,615
Miscellaneous taxes	2	-	-
Special assessments	3,594	16,412	-
Licenses and permits	60,390	-	-
Intergovernmental	205,302	2,464	1,482
Charges for services	31,588	38,812	-
Fines and forfeitures	10,839	-	-
Miscellaneous			
Investment income	23,422	11	13,300
Contributions and donations	7,125	-	-
Other	66,632	-	-
Total revenues	<u>1,084,069</u>	<u>307,930</u>	<u>166,397</u>
Expenditures			
Current			
General government	369,239	-	-
Public safety	193,888	-	-
Public works	343,070	49	-
Culture and recreation	84,576	-	-
Debt service			
Principal	19,000	-	100,000
Interest and other charges	1,475	-	41,832
Capital outlay			
General government	306	-	-
Public safety	25,805	-	-
Public works	15,397	74,774	-
Culture and recreation	1,956	-	-
Total expenditures	<u>1,054,712</u>	<u>74,823</u>	<u>141,832</u>
Excess of revenues over expenditures	29,357	233,107	24,565
Other Financing Sources (Uses)			
Proceeds from sale of capital assets	12,000	-	-
Transfers in	-	-	269,723
Transfers out	(17,932)	(38,812)	-
Total other financing sources (uses)	<u>(5,932)</u>	<u>(38,812)</u>	<u>269,723</u>
Net change in fund balances	23,425	194,295	294,288
Fund Balances			
Beginning of Year	<u>958,437</u>	<u>744,556</u>	<u>146,632</u>
End of Year	<u>\$ 981,862</u>	<u>\$ 938,851</u>	<u>\$ 440,920</u>

Other Governmental Funds	Total Governmental Funds
\$ 36,641	\$ 1,113,662
-	2
8,692	28,698
-	60,390
4,637	213,885
-	70,400
-	10,839
955	37,688
3,025	10,150
-	66,632
<u>53,950</u>	<u>1,612,346</u>
23,969	393,208
-	193,888
-	343,119
1,022	85,598
18,000	137,000
3,306	46,613
-	306
-	25,805
-	90,171
7,603	9,559
<u>53,900</u>	<u>1,325,267</u>
50	287,079
-	12,000
17,932	287,655
<u>(269,723)</u>	<u>(326,467)</u>
<u>(251,791)</u>	<u>(26,812)</u>
(251,741)	260,267
407,937	2,257,562
<u>\$ 156,196</u>	<u>\$ 2,517,829</u>

City of Rockville
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances to
the Statement of Activities - Governmental Funds
December 31, 2016

Total net change in fund balances - governmental funds \$ 260,267

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	104,786
Depreciation expense	(219,212)
Loss on disposal	(14,531)
Donated assets	105,000

Compensated absences and severance are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities. (18,292)

Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in the net position in the Statement of Activities. 137,000

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. 1,387

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

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

Pension expense	(38,829)
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Delinquent and deferred receivables will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are not revenues in the funds.

Delinquent property taxes	(10,785)
Deferred and delinquent special assessments	(20,974)

Change in net position - governmental activities \$ 289,385

City of Rockville
Statement of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended December 31, 2016

	Budgeted amounts		Actual Amounts	Variance with final budget - over (under)
	Original	Final		
Revenues				
Property taxes	\$ 697,482	\$ 697,482	\$ 675,175	\$ (22,307)
Miscellaneous taxes	-	-	2	2
Special assessments	60,322	60,322	3,594	(56,728)
Licenses and permits	27,394	27,394	60,390	32,996
Intergovernmental	198,142	198,142	205,302	7,160
Charges for services	28,580	28,580	31,588	3,008
Fines and forfeitures	10,000	10,000	10,839	839
Miscellaneous revenues				
Investment income	20,070	20,070	23,422	3,352
Contributions and donations	100	100	7,125	7,025
Other	10,970	10,970	66,632	55,662
Total revenues	<u>1,053,060</u>	<u>1,053,060</u>	<u>1,084,069</u>	<u>31,009</u>
Expenditures				
Current				
General government	383,678	335,509	369,239	33,730
Public safety	163,781	176,341	193,888	17,547
Public works	246,620	343,706	343,070	(636)
Culture and recreation	44,711	84,198	84,576	378
Debt service				
Principal	19,000	19,000	19,000	-
Interest and other charges	1,475	1,475	1,475	-
Capital outlay				
General government	4,000	4,000	306	(3,694)
Public safety	70,040	70,040	25,805	(44,235)
Public works	21,000	21,000	15,397	(5,603)
Culture and recreation	10,000	10,000	1,956	(8,044)
Total expenditures	<u>964,305</u>	<u>1,065,269</u>	<u>1,054,712</u>	<u>(10,557)</u>
Excess of revenues over (under) expenditures	88,755	(12,209)	29,357	41,566
Other Financing Uses				
Proceeds from sale of capital assets	-	-	12,000	12,000
Transfers out	(13,833)	(13,833)	(17,932)	(4,099)
Total other financing sources (uses)	<u>(13,833)</u>	<u>(13,833)</u>	<u>(5,932)</u>	<u>7,901</u>
Net change in fund balances	<u>\$ 74,922</u>	<u>\$ (26,042)</u>	23,425	<u>\$ 49,467</u>
Fund Balances				
Beginning of year			<u>958,437</u>	
End of year			<u>\$ 981,862</u>	

City of Rockville
Statement of Net Position - Proprietary Funds
December 31, 2016

	Water (311,312,601)	Sewer (309,310,602)	Total
Assets			
Current assets			
Cash and investments	\$ 93,480	\$ 2,027,001	\$ 2,120,481
Taxes receivable - delinquent	-	239	239
Special assessments receivable			
Delinquent	440	3,274	3,714
Deferred	145,226	1,576,751	1,721,977
Accounts receivable	21,692	42,036	63,728
Interest receivable	306	4,379	4,685
Due from other governments	4,511	40,447	44,958
Land held for resale	213,401	248,799	462,200
Total current assets	479,056	3,942,926	4,421,982
Noncurrent assets			
Capital assets			
Land	98,295	-	98,295
Sewer and water improvements	2,504,537	11,025,214	13,529,751
Equipment	-	139,668	139,668
Total capital assets	2,602,832	11,164,882	13,767,714
Less accumulated depreciation	(818,718)	(2,844,160)	(3,662,878)
Net capital assets	1,784,114	8,320,722	10,104,836
Total assets	2,263,170	12,263,648	14,526,818
Deferred Outflows of Resources			
Deferred outflows of resources related to pensions	17,446	19,557	37,003
Total assets and deferred outflows of resources	\$ 2,280,616	\$ 12,283,205	\$ 14,563,821
Liabilities			
Current liabilities			
Accounts payable	\$ 2,201	\$ 41,929	\$ 44,130
Salaries and benefits payable	1,491	1,798	3,289
Interest payable	11,773	20,323	32,096
Long-term liabilities due within one year	95,000	492,710	587,710
Total current liabilities	110,465	556,760	667,225
Noncurrent liabilities			
Bonds payable, net of unamortized premiums	908,894	138,718	1,047,612
Notes payable	-	3,758,710	3,758,710
Net pension liability	39,120	43,853	82,973
Less amount due within one year	(95,000)	(492,710)	(587,710)
Total noncurrent liabilities	853,014	3,448,571	4,301,585
Total liabilities	963,479	4,005,331	4,968,810
Deferred Inflows of Resources			
Deferred inflows of resources related to pensions	3,178	3,562	6,740
Net Position			
Net investment in capital assets	875,220	4,423,294	5,298,514
Restricted	-	45,804	45,804
Unrestricted	438,739	3,805,214	4,243,953
Total net position	1,313,959	8,274,312	9,588,271
Total liabilities, deferred inflows of resources, and net position	\$ 2,280,616	\$ 12,283,205	\$ 14,563,821

City of Rockville
Statement of Revenues, Expenses, and Changes
in Net Position - Proprietary Funds
Year Ended December 31, 2016

	Water <u>(311,312,601)</u>	Sewer <u>(309,310,602)</u>	Total <u></u>
Operating revenues			
Charges for services	\$ 150,377	\$ 251,684	\$ 402,061
Permits, hookup fees, and penalties	11,470	8,484	19,954
Total operating revenues	<u>161,847</u>	<u>260,168</u>	<u>422,015</u>
Operating expenses			
Wages and salaries	31,013	35,402	66,415
Employee benefits	10,960	20,414	31,374
Materials and supplies	15,351	1,025	16,376
Repairs and maintenance	74,781	37,574	112,355
Professional services	5,725	92,020	97,745
Insurance	2,021	3,911	5,932
Utilities	12,312	13,924	26,236
Depreciation	58,133	277,612	335,745
Equipment	3,299	27,877	31,176
Miscellaneous	5,370	4,668	10,038
Total operating expenses	<u>218,965</u>	<u>514,427</u>	<u>733,392</u>
Operating loss	(57,118)	(254,259)	(311,377)
Nonoperating revenues (expenses)			
Rent	29,139	-	29,139
Investment income	7,171	40,578	47,749
Special assessments	2,101	82,302	84,403
Special assessment forfeiture	(18,661)	(24,511)	(43,172)
Property taxes	-	17,771	17,771
Grants	150	40,497	40,647
Refunds and reimbursements	1,033	4,789	5,822
Amortization	992	144	1,136
Interest expense	(28,792)	(60,295)	(89,087)
Other income	60	16,971	17,031
Total nonoperating revenues (expenses)	<u>(6,807)</u>	<u>118,246</u>	<u>111,439</u>
Loss before capital contributions and transfers	(63,925)	(136,013)	(199,938)
Transfers in	<u>38,812</u>	<u>-</u>	<u>38,812</u>
Change in net position	(25,113)	(136,013)	(161,126)
Net position			
Beginning of year	<u>1,339,072</u>	<u>8,410,325</u>	<u>9,749,397</u>
End of year	<u>\$ 1,313,959</u>	<u>\$ 8,274,312</u>	<u>\$ 9,588,271</u>

City of Rockville
Statement of Cash Flows - Proprietary Funds
For the Year Ended December 31, 2016

	Water (311,312,601)	Sewer (309,310,602)	Total
Cash Flows - Operating Activities			
Receipts from customers and users	\$ 192,642	\$ 311,802	\$ 504,444
Payments to suppliers	(123,788)	(150,732)	(274,520)
Payments to employees	(37,439)	(42,815)	(80,254)
Miscellaneous revenue	29,878	4,569	34,447
Net cash flows - operating activities	<u>61,293</u>	<u>122,824</u>	<u>184,117</u>
Cash Flows - Noncapital Financing Activities			
Transfer from other funds	<u>38,812</u>	<u>-</u>	<u>38,812</u>
Cash Flows - Capital And Related Financing Activities			
Principal paid on debt	(90,000)	(491,479)	(581,479)
Interest paid on debt	(30,223)	(61,478)	(91,701)
Property tax and special assessment revenues received	2,594	334,485	337,079
Acquisition of capital assets	-	(81,115)	(81,115)
Net cash flows - capital and related financing activities	<u>(117,629)</u>	<u>(299,587)</u>	<u>(417,216)</u>
Cash Flows - Investing Activities			
Interest and dividends received	<u>7,565</u>	<u>40,252</u>	<u>47,817</u>
Net change in cash and cash equivalents	(9,959)	(136,511)	(146,470)
Cash and Cash Equivalents			
January 1	<u>103,439</u>	<u>2,163,512</u>	<u>2,266,951</u>
December 31	<u>\$ 93,480</u>	<u>\$ 2,027,001</u>	<u>\$ 2,120,481</u>
Reconciliation of Operating Loss to Net Cash Flows - Operating Activities			
Operating loss	\$ (57,118)	\$ (254,259)	\$ (311,377)
Adjustments to reconcile operating loss to net cash flows - operating activities			
Miscellaneous revenue	29,878	4,569	34,447
Depreciation expense	58,133	277,612	335,745
Net pension expense	3,686	11,928	15,614
Accounts receivable	26,325	40,234	66,559
Due from other governments	4,470	11,400	15,870
Accounts payable	(418)	31,078	30,660
Contracts payable	-	(811)	(811)
Due to other governmental units	(4,511)	-	(4,511)
Salaries payable	848	1,073	1,921
Total adjustments	<u>118,411</u>	<u>377,083</u>	<u>495,494</u>
Net cash flows - operating activities	<u>\$ 61,293</u>	<u>\$ 122,824</u>	<u>\$ 184,117</u>
Noncash Investing, Capital, and Financing Activities			
Debt forgiveness	\$ -	\$ 16,971	\$ 16,971
Special assessment forfeitures	<u>(18,661)</u>	<u>(24,511)</u>	<u>(43,172)</u>
Total noncash investing, capital, and financing activities	<u>\$ (18,661)</u>	<u>\$ (7,540)</u>	<u>\$ (26,201)</u>

City of Rockville
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

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

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

1. Blended Component Unit

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

B. Government-Wide and Fund Financial Statements

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

City of Rockville
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

City of Rockville
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Description of Funds:

Major Governmental Funds:

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

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

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

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 utility functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

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

City of Rockville
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

1. Deposits and Investments

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

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.

Certain investments for the City are reported at fair value as disclosed in Note 3. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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.

**City of Rockville
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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. Land Held for Resale

Land is acquired by the City for subsequent resale for development purposes. Land held for resale is reported as an asset as the lower of cost or market value in the fund that acquired it.

5. 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 exceeding \$5,000 to \$25,000 depending on asset type 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 acquisition value at the date of donation.

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

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

Assets	Years
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

City of Rockville
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

6. 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:

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

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.

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The City has one item that qualifies for reporting in this category. The City presents deferred outflows of resources on the Statement of Net Position for deferred outflows of resources related to pensions. Deferred outflows of resources related to pensions for various estimate differences that will be amortized and recognized over future years.

City of Rockville
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

7. Deferred Outflows/Inflows of Resources (Continued)

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. The City presents deferred inflows of resources on the Statement of Net Position for deferred inflows of resources related to pensions for various estimate differences that will be amortized and recognized over future years.

8. 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.

9. Pensions

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

City of Rockville
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

10. Fund Equity

a. Classification

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

- Nonspendable Fund Balance – These are amounts that cannot be spent because they are not in spendable form.
- Restricted Fund Balance – These are amounts that are restricted to specific purposes either by a) constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through enabling legislation.
- Committed Fund Balance – These are amounts consisting of internally imposed constraints. These constraints are established by resolution of the City Council.
- Assigned Fund Balance – These are amounts reflecting a specific purpose for which it is the City's intended use. These constraints are established by the City Council and/or management. The City Administrator/Clerk is authorized to establish assignments of fund balance.
- Unassigned Fund Balance – These are residual amounts in the General Fund not reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance.

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.

City of Rockville
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

11. Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources in the government-wide financial statements. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is 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.

E. 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.

F. 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.

City of Rockville
Notes to Financial Statements

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Deficit Fund Balance

The Economic Development Authority Special Revenue Fund had deficit fund balance of \$1,486 at December 31, 2016.

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: 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. As of December 31, 2016, the City's bank balance of \$1,612,463 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, 2016, was \$1,582,418 for deposits.

B. Investments

Investment Type	Fair Value	Investment Maturities			Ratings
		Less than One Year	1-5 Years	6-10 Years	
Pooled investments					
Brokered certificates of deposit	\$ 3,071,821	\$ 366,754	\$ 2,493,474	\$ 211,593	N/A
Brokered cash	502	502	-	-	N/A
Money market	23,247	23,247	-	-	N/A
Total investments	<u>\$ 3,095,570</u>	<u>\$ 390,503</u>	<u>\$ 2,493,474</u>	<u>\$ 211,593</u>	

City of Rockville
Notes to Financial Statements

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

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. The City had more than 5% of their total investments in World Financial Network Bank Wilmington DE (6.5%), Capital One Bank Glen Allen VA CD (7.9%), Discover BK Greenwood DE CD (8.0%), World Financial Capital Bank Salt Lake City UT CD (5.7%), American Exp Salt Lake City UT CD (5.2%), Ally BK Midvale UT CD (5.9%), Synchrony BK Drape UT CD (6.2%), Gulf Coast BK CD New Orleans LA CD (6.5%), HSBC BK USA N A Mc Lean VA CD (6.3%), AMEX Centurion Salt Lake City UT CD (5.6%), Sallie Mae BK CD Salt Lake City UT CD (6.9%), and World Financial Capital Bank Salt Lake City UT (5.7%).

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.

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.

The City has the following recurring fair value measurements as of December 31, 2016:

- \$3,071,821 of investments are valued using a matrix pricing model (Level 2 inputs)

Summary of cash deposits and investments as of December 31, 2016, were as follows:

Deposits (Note 3.A.)	\$ 1,582,418
Investments (Note 3.B.)	<u>3,095,570</u>
 Total deposits and investments	 <u><u>\$ 4,677,988</u></u>

Deposits and investments are presented in the December 31, 2016, basic financial statements as follows:

Statement of Net Position	
Cash and investments	<u><u>\$ 4,677,988</u></u>

City of Rockville
Notes to Financial Statements

NOTE 4 – INTERFUND TRANSFERS

Transfers during the year ended December 31, 2016, were as follows:

	Transfers In			Total
	City Facilities	Other Governmental Funds	Water	
Transfers out				
General Fund	\$ -	\$ 17,932	\$ -	\$ 17,932
Road Maintenance Fund	-	-	38,812	38,812
Other Governmental Funds	<u>269,723</u>	<u>-</u>	<u>-</u>	<u>269,723</u>
Total transfers out	<u>\$ 269,723</u>	<u>\$ 17,932</u>	<u>\$ 38,812</u>	<u>\$ 326,467</u>

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

NOTE 5 – INTERFUND ASSETS/LIABILITIES

At December 31, 2016, the Other Governmental Funds owed the General Fund \$1,505 to cover cash deficits.

City of Rockville
Notes to Financial Statements

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 456,118	\$ -	\$ -	\$ 456,118
Capital assets being depreciated				
Buildings	2,620,874	-	-	2,620,874
Infrastructure	2,853,824	143,719	-	2,997,543
Machinery and equipment	<u>1,229,534</u>	<u>66,067</u>	<u>(30,900)</u>	<u>1,264,701</u>
Total capital assets being depreciated	<u>6,704,232</u>	<u>209,786</u>	<u>(30,900)</u>	<u>6,883,118</u>
Less accumulated depreciation for				
Buildings	(537,915)	(65,960)	-	(603,875)
Infrastructure	(1,459,025)	(90,714)	-	(1,549,739)
Machinery and equipment	<u>(635,689)</u>	<u>(62,538)</u>	<u>16,369</u>	<u>(681,858)</u>
Total accumulated depreciation	<u>(2,632,629)</u>	<u>(219,212)</u>	<u>16,369</u>	<u>(2,835,472)</u>
Total capital assets being depreciated, net	<u>4,071,603</u>	<u>(9,426)</u>	<u>(14,531)</u>	<u>4,047,646</u>
Governmental activities capital assets, net	<u>\$ 4,527,721</u>	<u>\$ (9,426)</u>	<u>\$ (14,531)</u>	<u>\$ 4,503,764</u>

City of Rockville
Notes to Financial Statements

NOTE 6 – CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets not being depreciated				
Land	\$ 98,295	\$ -	\$ -	\$ 98,295
Capital assets being depreciated				
Buildings and systems	13,529,751	-	-	13,529,751
Machinery and equipment	<u>58,553</u>	<u>81,115</u>	<u>-</u>	<u>139,668</u>
Total capital assets being depreciated	<u>13,588,304</u>	<u>81,115</u>	<u>-</u>	<u>13,669,419</u>
Less accumulated depreciation for				
Buildings and systems	(3,274,202)	(335,035)	-	(3,609,237)
Machinery and equipment	<u>(52,931)</u>	<u>(710)</u>	<u>-</u>	<u>(53,641)</u>
Total accumulated depreciation	<u>(3,327,133)</u>	<u>(335,745)</u>	<u>-</u>	<u>(3,662,878)</u>
Business-type activities capital assets, net	<u>\$ 10,359,466</u>	<u>\$ (254,630)</u>	<u>\$ -</u>	<u>\$ 10,104,836</u>

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

Governmental activities	
General government	\$ 65,978
Public safety	40,447
Public works	103,397
Parks and recreation	<u>9,390</u>
Total depreciation expense - governmental activities	<u>\$ 219,212</u>
Business-type activities	
Water	\$ 58,133
Sewer	<u>277,612</u>
Total depreciation expense - business-type activities	<u>\$ 335,745</u>

City of Rockville
Notes to Financial Statements

NOTE 7– LONG-TERM DEBT

A. Components of Long-Term Liabilities

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 was 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.

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities						
Governmental activities						
G.O. Improvement Bonds						
G.O. Improvement Refunding Bonds, Series 2014B	05/01/14	2.10%	\$ 176,000	02/01/23	\$ 139,000	\$ 19,000
G.O. Capital Improvement Plan Bonds, Series 2014A	05/01/14	2.00%-2.75%	1,925,000	02/01/27	1,715,000	135,000
Total G.O. Bonds					<u>1,854,000</u>	<u>154,000</u>
Equipment certificate	11/01/06	5.00%	160,000	02/01/17	20,000	20,000
Unamortized premiums					35,680	-
Compensated absences					19,199	16,259
Severance					18,922	-
Total governmental activities					<u>1,947,801</u>	<u>190,259</u>
Business-type activities						
G.O. Bonds						
G.O. Utility Revenue Refunding Bonds, Series 2009A	08/01/09	2.00%-4.35%	1,650,000	02/01/28	495,000	34,000
G.O. Utility Revenue Refunding Bonds, Series 2014C	05/01/14	2.60%	539,000	02/01/23	539,000	71,000
Total G.O. Bonds					<u>1,034,000</u>	<u>105,000</u>
Notes payable						
G.O. Sewer Revenue Notes of 1996	12/19/95	N/A	1,209,000	08/20/17	38,710	38,710
G.O. Sewer Revenue Notes of 2004	04/22/04	1.34%	9,235,403	08/20/24	3,720,000	444,000
Total notes payable					<u>3,758,710</u>	<u>482,710</u>
Unamortized Premiums					13,612	-
Total business activities					<u>4,806,322</u>	<u>587,710</u>
Total all long-term liabilities					<u>\$ 6,754,123</u>	<u>\$ 777,969</u>

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

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

City of Rockville
Notes to Financial Statements

NOTE 7 – LONG-TERM DEBT (CONTINUED)

B. Minimum Debt Payments

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

Year Ending December 31,	G.O. Bonds		Equipment Certificate		Governmental Activities
	Principal	Interest	Principal	Interest	Total
2017	\$ 154,000	\$ 41,507	\$ 20,000	\$ 500	\$ 216,007
2018	159,000	38,358	-	-	197,358
2019	164,000	35,109	-	-	199,109
2020	170,000	31,749	-	-	201,749
2021	170,000	28,330	-	-	198,330
2022-2026	862,000	79,107	-	-	941,107
2027	175,000	2,406	-	-	177,406
Total	<u>\$ 1,854,000</u>	<u>\$ 256,566</u>	<u>\$ 20,000</u>	<u>\$ 500</u>	<u>\$ 2,131,066</u>

Year Ending December 31,	G.O. Revenue Bond		G.O. Note Payable		Business-Type Activities
	Principal	Interest	Principal	Interest	Total
2017	\$ 106,000	\$ 32,265	\$ 482,710	\$ 49,848	\$ 670,823
2018	108,000	29,185	449,000	43,898	630,083
2019	110,000	26,054	456,000	37,882	629,936
2020	117,000	25,694	462,000	31,771	636,465
2021	119,000	19,106	468,000	25,581	631,687
2022-2026	389,000	47,351	1,441,000	38,793	1,916,144
2027-2028	85,000	3,806	-	-	88,806
Total	<u>\$ 1,034,000</u>	<u>\$ 183,461</u>	<u>\$ 3,758,710</u>	<u>\$ 227,773</u>	<u>\$ 5,203,944</u>

City of Rockville
Notes to Financial Statements

NOTE 7 – LONG-TERM DEBT (CONTINUED)

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Governmental activities				
Bonds payable				
G.O. improvement bonds	\$ 1,972,000	\$ -	\$ 118,000	\$ 1,854,000
Equipment certificate	39,000	-	19,000	20,000
Unamortized premiums	39,248	-	3,568	35,680
Compensated absences	19,829	24,919	25,549	19,199
Severance payable	-	18,922	-	18,922
Total governmental activities	<u>\$ 2,070,077</u>	<u>\$ 43,841</u>	<u>\$ 166,117</u>	<u>\$ 1,947,801</u>
Business-type activities				
Bonds payable				
G. O. Bonds	\$ 1,634,000	\$ -	\$ 600,000	\$ 1,034,000
Unamortized premiums	14,748	-	1,136	13,612
Notes payable	4,257,160	-	498,450	3,758,710
Total business-type activities	<u>\$ 5,905,908</u>	<u>\$ -</u>	<u>\$ 1,099,586</u>	<u>\$ 4,806,322</u>

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

City of Rockville
Notes to Financial Statements

NOTE 8 – FUND BALANCE

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

	General	Road Maintenance	City Facilities	Nonmajor Governmental Fund	Total
Restricted					
Debt service	\$ -	\$ -	\$ 440,920	\$ 72,287	\$ 513,207
Park dedication	-	-	-	43,521	43,521
Assigned					
Lake improvement district	-	-	-	32,457	32,457
Road maintenance	-	938,851	-	-	938,851
General government	214,856	-	-	-	214,856
Fire	90,234	-	-	-	90,234
Civil defense	13,374	-	-	-	13,374
Street maintenance	93,131	-	-	-	93,131
Park and recreation	49,516	-	-	-	49,516
Ball program	7,755	-	-	-	7,755
Rocori Trail	-	-	-	9,417	9,417
Eagle Park	9,894	-	-	-	9,894
Unassigned	503,102	-	-	(1,486)	501,616
Total	<u>\$ 981,862</u>	<u>\$ 938,851</u>	<u>\$ 440,920</u>	<u>\$ 156,196</u>	<u>\$ 2,517,829</u>

The Sewer Fund reports \$45,804 at December 31, 2016, as restricted for Infrastructure System Replacement Fund.

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.

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 2016 was estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2016, 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.

City of Rockville
Notes to Financial Statements

NOTE 10 –PENSION PLANS

The City participates in various pension plans, total pension expense for the year ended December 31, 2016, was \$78,114. The components of pension expense are noted in the following plan summaries.

Public Employees' Retirement Association

A. Plan Description

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

General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))

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

B Benefits Provided

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

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

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

City of Rockville
Notes to Financial Statements

NOTE 10 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

B Benefits Provided (Continued)

General Employees Plan Benefits

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

C. Contributions

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

General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in calendar year 2016. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The City's contributions to the General Employees Fund for the year ended December 31, 2016, were \$19,441. The City's contributions were equal to the required contributions as set by state statute.

**City of Rockville
Notes to Financial Statements**

NOTE 10 –PENSION PLANS

Public Employees' Retirement Association (Continued)

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2016, the City reported a liability of \$316,661 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$4,082. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion share was 0.0039%, which was the same as its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$51,698 for its proportionate share of General Employees Plan's pension expense. In addition, the City recognized an additional \$4,082 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At December 31, 2016, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 25,724
Changes in actuarial assumptions	62,003	-
Difference between projected and actual investment earnings	60,101	-
Changes in proportion	9,395	-
Contributions paid to PERA subsequent to the measurement date	9,720	-
	<hr/>	<hr/>
Total	<u>\$ 141,219</u>	<u>\$ 25,724</u>

City of Rockville
Notes to Financial Statements

NOTE 10 –PENSION PLANS

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

\$9,720 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Pension Expense</u> <u>Amount</u>
2017	\$ 31,879
2018	31,880
2019	30,579
2020	11,437
Total	\$ 105,775

E. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50 % Per year
Active member payroll growth	3.25 % Per year
Investment rate of return	7.50 %

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2014 tables for the General Employees Plan and RP-2000 tables for the Police and Fire Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1% for all future years for the General Employees Plan and Police and Fire Plan.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The experience study for Police and Fire Plan was for the period July 1, 2004 through June 30, 2009.

**City of Rockville
Notes to Financial Statements**

NOTE 10 –PENSION PLANS

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2016:

General Employees Fund

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

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

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

**City of Rockville
Notes to Financial Statements**

NOTE 10 –PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

F. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.5%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from Plan members and employers will be made at rates set in *Minnesota Statutes*. Based on those assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
City's proportionate share of the General Employees Fund net pension liability	\$ 449,752	\$ 316,661	\$ 207,030

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

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

A. Plan Description

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

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

City of Rockville
Notes to Financial Statements

NOTE 10 – PENSION PLANS (CONTINUED)

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

B. Benefits Provided

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

C. Employees Covered by Benefit Terms

At December 31, 2015, the following employees were covered by the benefit terms:

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

D. Contributions.

Minnesota Statutes Chapter 424A.092 specifies minimum support rates required on an annual basis. The minimum support rates from the municipality and from State aids are determined as the amount required to meet the normal cost plus amortizing any existing prior service costs over a ten year period. The City's obligation is the financial requirement for the year less state aids. Any additional payments by the City shall be used to amortize the unfunded liability of the relief association. The Association is comprised of volunteers: therefore, there are no payroll expenditures (i.e. there are no covered payroll percentage calculations). During the year, the City recognized as revenue and as an expenditure an on behalf payment of \$16,645 made by the State of Minnesota for the Relief Association.

E. Net Pension Liability

The City's net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions.

The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 %
Salary increase	0.00 %, average, including inflation
Investment rate of return	5.75 %, net of pensions plan investment expense: including inflation

**City of Rockville
Notes to Financial Statements**

NOTE 10 – PENSION PLANS (CONTINUED)

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

E. Net Pension Liability (Continued)

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	34.15%	5.58%
International equity	16.81%	5.71%
Fixed income	39.37%	2.27%
Real estate and alternatives	0.53%	4.44%
Cash and equivalents	9.14%	0.84%
Total	100.0%	

F. Discount rate

The discount rate used to measure the total pension liability was 5.75%. Assets were projected using expected benefit payments and expected asset returns. Expected benefit payments by year were discounted using the expected asset return assumption for years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the municipal bond rate. The equivalent single rate is the discount rate.

City of Rockville
Notes to Financial Statements

NOTE 10 – PENSION PLANS (CONTINUED)

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

G. Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at January 1, 2015	\$ 531,330	\$ 461,350	\$ 69,980
Changes for the year			
Service cost	18,631	-	18,631
Interest	25,479	-	25,479
Changes in assumptions	(5,265)	-	(5,265)
Contributions	-	24,554	(24,554)
Net investment income	-	(14,099)	14,099
Benefit payments, including refunds of employee contributions	(80,760)	(80,760)	-
Net charges	(41,915)	(70,305)	28,390
Balances at December 31, 2015	\$ 489,415	\$ 391,045	\$ 98,370

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the City, calculated using the discount rate of 5.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.75%) or 1-percentage-point higher (6.75%) than the current rate:

	1% Decrease (4.75%)	Current Discount Rate (5.75%)	1% Increase (6.75%)
Relief's net pension liability	\$ 105,469	\$ 98,370	\$ 91,525

**City of Rockville
Notes to Financial Statements**

NOTE 10 – PENSION PLANS (CONTINUED)

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

G. Changes in the Net Pension Liability (Continued)

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

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

For the year ended December 31, 2016, the City recognized pension expense of \$22,334. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ -	\$ 4,599
Net difference between projected and actual earnings on pension plan investments	34,466	-
Contributions paid to Volunteer Firefighter's Relief Association subsequent to the measurement date	11,855	-
Total	\$ 46,321	\$ 4,599

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

2017		\$ 8,393
2018		8,393
2019		8,393
2020		6,623
2021		(666)
Thereafter		(1,269)
Total		\$ 29,867

City of Rockville
Notes to Financial Statements

NOTE 10 – PENSION PLANS (CONTINUED)

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

I. Payable to the Pension Plan

At December 31, 2016, the City reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

NOTE 11 – GASB STATEMENTS ISSUED BUT NOT YET IMPLEMENTED

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

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REQUIRED SUPPLEMENTARY INFORMATION

**City of Rockville
Schedule of City's Proportionate Share
of Net Pension Liability
General Employees Retirement Fund
Last Ten Years***

<u>For Fiscal Year Ended June 30,</u>	<u>City's Proportionate Share (Percentage) of the Net Pension Liability (Asset)</u>	<u>City's Proportionate Share (Amount) of the Net Pension Liability (Asset)</u>	<u>State's Proportionate Share (Amount) of the Net Pension Liability Associated with the City</u>	<u>City's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the City</u>	<u>City's Covered- Employee Payroll</u>	<u>City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
2015	0.0039%	\$ 202,118	\$ -	\$ 202,118	\$ 226,307	89.3%	78.19%
2016	0.0039%	316,661	4,082	320,743	240,560	131.6%	68.91%

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

**City of Rockville
Schedule of City Contributions -
General Employees Retirement Fund
Last Ten Years***

Fiscal Year Ending December 31,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee
2015	\$ 17,912	\$ 17,912	-	\$ 238,827	7.50%
2016	19,441	19,441	-	259,213	7.50%

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

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

	Measurement Date	
	2014	2015
Total Pension Liability (TPL)		
Service cost	\$ 18,132	\$ 18,631
Interest	25,660	25,479
Changes of assumptions	-	(5,265)
Benefit payments, including refunds or member contributions	(15,040)	(80,760)
Net change in total pension liability	<u>28,752</u>	<u>(41,915)</u>
Beginning of year	<u>502,578</u>	<u>531,330</u>
End of year	<u>\$ 531,330</u>	<u>\$ 489,415</u>
Plan Fiduciary Net Pension (FNP)		
Contributions	\$ 29,544	\$ 24,554
Net investment income	13,120	(14,099)
Benefit payments, including refunds of member contributions	(15,040)	(80,760)
Net change in plan fiduciary net position	<u>27,624</u>	<u>(70,305)</u>
Beginning of year	<u>433,726</u>	<u>461,350</u>
End of year	<u>\$ 461,350</u>	<u>\$ 391,045</u>
Net Pension Liability (NPL)	<u>\$ 69,980</u>	<u>\$ 98,370</u>
Plan fiduciary net position as a percentage of the total pension liability	86.8%	79.9%
Covered employee payroll	n/a	n/a
Net pension liability as a percentage of covered payroll	n/a	n/a

The City implemented the provisions of Governmental Accounting Standards Board Statement No. 68 for the year ended December 31, 2015. The schedules within the Required Supplementary Information section required a ten-year presentation, but does not required retroactive reporting. Information prior to 2014 is not available. Additional years will be reported as they become available.

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Employer			
Statutorily determined contribution (SDC)	\$ 15,767	\$ 5,048	\$ 5,879
Contribution in relation to the SDC	<u>15,767</u>	<u>5,048</u>	<u>5,879</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Non-employer			
2% aid	<u>\$ 15,825</u>	<u>\$ 16,506</u>	<u>\$ 16,645</u>
Covered employee payroll	n/a	n/a	n/a
Contributions as a percentage of covered employee payroll	n/a	n/a	n/a

The City implemented the provisions of Governmental Accounting Standards Board Statement No. 68 for the year ended December 31, 2015. The schedules within the Required Supplementary Information section required a ten-year presentation, but does not required retroactive reporting. Information prior to 2014 is not available. Additional years will be reported as they become available.

City of Rockville
Notes to Required Supplementary Information

GENERAL EMPLOYEES FUND

2016 Changes

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

SUPPLEMENTARY INFORMATION

City of Rockville
Statement of Revenues, Expenditures, and
Changes in Fund Balances -
Budget And Actual - General Fund
Year Ended December 31, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Property taxes	\$ 697,482	\$ 697,482	\$ 675,175	\$ (22,307)
Miscellaneous taxes	-	-	2	2
Special assessments	60,322	60,322	3,594	(56,728)
Licenses and permits	27,394	27,394	60,390	32,996
Intergovernmental revenue				
Local government aid	177,404	177,404	177,403	(1)
Market value credit	2,647	2,647	6,640	3,993
PERA Aid	60	60	60	-
Fire Aid	18,031	18,031	16,645	(1,386)
Other grants and aids	-	-	4,554	4,554
Total intergovernmental revenue	<u>198,142</u>	<u>198,142</u>	<u>205,302</u>	<u>7,160</u>
Charges for services				
General government	5,262	5,262	6,468	1,206
Public safety	17,818	17,818	20,178	2,360
Public works	-	-	35	35
Culture and recreation	5,500	5,500	2,857	(2,643)
Economic development	-	-	2,050	2,050
Total charges for services	<u>28,580</u>	<u>28,580</u>	<u>31,588</u>	<u>3,008</u>
Fines and forfeitures	10,000	10,000	10,839	839
Miscellaneous revenues				
Investment income	20,070	20,070	23,422	3,352
Contributions and donations	100	100	7,125	7,025
Other	10,970	10,970	66,632	55,662
Total miscellaneous revenues	<u>31,140</u>	<u>31,140</u>	<u>97,179</u>	<u>66,039</u>
Total revenues	<u>1,053,060</u>	<u>1,053,060</u>	<u>1,084,069</u>	<u>31,009</u>
Expenditures				
General government				
Mayor and council	17,770	39,660	39,864	204
Administrative and finance	177,432	44,727	47,661	2,934
Other general government	188,476	251,122	281,714	30,592
Capital outlay	4,000	4,000	306	(3,694)
Total general government	<u>387,678</u>	<u>339,509</u>	<u>369,545</u>	<u>30,036</u>
Public safety				
Police				
Current	20,520	29,220	40,114	10,894
Fire				
Current	138,081	140,791	147,695	6,904
Capital outlay	66,240	66,240	25,805	(40,435)
Total fire	<u>204,321</u>	<u>207,031</u>	<u>173,500</u>	<u>(33,531)</u>

City of Rockville
Statement of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended December 31, 2016

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Over (Under)
	<u>Original</u>	<u>Final</u>		
Expenditures (Continued)				
Public safety (continued)				
Other				
Current	\$ 5,180	\$ 6,330	\$ 6,079	\$ (251)
Capital outlay	3,800	3,800	-	(3,800)
Total other	<u>8,980</u>	<u>10,130</u>	<u>6,079</u>	<u>(4,051)</u>
Total public safety	<u>233,821</u>	<u>246,381</u>	<u>219,693</u>	<u>(26,688)</u>
Public works				
Streets and highways				
Street maintenance and storm sewers	185,633	262,330	249,184	(13,146)
Snow and ice removal	47,487	50,607	43,479	(7,128)
Street engineering	-	17,269	37,719	20,450
Street lighting	13,500	13,500	12,688	(812)
Street - other capital outlay	21,000	21,000	15,397	(5,603)
Total streets and highways	<u>267,620</u>	<u>364,706</u>	<u>358,467</u>	<u>(6,239)</u>
Culture and recreation				
Current	44,711	84,198	84,576	378
Capital outlay	10,000	10,000	1,956	(8,044)
Total culture and recreation	<u>54,711</u>	<u>94,198</u>	<u>86,532</u>	<u>(7,666)</u>
Debt service				
Principal	19,000	19,000	19,000	-
Interest and other charges	1,475	1,475	1,475	-
Total debt service	<u>20,475</u>	<u>20,475</u>	<u>20,475</u>	<u>-</u>
Total expenditures	<u>964,305</u>	<u>1,065,269</u>	<u>1,054,712</u>	<u>(10,557)</u>
Excess of revenues over (under) expenditures	88,755	(12,209)	29,357	41,566
Other Financing Sources				
Proceeds from sale of capital assets	-	-	12,000	12,000
Transfers out	(13,833)	(13,833)	(17,932)	(4,099)
Total other financing sources (uses)	<u>(13,833)</u>	<u>(13,833)</u>	<u>(5,932)</u>	<u>7,901</u>
Net change in fund balances	<u>\$ 74,922</u>	<u>\$ (26,042)</u>	23,425	<u>\$ 49,467</u>
Fund Balances				
Beginning of year			<u>958,437</u>	
End of year			<u>\$ 981,862</u>	

**City of Rockville
Combining Balance Sheet -
Nonmajor Governmental Funds
December 31, 2016**

	Special Revenue		
	Public Land Dedication (202)	Economic Development Authority (209)	Rocori Trail (205)
Assets			
Cash and investments	\$ 43,382	\$ -	\$ 9,466
Taxes receivable - delinquent	-	14	-
Special assessment receivable			
Delinquent	-	-	-
Deferred	-	-	-
Interest receivable	139	-	-
Due from other governments	-	19	-
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 43,521</u>	<u>\$ 33</u>	<u>\$ 9,466</u>
Deferred Inflows of Resources			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	-	1,505	-
Salaries and benefits payable	-	-	49
Total liabilities	<u> </u>	<u>1,505</u>	<u>49</u>
Unavailable revenue - property taxes	-	14	-
Unavailable revenue - special assessments	-	-	-
Total deferred inflows of resources	<u> </u>	<u>14</u>	<u> </u>
Fund Balances			
Restricted	43,521	-	-
Assigned	-	-	9,417
Unassigned	-	(1,486)	-
Total fund balances	<u>43,521</u>	<u>(1,486)</u>	<u>9,417</u>
Total deferred inflows of resources and fund balances	<u>\$ 43,521</u>	<u>\$ 33</u>	<u>\$ 9,466</u>

<u>Special Revenue</u>	<u>Debt Service</u>	
<u>Lake Improvement District (221)</u>	<u>2008A G.O. Improvement Bonds (308)</u>	<u>Total Governmental Funds</u>
\$ 34,503	\$ 71,868	\$ 159,219
143	289	446
-	1,059	1,059
-	97,876	97,876
-	61	200
54	358	431
<u>\$ 34,700</u>	<u>\$ 171,511</u>	<u>\$ 259,231</u>
\$ 2,092	\$ -	\$ 2,092
-	-	1,505
8	-	57
<u>2,100</u>	<u>-</u>	<u>3,654</u>
143	289	446
-	98,935	98,935
<u>143</u>	<u>99,224</u>	<u>99,381</u>
-	72,287	115,808
32,457	-	41,874
-	-	(1,486)
<u>32,457</u>	<u>72,287</u>	<u>156,196</u>
<u>\$ 34,700</u>	<u>\$ 171,511</u>	<u>\$ 259,231</u>

City of Rockville
Combining Statement of Revenues, Expenditures, and Changes in
Fund Balances - Nonmajor Governmental Funds
Year Ended December 31, 2016

	Special Revenue		
	Public Land Dedication (202)	Economic Development Authority (209)	Rocori Trail (205)
Revenues			
Property taxes	\$ -	\$ 1,003	\$ -
Special assessments	-	-	-
Intergovernmental	-	10	-
Miscellaneous			
Investment income	77	1	7
Contributions and donations	-	-	-
Total revenues	<u>77</u>	<u>1,014</u>	<u>7</u>
Expenditures			
Current			
General government	-	-	-
Culture and recreation	-	-	1,022
Debt service			
Principal	-	-	-
Interest and other charges	-	-	-
Capital outlay			
Culture and recreation	103	-	7,500
Total expenditures	<u>103</u>	<u>-</u>	<u>8,522</u>
Excess of revenues over (under) expenditures	(26)	1,014	(8,515)
Other Financing Sources			
Transfers in	-	-	17,932
Transfers out	-	(269,723)	-
Total other financing sources (uses)	<u>-</u>	<u>(269,723)</u>	<u>17,932</u>
Net change in fund balances	(26)	(268,709)	9,417
Fund Balances			
Beginning of year	<u>43,547</u>	<u>267,223</u>	<u>-</u>
End of year	<u>\$ 43,521</u>	<u>\$ (1,486)</u>	<u>\$ 9,417</u>

<u>Special Revenue</u>	<u>Debt Service</u>	
Lake Improvement District (221)	2008A G.O. Improvement Bonds (308)	Total Other Governmental Funds
\$ 14,359	\$ 21,279	\$ 36,641
-	8,692	8,692
4,417	210	4,637
74	796	955
3,025	-	3,025
<u>21,875</u>	<u>30,977</u>	<u>53,950</u>
23,969	-	23,969
-	-	1,022
-	18,000	18,000
-	3,306	3,306
-	-	7,603
<u>23,969</u>	<u>21,306</u>	<u>53,900</u>
(2,094)	9,671	50
-	-	17,932
-	-	(269,723)
-	-	(251,791)
(2,094)	9,671	(251,741)
<u>34,551</u>	<u>62,616</u>	<u>407,937</u>
<u>\$ 32,457</u>	<u>\$ 72,287</u>	<u>\$ 156,196</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, 2016, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 1, 2017.

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 and Legal Compliance, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

Internal Control over Financial Reporting (Continued)

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

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

Compliance and Other Matters

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

City's Response to Findings

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

Purpose of this Report

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

Bergan KDV, Ltd.

St. Cloud, Minnesota
May 1, 2017

Report on Legal Compliance

Independent Auditor's Report

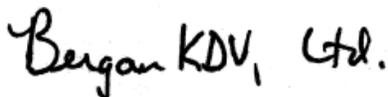
Honorable Mayor and Members
of the City Council
City of Rockville
Rockville, Minnesota

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 Comptroller General 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, 2016, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 1, 2017.

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

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

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.



St. Cloud, Minnesota
May 1, 2017

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

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDINGS:

Material Weaknesses:

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

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

The City does not have an internal control system designed to provide for the preparation of the financial statements and related note disclosures in accordance with accounting principles generally accepted in the United States of America. As auditors, we were requested to draft the financial statements and accompanying notes to financial statements. This circumstance is not unusual in a city of your size.

This condition increases the risk that errors could occur which would not be prevented, or detected and corrected, on a timely basis. Even though all management decisions related to financial reporting are made by the City's management and approval of the financial statements and accompanying note disclosures lies with management, it is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

City's Response:

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

Audit Finding 2009-002 – Material Audit Adjustments

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

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

- Capital Assets
- Receivables/Revenue

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

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDINGS: (CONTINUED)

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

City's Response:

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

CURRENT YEAR INTERNAL CONTROL FINDINGS:

Significant Deficiency:

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

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

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

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

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

CURRENT YEAR INTERNAL CONTROL FINDINGS (CONTINUED):

Significant Deficiency (Continued):

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

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

City's Response:

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

CURRENT AND PRIOR YEAR LEGAL COMPLIANCE FINDING:

Obtain Form Ic-134 for All Contractors/Subcontractors

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

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

City's Response:

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

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

PRIOR YEAR LEGAL COMPLIANCE FINDINGS

Prompt Payment to Vendors

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

During our 2015 audit, we noted two invoices selected for testing that were paid past the 35 day deadline for standard payments.

Corrective Action:

During 2016 we noted no late payments of invoices selected for testing.

Public Purpose Expenditures

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

During our 2015 audit, we noted expenditures were made for items which are not considered to be of a public purpose, including the purchase of food for the Fire Department.

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

Correction Action:

During our 2016 audit we noted no purchases made that did not meet the public purposes standard of invoices tested.

Obtain Sufficient Collateral

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

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

Corrective Action:

The City was properly collateralized as of December 31, 2016.