City of Rockville
Stearns County, Minnesota

Basic Financial Statements

December 31, 2025

City of Rockville
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City of Rockville
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City of Rockville
Elected Officials and Administration
December 31, 2025

Elected Officials	Position	Term Expires
Mark Husnik	Mayor	December 31, 2029
Julie Heying	Council Member	December 31, 2026
Jayson Molitor	Council Member	December 31, 2029
Ashley Massmann	Council Member	December 31, 2029
Brian Herberg	Council Member	December 31, 2026

Administration	
Bobbi Kessel	City Administrator/Clerk
Judy Neu	Finance Director

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rockville, as of and for the year ended December 31, 2025, and the related notes to the basic financial statements, which collectively comprise the City of Rockville's basic financial statements as listed in the Table of Contents.

In our opinion, the accompanying financial statements 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, as of December 31, 2025, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Rockville and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

The City of Rockville's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Rockville's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 of Rockville's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Rockville's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

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 is the responsibility of management and, 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.

Supplementary 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 accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 accompanying supplementary information is 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 20, 2026, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.

BerganKDV, Ltd.

St. Cloud, Minnesota
May 20, 2026

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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, 2025.

FINANCIAL HIGHLIGHTS

- The net position of the City at the close of the most recent year was $22,891,928. Of this amount, $5,939,852 may be used to meet government's ongoing obligations to citizens and creditors.

- The government's total net position increased by $1,723,616 in 2025. This was attributable due to the city's positive operations of its governmental and business-type activities& capital assets.

- As of the close of the current year, the City's governmental funds reported combined ending fund balances of $5,399,723, an increase of $812,588. 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 $3,129608, or 250% of total General Fund expenditures. While these funds are not legally restricted, $23,527 is nonspendable, $22,409 is restricted, $661,585 is committed and $954,718 is assigned for future purposes, leaving the unassigned fund balance of $1,467,369, or 117% of current year expenditures, to be used in the event of a major catastrophe.

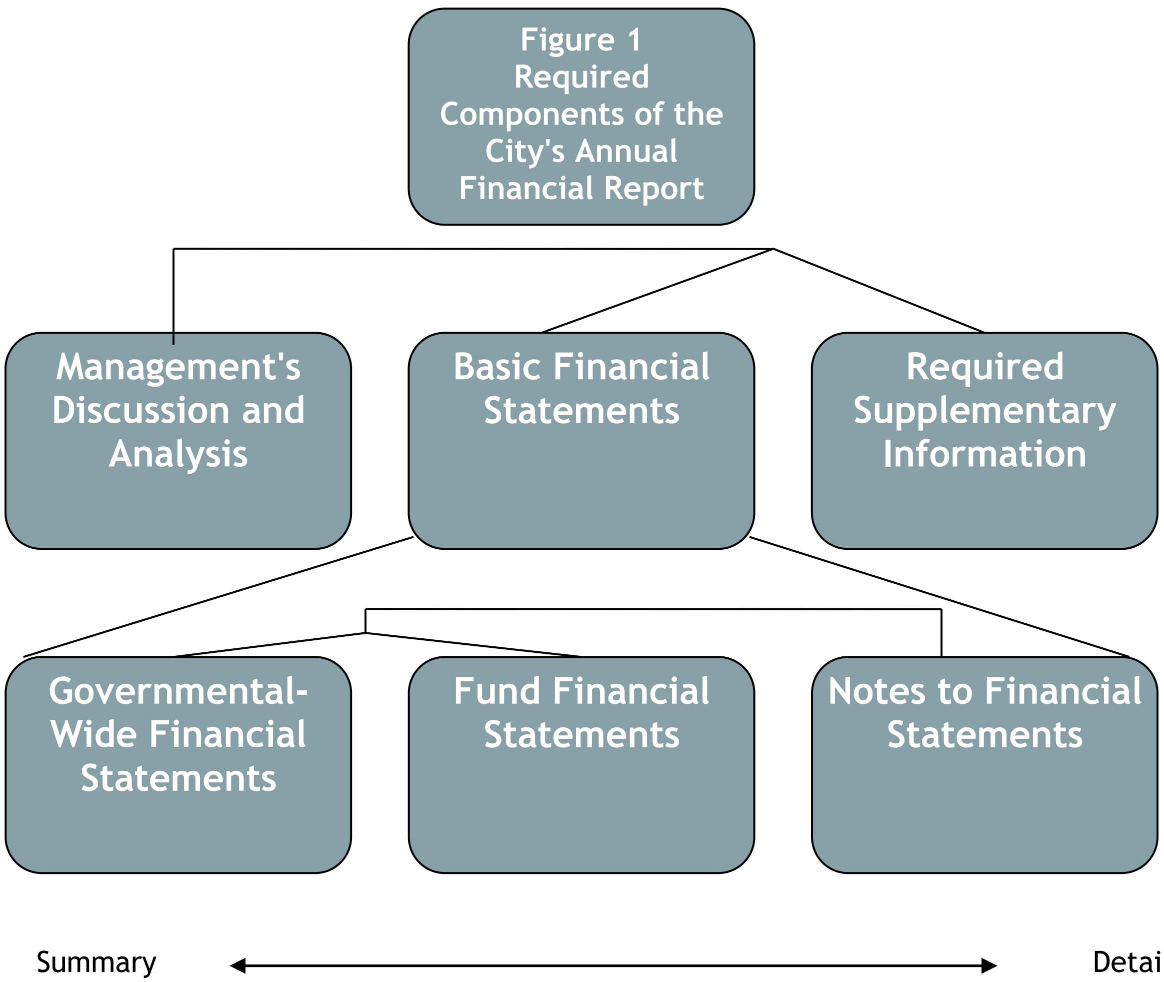
- The City's total long-term liabilities decreased by $423,816 during the current year because of principal payments on the City's debt.

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.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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.



OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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	• Statement of Net Position • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances	• 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

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.

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 two categories: governmental funds and proprietary (enterprise) funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the 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.

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

Governmental Funds (Continued)

The City maintains seven 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 2021A G.O. Street improvement Bond, 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.

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. The City last raised sewer rates in March 2025.

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.

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.

Other Information

The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the Notes to Financial Statements.

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 $22,891,928 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Summary of Net Position

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Assets						
Current and other assets	$ 5,700,307	$ 4,881,641	$ 2,169,253	$ 2,257,380	$ 7,869,560	$ 7,139,021
Capital assets	15,311,277	15,233,919	17,775,819	16,336,005	33,087,096	31,569,924
Less accumulated Depreciation	(6,186,839)	(5,604,214)	(6,877,466)	(6,460,528)	(13,064,305)	(12,064,742)
Total assets	$ 14,824,745	$ 14,511,346	$ 13,067,606	$ 12,132,857	$ 27,892,351	$ 26,644,203
Deferred Outflows	$ 105,312	$ 155,413	$ 24,293	$ 29,844	$ 129,605	$ 185,257
Long-Term Liabilities						
Outstanding	$ 2,529,038	$ 2,956,801	$ 949,976	$ 1,047,540	$ 3,479,014	$ 4,004,341
Other liabilities	511,434	510,171	534,816	544,176	1,046,250	1,054,347
Total liabilities	$ 3,040,472	$ 3,466,972	$ 1,484,792	$ 1,591,716	$ 4,525,264	$ 5,058,688
Deferred Inflows	$ 181,963	$ 177,708	$ 422,801	$ 424,752	$ 604,764	$ 602,460
Net Position						
Net investment in capital assets	$ 6,451,941	$ 6,602,063	$ 9,923,583	$ 8,819,498	$ 16,375,524	$ 15,421,561
Restricted	576,552	583,865	-	-	576,552	583,865
Unrestricted	4,679,129	3,836,151	1,260,723	1,326,735	5,939,852	5,162,886
Total net position	$ 11,707,622	$ 11,022,079	$ 11,184,306	$ 10,146,233	$ 22,891,928	$ 21,168,312

An additional portion of the City's net position (3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (26%) may be used to meet the government's ongoing obligations to citizens and creditors. This is an increase of $776,966 from 2024.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Governmental Activities

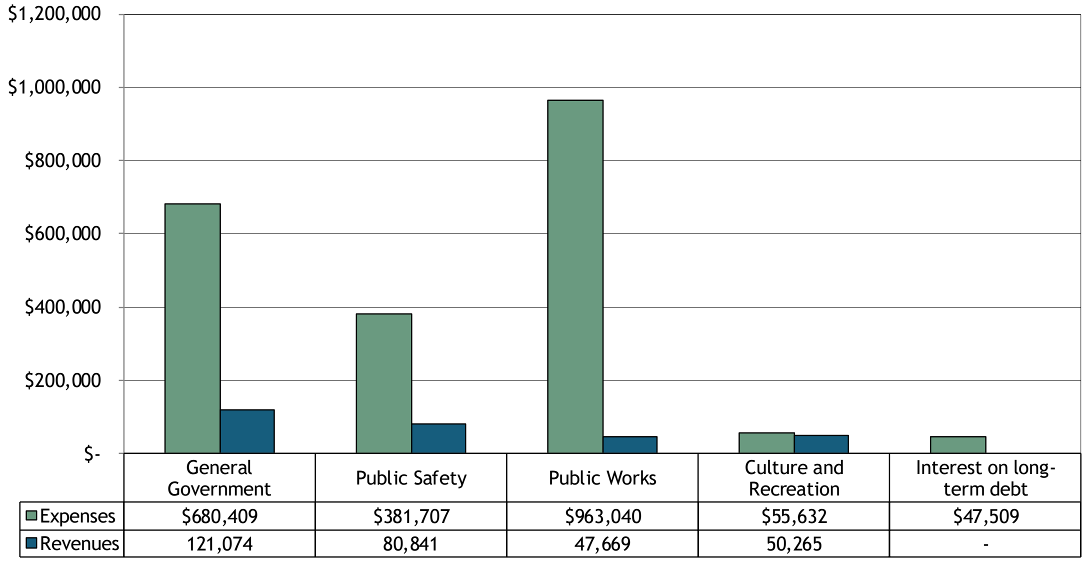
Governmental activities increased the City's net position by $685,543. The key element of this increase is due to revenues exceeding expenses or positive fund operations.

Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Revenues						
Program revenues						
Charges for service	$ 142,993	$ 151,352	$ 741,570	$ 726,331	$ 884,563	$ 877,683
Operating grants and contributions	70,223	131,340	53,610	23,208	123,833	154,548
Capital grants and contributions	86,633	56,647	1,194,434	19,115	1,281,067	75,762
General revenues						
Property taxes	2,154,076	2,078,688	16,279	16,687	2,170,355	2,095,375
Other	301,631	312,413	100	23,186	301,731	335,599
Investment income	58,284	48,240	22,214	108	80,498	48,348
Total revenues	2,813,840	2,778,680	2,028,207	808,635	4,842,047	3,587,315
Expenses						
General government	680,409	632,003	-	-	680,409	632,003
Public safety	381,707	390,795	-	-	381,707	390,795
Public works	963,040	866,635	-	-	963,040	866,635
Culture and recreation	55,632	80,912	-	-	55,632	80,912
Interest on long-term debt	47,509	54,572	-	-	47,509	54,572
Water	-	-	238,386	487,633	238,386	487,633
Sewer	-	-	751,748	796,089	751,748	796,089
Total expenses	2,128,297	2,024,917	990,134	1,283,722	3,118,431	3,308,639
Increase in net position Before transfers	685,543	753,763	1,038,073	(475,087)	1,723,616	278,676
Transfers	-	-	-	-	-	-
Increase in net position	685,543	753,763	1,038,073	(475,087)	1,723,616	278,676
Net Position						
Beginning of year	11,022,079	10,217,268	10,146,233	10,621,320	21,168,312	20,838,588
Change in Accounting Principle	-	51,048	-	-	-	51,048
Beginning of Year, Restated	11,022,079	10,268,316	10,146,233	10,621,320	21,168,312	20,889,636
End of year	$ 11,707,622	$ 11,022,079	$ 11,184,306	$ 10,146,233	$ 22,891,928	$ 21,168,312

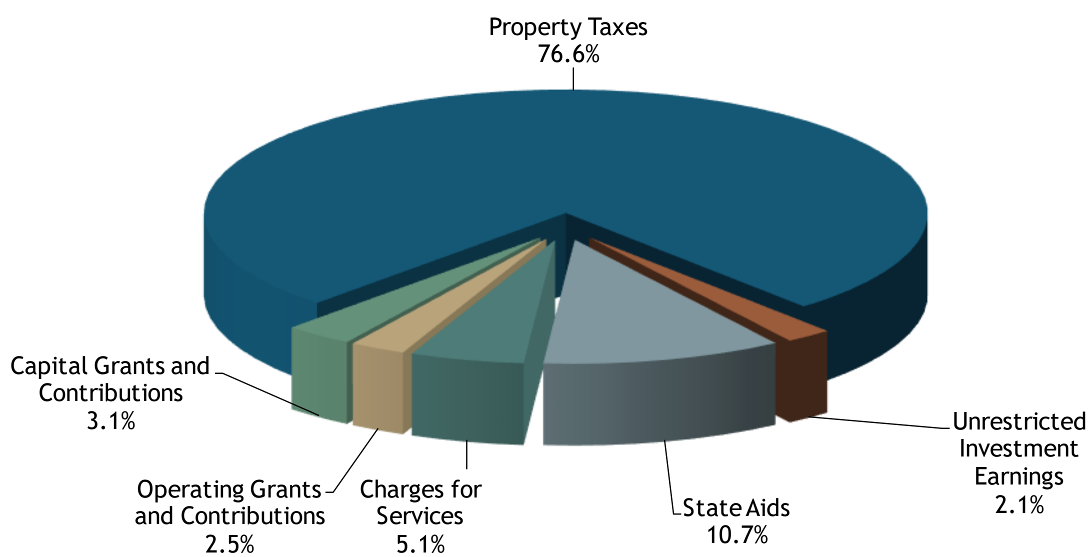
GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Expenses and Program Revenues - Governmental Activities



	General Government	Public Safety	Public Works	Culture and Recreation	Interest on long-term debt
Expenses	$680,409	$381,707	$963,040	$55,632	$47,509
Revenues	121,074	80,841	47,669	50,265	-

Revenues by Source - Governmental Activities

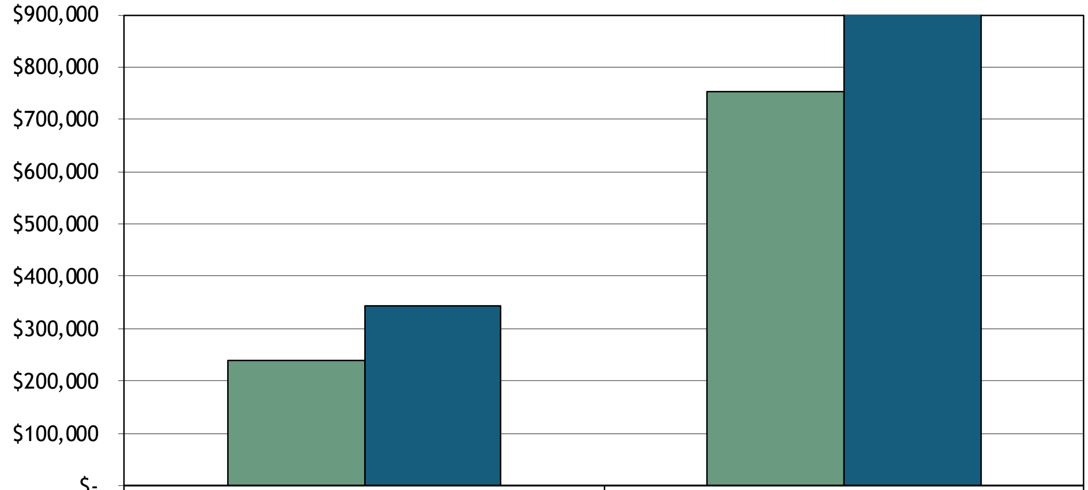


GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Business Type Activities

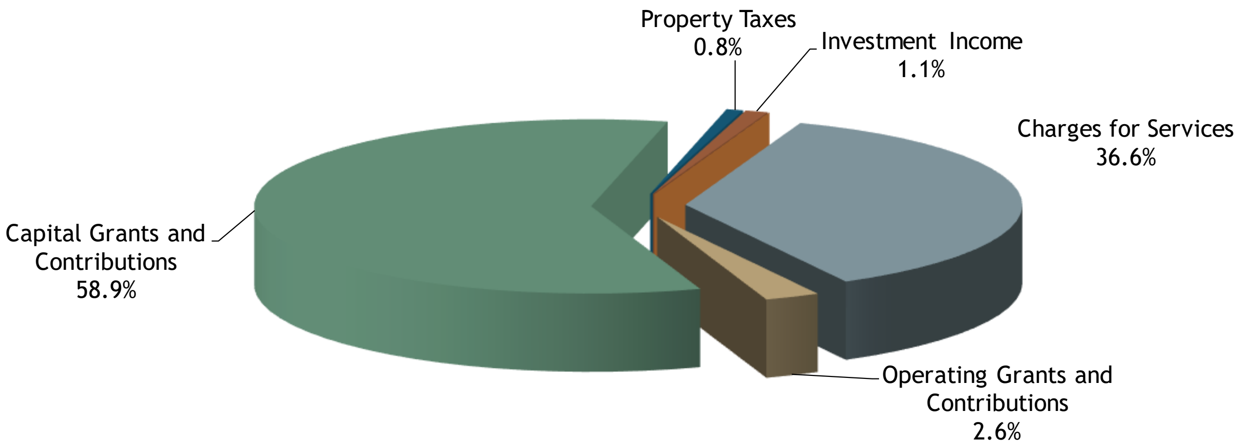
Business type activities decreased the City's net position by $1,038,073. Key elements of this is the state grant for the sewer project and operating expenses exceeding operating revenue.

Expenses and Program Revenues - Business-Type Activities



	Water	Sewer
Expenses	$238,386	$751,748
Revenues	342,978	1,646,636

Revenues by Source - Business-Type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds

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

As of the end of the current year, the City's governmental funds reported combined ending fund balances of $5,399,723, an increase of $812,588 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 $3,129,608. 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 117% of total General Fund expenditures, while total fund balance represents 250% of that same amount.

The fund balance of the City's General Fund increased by $616,175 during the current year. The key factors for the increase were an increase in taxes and assessments and intergovernmental revenues.

The Road Maintenance fund balance increased $145,849 as a result of fewer improvement projects.

The 2021A G.O. Street improvement Bond fund balance decreased $1,557 as bond payments exceeded revenues into the 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, $1,082,716 and sewer, $178,007. The proprietary funds increased $1,038,073 in total net position for the year; this increase is primarily due to the sewer fund grant.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City approved the 2025 General Fund budget anticipating expenditures to exceed revenues. Actual results were revenues exceeding expenditures by $616,175, due to conservative budgets for revenues that can be unpredictable year to year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business type activities as of December 31, 2025, amounts to $20,022,791 (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 increase in the governmental activities relates to capital asset additions most notably the public works vehicles. The decrease in the business type activities occurred due depreciation of infrastructure. Additional information on capital assets can be found in Note 5 of this report.

Long-Term Debt

At the end of the current year, the City had total bonded debt outstanding of $3,561,000, compensated absences of $68,361, severance payable of $25,509, and unamortized premiums of $86,267.

Outstanding Debt
(General Obligation and Revenue Bonds)

	Governmental Activities	Business-Type Activities	Total
G.O. Improvement Bonds	$ 2,590,000	$ -	$ 2,590,000
G.O. Revenue Bonds	-	971,000	971,000
Unamortized Premiums	82,497	3,770	86,267
Compensated Absences	68,361	-	68,361
Severance	25,509	-	25,509
Total	$ 2,766,367	$ 974,770	$ 3,741,137

The City's total debt payments of $426,000 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 6 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 $305.
- 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.

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

Statement of Net Position
December 31, 2025

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and investments	$ 5,331,929	$ 940,684	$ 6,272,613
Property tax receivable	30,602	239	30,841
Accounts receivable	25,604	538,169	563,773
Interest receivable	-	4,627	4,627
Due from other governments	9,225	172,422	181,647
Due from other funds (internal balances)	108,577	(108,577)	-
Lease receivables	-	380,154	380,154
Special assessments receivable			
Delinquent	-	57,744	57,744
Deferred	170,843	177,450	348,293
Prepaid items	23,527	6,341	29,868
Capital assets not being depreciated			
Land	456,118	98,295	554,413
Construction in progress	239,223	1,374,239	1,613,462
Capital assets being depreciated			
Buildings	3,286,243	-	3,286,243
Infrastructure	8,962,873	-	8,962,873
Sewer and water improvements	-	15,894,083	15,894,083
Machinery and equipment	2,366,820	409,202	2,776,022
Less accumulated depreciation	(6,186,839)	(6,877,466)	(13,064,305)
Total capital assets, (net of accumulated depreciation)	9,124,438	10,898,353	20,022,791
Total assets	14,824,745	13,067,606	27,892,351
Deferred Outflows of Resources			
Deferred outflows of resources related to pensions	105,312	24,293	129,605
Total assets and deferred outflows of resources	$ 14,930,057	$ 13,091,899	$ 28,021,956
Liabilities			
Accounts payable	$ 75,284	$ 423,085	$ 498,369
Due to other governments	-	118	118
Salaries and benefits payable	16,355	8,257	24,612
Interest payable	22,661	14,733	37,394
Unearned revenue	7,500	2,623	10,123
Bond principal payable (net of premium)			
Payable within one year	345,000	86,000	431,000
Payable after one year	2,327,497	888,770	3,216,267
Compensated absences payable			
Payable within one year	44,634	-	44,634
Payable after one year	23,727	-	23,727
Severance payable			
Payable after one year	25,509	-	25,509
Net pension liability	152,305	61,206	213,511
Total liabilities	3,040,472	1,484,792	4,525,264
Deferred Inflows of Resources			
Deferred inflows of resources related to leases	-	380,154	380,154
Deferred inflows of resources related to pensions	181,963	42,647	224,610
Total deferred inflows	181,963	422,801	604,764
Net Position			
Net investment in capital assets	6,451,941	9,923,583	16,375,524
Restricted for			
Debt service	554,143	-	554,143
Other purposes	22,409	-	22,409
Unrestricted	4,679,129	1,260,723	5,939,852
Total net position	11,707,622	11,184,306	22,891,928
Total liabilities, deferred inflows of resources, and net position	$ 14,930,057	$ 13,091,899	$ 28,021,956

City of Rockville
Statement of Activities
Year Ended December 31, 2025

		Program Revenues			Net (Expense) Revenues and Changes in Net Position		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities							
General government	$ 680,409	$ 105,623	$ 15,451	$ -	$ (559,335)	$ -	$ (559,335)
Public safety	381,707	34,482	46,359	-	(300,866)	-	(300,866)
Public works	963,040	920	8,413	38,336	(915,371)	-	(915,371)
Culture and recreation	55,632	1,968	-	48,297	(5,367)	-	(5,367)
Interest on long-term debt	47,509	-	-	-	(47,509)	-	(47,509)
Total governmental activities	2,128,297	142,993	70,223	86,633	(1,828,448)	-	(1,828,448)
Business-type activities							
Water	238,386	312,591	24,542	5,845	-	104,592	104,592
Sewer	751,748	428,979	29,068	1,188,589	-	894,888	894,888
Total business-type activities	990,134	741,570	53,610	1,194,434	-	999,480	999,480
Total governmental and business-type activities	$ 3,118,431	$ 884,563	$ 123,833	$ 1,281,067	(1,828,448)	999,480	(828,968)
General revenues							
Property taxes					2,154,076	16,279	2,170,355
Unrestricted grants and aids					301,631	100	301,731
Unrestricted investment earnings					58,284	22,214	80,498
Total general revenues and transfers					2,513,991	38,593	2,552,584
Change in net position					685,543	1,038,073	1,723,616
Net position - beginning					11,022,079	10,146,233	21,168,312
Net position - ending					$ 11,707,622	$ 11,184,306	$ 22,891,928

Balance Sheet - Governmental Funds
December 31, 2025

	General Fund (101)	Capital Project Road Maintenance (215)	Debt Service 2021A G.O. Street Improvement Bond (300)	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	$ 3,065,298	$ 1,611,059	$ 94,048	$ 561,524	$ 5,331,929
Taxes receivable - delinquent	19,087	5,585	3,125	2,805	30,602
Special assessment receivable					
Deferred	170,843	-	-	-	170,843
Accounts receivable	25,604	-	-	-	25,604
Due from other funds	108,577	-	-	-	108,577
Due from other governments	5,741	1,714	955	815	9,225
Prepaid items	23,527	-	-	-	23,527
Total assets	$ 3,418,677	$ 1,618,358	$ 98,128	$ 565,144	$ 5,700,307
Liabilities					
Accounts payable	$ 75,284	$ -	$ -	$ -	$ 75,284
Salaries and benefits payable	16,355	-	-	-	16,355
Unearned revenue	7,500	-	-	-	7,500
Total liabilities	99,139	-	-	-	99,139
Deferred Inflows of Resources					
Unavailable revenue - property taxes	19,087	5,585	3,125	2,805	30,602
Unavailable revenue - special assessments	170,843	-	-	-	170,843
Total deferred inflows of resources	189,930	5,585	3,125	2,805	201,445
Fund Balances					
Nonspendable	23,527	-	-	-	23,527
Restricted	22,409	-	95,003	476,167	593,579
Committed	661,585	-	-	86,172	747,757
Assigned	954,718	1,612,773	-	-	2,567,491
Unassigned	1,467,369	-	-	-	1,467,369
Total fund balances	3,129,608	1,612,773	95,003	562,339	5,399,723
Total liabilities, deferred inflows of resources, and fund balances	$ 3,418,677	$ 1,618,358	$ 98,128	$ 565,144	$ 5,700,307

City of Rockville
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
December 31, 2025

Total fund balances - governmental funds	$ 5,399,723
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	15,311,277
Less accumulated depreciation	(6,186,839)
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 consists of:	
Bond principal payable	(2,590,000)
Compensated absences payable	(68,361)
Severance payable	(25,509)
Bond premium	(82,497)
Net pension liability	(152,305)
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	30,602
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	(181,963)
Deferred outflows of resources related to pensions	105,312
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
Deferred special assessments	170,843
Governmental funds do not report a liability for accrued interest until due and payable.	(22,661)
Total net position - governmental activities	$ 11,707,622

Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended December 31, 2025

		Capital Project	Debt Service		
	General Fund (101)	Road Maintenance (215)	2021A G.O. Street Improvement Bond (300)	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	$ 1,332,618	$ 394,031	$ 219,809	$ 198,518	$ 2,144,976
Special assessments	386	-	-	-	386
Licenses and permits	101,398	-	-	-	101,398
Intergovernmental	329,233	39,054	1,355	6,543	376,185
Charges for services	40,166	-		-	40,166
Fines and forfeitures	11,213	-	-	-	11,213
Miscellaneous					
Investment income	31,637	15,549	240	10,858	58,284
Contributions and donations	-	-	-	-	-
Other	21,588	2,700	-	48,297	72,585
Total revenues	1,868,239	451,334	221,404	264,216	2,805,193
Expenditures					
Current					
General government	587,921	-		28,172	616,093
Public safety	308,543	-	-	-	308,543
Public works	285,423	240,690		-	526,113
Culture and recreation	42,466	-	-	-	42,466
Debt service					
Principal	-	-	175,000	170,000	345,000
Interest and other charges	-	-	47,961	12,923	60,884
Capital outlay					
Public safety	27,211	-	-	-	27,211
Public works	500	64,795	-	-	65,295
Culture and recreation	-	-	-	1,000	1,000
Total expenditures	1,252,064	305,485	222,961	212,095	1,992,605
Excess of revenues over (under) expenditures	616,175	145,849	(1,557)	52,121	812,588
Fund Balances					
Beginning of year, as previously stated	2,513,433	1,466,924	-	606,778	4,587,135
Change within financial reporting entity (See Note 11)	-	-	96,560	(96,560)	-
Beginning of year, as restated	2,513,433	1,466,924	96,560	510,218	4,587,135
End of year	$ 3,129,608	$ 1,612,773	$ 95,003	$ 562,339	$ 5,399,723

See notes to basic financial statements.

City of Rockville
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances to
the Statement of Activities - Governmental Funds
December 31, 2025

Total net change in fund balances - governmental funds	$ 812,588
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	84,158
Depreciation expense	(589,425)
Compensated absences and severance are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(12,538)
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.	345,000
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.	3,230
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.	10,145
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.	23,285
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	9,100
Change in net position - governmental activities	$ 685,543

City of Rockville
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund
Year Ended December 31, 2025

	Budgeted amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Property taxes	$ 1,347,090	$ 1,347,090	$ 1,332,618	$ (14,472)
Special assessments	-	-	386	386
Licenses and permits	70,000	70,000	101,398	31,398
Intergovernmental	307,811	307,811	329,233	21,422
Charges for services	32,000	32,000	40,166	8,166
Fines and forfeitures	-	-	11,213	11,213
Miscellaneous revenues				
Investment income	-	-	31,637	31,637
Other	-	-	21,588	21,588
Total revenues	1,756,901	1,756,901	1,868,239	111,338
Expenditures				
Current				
General government	565,503	630,531	587,921	(42,610)
Public safety	333,297	333,297	308,543	(24,754)
Public works	399,481	399,481	285,423	(114,058)
Culture and recreation	45,887	45,887	42,466	(3,421)
Capital outlay				
Public safety	225,733	225,733	27,211	(198,522)
Public works	145,000	145,000	500	(144,500)
Culture and recreation	42,000	42,000	-	(42,000)
Total expenditures	1,756,901	1,821,929	1,252,064	(569,865)
Net change in fund balances	$ -	$ (65,028)	616,175	$ 681,203
Fund Balances				
Beginning of year			2,513,433	
End of year			$ 3,129,608	

City of Rockville
Statement of Net Positions - Proprietary Funds
December 31, 2025

	Water (311,312,601)	Sewer (309,310,602)	Total
Assets			
Current assets			
Cash and investments	$ 940,684	$ -	$ 940,684
Taxes receivable - delinquent	239	-	239
Special assessments receivable			
Delinquent	32,997	24,747	57,744
Deferred	89,858	87,592	177,450
Accounts receivable	277,724	260,445	538,169
Interest receivable	4,627	-	4,627
Lease receivable	380,154	-	380,154
Due from other governments	71	172,351	172,422
Prepaid expenses	3,656	2,685	6,341
Total current assets	1,730,010	547,820	2,277,830
Noncurrent assets			
Capital assets			
Land	98,295	-	98,295
Sewer and water improvements	2,883,182	13,010,901	15,894,083
Equipment	176,507	232,695	409,202
Construction in progress	60,738	1,313,501	1,374,239
Total capital assets	3,218,722	14,557,097	17,775,819
Less accumulated depreciation	(1,354,377)	(5,523,089)	(6,877,466)
Net capital assets	1,864,345	9,034,008	10,898,353
Total assets	3,594,355	9,581,828	13,176,183
Deferred Outflows of Resources			
Deferred outflows of resources related to pensions	10,587	13,706	24,293
Total assets and deferred outflows of resources	$ 3,604,942	$ 9,595,534	$ 13,200,476
Liabilities			
Current liabilities			
Accounts payable	$ 226,721	$ 196,364	$ 423,085
Salaries and benefits payable	3,579	4,678	8,257
Interest payable	1,502	13,231	14,733
Due to other funds	-	108,577	108,577
Due to other governments	118	-	118
Unearned revenue	547	2,076	2,623
Long-term liabilities due within one year	51,000	35,000	86,000
Total current liabilities	283,467	359,926	643,393
Noncurrent liabilities			
Bonds payable, net of unamortized premiums	136,000	838,770	974,770
Net pension liability	26,674	34,532	61,206
Less amount due within one year	(51,000)	(35,000)	(86,000)
Total noncurrent liabilities	111,674	838,302	949,976
Total liabilities	395,141	1,198,228	1,593,369
Deferred Inflows of Resources			
Deferred inflows of resources related to leases	380,154	-	380,154
Deferred inflows of resources related to pensions	18,586	24,061	42,647
Total deferred inflow of resources	398,740	24,061	422,801
Net Position			
Net investment in capital assets	1,728,345	8,195,238	9,923,583
Unrestricted	1,082,716	178,007	1,260,723
Total net position	2,811,061	8,373,245	11,184,306
Total liabilities, deferred inflows of resources, and net position	$ 3,604,942	$ 9,595,534	$ 13,200,476

City of Rockville
Statement of Revenues, Expenses, and Changes
in Fund Net Position - Proprietary Funds
Year Ended December 31, 2025

	Water (311,312,601)	Sewer (309,310,602)	Total
Operating Revenues			
Charges for services	$ 267,412	$ 404,575	$ 671,987
Permits, hookup fees, and penalties	17,289	20,519	37,808
Total operating revenues	284,701	425,094	709,795
Operating Expenses			
Wages and salaries	76,587	98,960	175,547
Employee benefits	27,425	34,082	61,507
Materials and supplies	1,628	1,686	3,314
Repairs and maintenance	43,599	107,610	151,209
Professional services	26,105	132,507	158,612
Insurance	6,604	4,417	11,021
Utilities	18,870	19,988	38,858
Depreciation	75,175	341,763	416,938
Equipment	-	408	408
Miscellaneous	5,018	16,770	21,788
Total operating expenses	281,011	758,191	1,039,202
Operating income (loss)	3,690	(333,097)	(329,407)
Nonoperating Revenues (Expenses)			
Rent	23,071	-	23,071
Investment income	10,932	11,282	22,214
Special assessments	10,784	9,514	20,298
Special assessment forfeiture	46,331	38,082	84,413
Property taxes	16,279	-	16,279
Grants	21,361	1,184,537	1,205,898
Refunds and reimbursements	2,079	27,234	29,313
Interest expense	(3,706)	(31,639)	(35,345)
Other income	1,082	257	1,339
Total nonoperating revenues	128,213	1,239,267	1,367,480
Change in net position	131,903	906,170	1,038,073
Net Position			
Beginning of year	2,679,158	7,467,075	10,146,233
End of year	$ 2,811,061	$ 8,373,245	$ 11,184,306

City of Rockville
Statement of Cash Flows - Proprietary Funds
For the Year Ended December 31, 2025

	Water (311,312,601)	Sewer (309,310,602)	Total
Cash Flows - Operating Activities			
Receipts from customers and users	$ 313,777	$ 443,659	$ 757,436
Payments to suppliers	(116,993)	(174,860)	(291,853)
Payments to employees	(105,670)	(137,310)	(242,980)
Miscellaneous revenue	47,593	29,068	76,661
Net cash flows - operating activities	138,707	160,557	299,264
Cash Flows - Capital And Related Financing Activities			
Principal paid on debt	(46,000)	(35,000)	(81,000)
Interest paid on debt	(4,214)	(32,315)	(36,529)
Grant proceeds	-	1,010,609	1,010,609
Property tax and special assessment revenues received	54,437	32,441	86,878
Acquisition of capital assets	(145,376)	(1,294,438)	(1,439,814)
Net cash flows - capital and related financing activities	(141,153)	(318,703)	(459,856)
Cash Flows - Investing Activities			
Interest and dividends received	10,136	11,282	21,418
Net change in cash and cash equivalents	7,690	(146,864)	(139,174)
Cash and Cash Equivalents			
January 1	932,994	146,864	1,079,858
December 31	$ 940,684	$ -	$ 940,684
Reconciliation of Operating Income (Loss) to Net Cash Flows - Operating Activities			
Operating income (loss)	$ 3,690	$ (333,097)	$ (329,407)
Adjustments to reconcile operating income (loss) to net cash flows - operating activities			
Miscellaneous revenue	47,593	29,068	76,661
Depreciation expense	75,175	341,763	416,938
Net pension expense	(2,475)	(5,280)	(7,755)
Accounts receivable	28,318	17,072	45,390
Due from other governments	103	1,373	1,476
Prepaid items	378	391	769
Accounts payable	(15,567)	(442)	(16,009)
Due to other governmental units	20	108,577	108,597
Unearned revenue	655	120	775
Salaries payable	817	1,012	1,829
Total adjustments	135,017	493,654	628,671
Net cash flows - operating activities	$ 138,707	$ 160,557	$ 299,264

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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 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:

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 the governing body is substantively the same as the City Council and management of the City has operational responsibility for activities of the EDA. 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 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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 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.

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.

2021A G.O. Street Improvement Bond 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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 § 118a outlines types of investments allowed which includes 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 2. 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.

In accordance with GASB Statement No. 79, the Minnesota Municipal Investment Pool securities are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the 4M Liquid Asset Fund.

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)

2. Receivables and Payables

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

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

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

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

3. 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.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost exceeding $10,000 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

4. Capital Assets (Continued)

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

5. Lease Receivable

The City is a lessor for numerous noncancellable leases. The City recognizes a lease receivable and a deferred inflow of resources in the government-wide and governmental fund financial statements.

At the commencement of a lease, the City measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date.

Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term in a systematic and rational manner.

Key estimates and judgments include how the City determines (1) the discount rate, (2) lease term, (3) lease receipts, and (4) amortization.

The City determines the discount rate for leases based on the applicable State and Local Government Securities (SLGS) rate. The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

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	4	32
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 31.5 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.

The liability for compensated absences reported in the Statement of Net Position consists of leave that has not been used that is attributable to services already rendered, accumulates, and is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. The liability also includes amounts for leave that has been used for time off but has not yet been paid in cash or settled through noncash means and certain other types of leave.

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 assets 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 for various estimate differences that will be amortized and recognized over future years.

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 assets 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 Statements of Net Position for deferred inflows of resources related to pensions for various estimate differences that will be amortized and recognized over future years. Deferred inflows of resources related to lease receivable is reported in the Statements of Net Position.

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.

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.

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 (Continued)

a. Classification (Continued)

- Nonspendable Fund Balances – These are amounts that cannot be spent because they are not in spendable form.

- Restricted Fund Balances – 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 Balances – These are amounts consisting of internally imposed constraints. These constraints are established and removed by resolution of the City Council.

- Assigned Fund Balances – 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 Balances – 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 unrestricted fund balance will be 50% of its annual General Fund budget.

11. Net Position

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

NOTE 2 – 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 - 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, 2025, $100,086 of the City's bank balance was exposed to custodial credit risk because it was not 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, 2025, was $6,058,837 for deposits.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

Investment Type	Fair Value	Investment Maturities: Less than One Year	Investment Maturities: 1-5 Years	Ratings
Pooled investments				
4M Fund	$ 213,776	$ 213,776	$ -	N/A

Concentration of Credit Risk: 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.

Custodial Credit Risk - Investments: 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: This 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 based on type.

Summary of cash deposits and investments as of December 31, 2025, were as follows:

Deposits (Note 3.A.)	$ 6,058,837
Investments (Note 3.B.)	213,776
Total deposits and investments	$ 6,272,613

Deposits and investments are presented in the December 31, 2025, basic financial statements as follows:

Statement of Net Position	
Cash and investments	$ 6,272,613

NOTE 3 – LEASE RECEIVABLE

The City has entered into a Tower Lease agreement with New Cingular Wireless PCS, LLC for space leased. This lease was entered into in 2009 and will continue to 2053. The lease payment was $20,250 for 2025 and will increase by 10% on January 1, 2029, and thereafter at the beginning of each renewal term, which is every five years. The City received payments of $20,250 in principal and interest payments in 2025. The deferred inflow and receivable balance related to this lease is $380,154 as of December 31, 2025.

NOTE 4 – INTERFUND ASSETS/LIABILITIES

At December 31, 2025, due from/to other funds for the City were as follows:

Fund Type and Fund	Due from Other Funds	Due to Other Funds
Governmental Funds		
General Fund	$ 108,577	$ -
Proprietary Funds		
Sewer Fund	-	108,577
Total	$ 108,577	$ 108,577

The amount due to the General Fund represents cash reclassified to the Sewer Fund as a result of deficit cash balances.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2025, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	$ 456,118	$ -	$ -	$ 456,118
Construction in progress	175,326	63,897	-	239,223
Total capital assets not being depreciated	631,444	63,897	-	695,341
Capital assets being depreciated				
Buildings	3,286,243	-	-	3,286,243
Infrastructure	8,962,873	-	-	8,962,873
Machinery and equipment	2,353,359	20,261	(6,800)	2,366,820
Total capital assets being depreciated	14,602,475	20,261	(6,800)	14,615,936
Less accumulated depreciation for				
Buildings	(1,168,213)	(81,745)	-	(1,249,958)
Infrastructure	(3,187,967)	(381,189)	-	(3,569,156)
Machinery and equipment	(1,248,034)	(126,491)	6,800	(1,367,725)
Total accumulated depreciation	(5,604,214)	(589,425)	6,800	(6,186,839)
Total capital assets being depreciated, net	8,998,261	(569,164)	-	8,429,097
Governmental activities capital assets, net	$ 9,629,705	$ (505,267)	$ -	$ 9,124,438

NOTE 5 – CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activites				
Capital assets not being depreciated				
Land	$ 98,295	$ -	$ -	$ 98,295
Construction in progress	78,807	1,295,432	-	1,374,239
Total capital assets not being depreciated	177,102	1,295,432	-	1,472,534
Capital assets being depreciated				
Buildings and systems	15,894,083	-	-	15,894,083
Machinery and equipment	264,820	144,382	-	409,202
Total capital assets being depreciated	16,158,903	144,382	-	16,303,285
Less accumulated depreciation for				
Buildings and systems	(6,350,554)	(399,984)	-	(6,750,538)
Machinery and equipment	(109,974)	(16,954)	-	(126,928)
Total accumulated depreciation	(6,460,528)	(416,938)	-	(6,877,466)
Total capital assets being depreciated, net	9,698,375	(272,556)	-	9,425,819
Business-type activites capital assets, net	$ 9,875,477	$ 1,022,876	$ -	$ 10,898,353

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

Governmental activities	
General government	$ 67,872
Public safety	74,192
Public works	435,195
Parks and recreation	12,166
Total depreciation expense - governmental activities	$ 589,425
Business-type activities	
Water	$ 75,175
Sewer	341,763
Total depreciation expense - business-type activities	$ 416,938

NOTE 6 – LONG-TERM LIABILITIES

A. Components of Long-Term Liabilities

	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. Capital Improvement Plan Bonds, Series 2014A	05/01/14	2.00%-2.75%	$ 1,925,000	02/01/27	$ 345,000	$ 170,000
G.O. Street Reconstruction Bonds, Series 2021A	12/22/21	2.00%	2,755,000	02/01/37	2,245,000	175,000
Total G.O. Bonds					2,590,000	345,000
Unamortized premiums					82,497	-
Compensated absences					68,361	44,634
Severance					25,509	-
Total governmental activities					2,766,367	389,634
Business-type activities						
G.O. Bonds						
G.O. Utility Revenue Refunding Bonds, Series 2020A	03/16/20	2.65%	365,000	02/01/28	136,000	51,000
G.O. Utility Revenue Bonds, Series 2023A	07/10/23	3.20-4.00%	885,000	02/01/43	835,000	35,000
Total G.O. Bonds					971,000	86,000
Unamortized premiums					3,770	-
Total business activities					974,770	86,000
Total all long-term liabilities					$ 3,741,137	$ 475,634

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.

B. Minimum Debt Payments

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

Year Ending December 31,	G.O. Bonds Principal	G.O. Bonds Interest	Governmental Activities Total
2026	$ 345,000	$ 50,300	$ 395,300
2027	350,000	42,056	392,056
2028	175,000	36,150	211,150
2029	180,000	32,600	212,600
2030	180,000	29,000	209,000
2031-2035	955,000	88,750	1,043,750
2036-2037	405,000	8,150	413,150
Total	$ 2,590,000	$ 287,006	$ 2,877,006

NOTE 6 – LONG-TERM LIABILITIES (CONTINUED)

B. Minimum Debt Payments (Continued)

Year Ending December 31,	G.O. Revenue Bond Principal	G.O. Revenue Bond Interest	Business-Type Activities Total
2026	$ 86,000	$ 34,123	$ 120,123
2027	75,000	31,798	106,798
2028	80,000	29,534	109,534
2029	40,000	27,700	67,700
2030	40,000	26,380	66,380
2031-2035	215,000	108,960	323,960
2036-2040	255,000	62,500	317,500
2041-2043	180,000	10,800	190,800
Total	$ 971,000	$ 331,795	$ 1,302,795

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2025, was as follows:

	Beginning Balance	Additions	Reductions	Net Change	Ending Balance
Governmental activities					
Bonds payable					
G.O. Improvement Bonds	$ 2,935,000	$ -	$ (345,000)	$ -	$ 2,590,000
Unamortized premiums	92,642	-	(10,145)	-	82,497
Compensated absences	59,024	-	-	9,337	68,361
Severance payable	22,308	-	-	3,201	25,509
Total governmental activities	$ 3,108,974	$ -	$ (355,145)	$ 12,538	$ 2,766,367
Business-type activities					
Bonds payable					
G.O. Improvement Bonds	$ 1,052,000	$ -	$ (81,000)	$ -	$ 971,000
Unamortized premiums	3,979	-	(209)	-	3,770
Total business-type activities	$ 1,055,979	$ -	$ (81,209)	$ -	$ 974,770

The change in the compensated absences liability is presented as a net change.

NOTE 7 – FUND BALANCE

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

	General	Road Maintenance	2021A G.O. Street Improvement Bond	Nonmajor Governmental Fund	Total
Nonspendable					
Prepaid Items	$ 23,527	$ -	$ -	$ -	$ 23,527
Restricted					
Public Safety	22,409	-	-	-	22,409
Debt Service	-	-	95,003	476,167	571,170
Committed					
Park Dedication	-	-	-	51,288	51,288
Fire	661,585	-	-	-	661,585
Lake Improvement District	-	-	-	19,196	19,196
Economic Development	-	-	-	15,688	15,688
Assigned					
Road Maintenance	-	1,612,773	-	-	1,612,773
General Government	389,481	-	-	-	389,481
Fire	86,754	-	-	-	86,754
Civil	46,629	-	-	-	46,629
Streets	209,190	-	-	-	209,190
Park and Recreation	205,646	-	-	-	205,646
Ball Program	12,847	-	-	-	12,847
Eagle Park	4,171	-	-	-	4,171
Unassigned	1,467,369	-	-	-	1,467,369
Total	$ 3,129,608	$ 1,612,773	$ 95,003	$ 562,339	$ 5,399,723

NOTE 8 – RISK MANAGEMENT

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

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

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 2025 was estimated to be immaterial based on workers' compensation rates and salaries for the year.

NOTE 8 – RISK MANAGEMENT (CONTINUED)

At December 31, 2025, there were no other claims liabilities reported in the fund based on the requirements of GASB Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

NOTE 9 – PENSION PLANS

The City participates in various pension plans, total pension expense for the year ended December 31, 2025, was $37,760. The components of pension expense are noted in the following plan summaries.

The General Fund and Water and Sewer funds typically liquidate the liability related to the pensions.

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, 353D, 353E, 353G, and 356. *Minnesota Statutes* Chapter 356 defines each plan's financial reporting requirements. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan

Membership in the General Plan includes employees of counties, cities, townships, schools in non-certified positions, and other governmental entities whose revenues are derived from taxation, fees, or assessments. Plan membership is required for any employee who is expected to earn more than $425 in a month, unless the employee meets exclusion criteria.

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. 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. When a member is vested, they have earned enough service credit to receive a lifetime monthly benefit after leaving public service and reaching an eligible retirement age. Members who retire at or over their Social Security full retirement age with at least one year of service qualify for a retirement benefit.

NOTE 9 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

B. Benefits Provided (Continued)

General Employees Plan Benefits

General Employees Plan requires three years of service to vest. Benefits are based on a member's highest average salary for any 5 successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Plan members. Members hired prior to July 1, 1989, receive the higher of Step or Level formulas. Only the Level formula is used for members hired after June 30, 1989. Under the Step formula, General Plan members receive 1.2% of the highest average salary for each of the first 10 years of service and 1.7% for each additional year. Under the Level formula, General Plan members receive 1.7% of the highest average salary for all years of service. For members hired prior to July 1, 1989, a full retirement benefit is available when age plus years of service equal 90 and normal retirement age is 65. Members can receive a reduced requirement benefit as early as age 55 if they have three or more years of service. Early retirement benefits are reduced by .25% for each month under age 65. Members with 30 or more years of service can retire at any age with a reduction of .25% for each month the member is younger than age 62. The Level formula allows General Plan members to receive a full retirement benefit at age 65 if they were first hired before July 1, 1989 or at age 66 if they were hired on or after July 1, 1989. Early retirement begins at age 55 with an actuarial reduction applied to the benefit.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. The 2025 annual increase was 1.25%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

C. Contributions

Minnesota Statutes Chapter 353, 353E, 353G, and 356 set the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

General Employees Fund Contributions

General Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2025 and the City was required to contribute 7.5% for General Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2025, were $38,679. The City's contributions were equal to the required contributions as set by state statute.

NOTE 9 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2025, the City reported a liability of $183,599 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 $16 million. 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 $4,429.

The net pension liability was measured as of June 30, 2025, 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 proportionate share 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, 2024, through June 30, 2025, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0055% at the end of the measurement period and 0.0059% for the beginning of the period.

City's proportionate share of the net pension liability	$ 183,599
State of Minnesota's proportionate share of the net pension liability associated with the City	4,429
Total	$ 188,028

For the year ended December 31, 2025, the City recognized pension expense of $16,198 for its proportionate share of General Employees Plan's pension expense. Included in the amount, the City recognized $679 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million to the General Employees Fund.

NOTE 9 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

General Employees Fund Pension Costs (Continued)

At December 31, 2025, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources, related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	$ 17,636	$ -
Changes in actuarial assumptions	4,424	39,255
Net difference between projected and actual investment earnings	-	79,950
Changes in proportion	31,470	8,721
paid to PERA subsequent to the measurement date	19,340	-
Total	$ 72,870	$ 127,926

The $19,340 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, 2026. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amount
2026	$ (9,515)
2027	(22,868)
2028	(28,962)
2029	(13,051)
Total	$ (74,396)

NOTE 9 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Long-Term Expected Return on Investment
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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	33.5 %	5.10 %
International equity	16.5	5.30
Fixed income	25.0	0.75
Private markets	25.0	5.90
Total	100.0 %	

F. Actuarial Methods and Assumptions
The total pension liability for each of the cost-sharing defined benefit plans was determined by an actuarial valuation as of June 30, 2025, using the entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used to determine the total liability is 7.0%. The 7.0% assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of investment return rates considered reasonable by the actuary. An investment return of 7.0% is within that range.

Inflation is assumed to be 2.25% for the General Employees Plan. Benefit increases after retirement are assumed to be 1.5% for the General Employees Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 11.5% after one year of service to 3.0% after 27 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. The tables are adjusted slightly to fit PERA's experience.

NOTE 9 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

F. Actuarial Methods and Assumptions (Continued)
Actuarial assumptions for the General Employees Plan are reviewed every four years. The General Employees Plan was last reviewed in 2022. The assumption changes were adopted by the Board and became effective with the July 1, 2023, actuarial valuation. The assumption changes were adopted by the board and became effective with the July 1, 2025, actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2025:

General Employees Fund

Changes in Actuarial Assumptions

- The combined service annuity loading factors increased from 15% to 19% for vested terminated members and from 3% to 44% for non-vested, terminated members. The assumed post-retirement benefit increase changed from 1.25% to 1.5%.

Changes in Plan Provisions

- The post-retirement benefit increase formula changed to 100% of the Social Security annual increase, between 1% and 1.75%, beginning January 1, 2026. If the funded ratio (on a market value of assets basis) is less than 85% for the last two consecutive annual valuations or is less than 80% in the most recent actuarial valuation, the maximum is reduced to 1.5%. Previously, the benefit increase was 50% of the Social Security annual increase, between 1% and 1.5%.
- The 1% additional employer contribution is eliminated when the plan reaches 98% funded status (on an actuarial value of assets basis); this contribution was previously scheduled to stop when the plan reached 100% funded status.

G. Discount Rate
The discount rate used to measure the total pension liability in 2025 was 7.0%. 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 these assumptions, the fiduciary net position of the General Employees Plan 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.

NOTE 9 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

H. Pension Liability Sensitivity

The following 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 (6.0%)	Current Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's proportionate share of the General Employees Fund net pension liability	$ 445,936	$ 183,599	$ (29,213)

I. 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.

Public Employees Defined Contribution Plan (Defined Contribution Plan)

Four council members of the City of Rockville are covered by the Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The Defined Contribution Plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

The defined contribution plan consists of individual accounts paying a lump-sum benefit. Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses; therefore, there is no future liability to the City. *Minnesota Statutes* Chapter 353D and 356, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2% of employer contributions and twenty-five hundredths of 1% (.25%) of the assets in each member's account annually.

NOTE 9 – PENSION PLANS (CONTINUED)

Public Employees Defined Contribution Plan (Defined Contribution Plan) (Continued)

Pension expense for the year is equal to the contributions made. Total contributions made by the City during fiscal year 2025 were:

Contribution Amount		Percentage of Covered Payroll		
Employee	Employer	Employee	Employer	Required Rate
$ 307	$ 307	5%	5%	5%

Defined Benefit Pension Plan – Volunteer Firefighter's Relief Association

A. Plan Description
The Rockville Firefighter'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 Firefighter's Association, 229 Broadway Street East, Rockville, Minnesota 56369 or by calling 320-251-5836.

B. Benefits Provided
Volunteer firefighters of the City are members of the Rockville Firefighter'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, 2025, 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	-
Active members	24
Total	24

NOTE 9 – PENSION PLANS (CONTINUED)

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

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 on-behalf payment of $30,494 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, 2024, 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, 2024, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 %
Investment rate of return	5.50 %, net of pension plan investment expense including inflation

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.

NOTE 9 – PENSION PLANS (CONTINUED)

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

E. Net Pension Liability (Continued)

Actuarial Assumptions (Continued)
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 below.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	48.0 %	4.52 %
International equity	13.0	5.08
Fixed income	35.0	2.44
Real estate and alternatives	0.0	3.73
Cash and equivalents	4.0	0.99
Total	100.0 %	

Discount Rate
The discount rate used to measure the total pension liability was 5.50%. 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.

NOTE 9 – PENSION PLANS (CONTINUED)

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

F. 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, 2025	$ 863,763	$ 777,702	$ 86,061
Changes for the year			
Service cost	27,259	-	27,259
Interest	42,324	-	42,324
Differences between expected and actual experience	(13,129)	-	(13,129)
Changes of assumptions	(14,246)	-	(14,246)
Contributions	-	25,852	(25,852)
Net investment income	-	72,505	(72,505)
Net changes	42,208	98,357	(56,149)
Balances at December 31, 2025	$ 905,971	$ 876,059	$ 29,912

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 5.50%, 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 (4.50%) or 1 percentage-point higher (6.50%) than the current rate:

	1% Decrease in Discount Rate (4.50%)	Current Discount Rate (5.50%)	1% Increase in Discount Rate (6.50%)
Relief's net pension liability	$ 48,979	$ 29,912	$ 11,479

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.

NOTE 9 – PENSION PLANS (CONTINUED)

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

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

For the year ended December 31, 2025, the City recognized pension expense of $21,255. At December 31, 2025, 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
Difference between expected and actual liability	$ 15,555	$ 81,656
Changes of assumptions	7,097	15,028
Net difference between projected and actual earnings on pension plan investments	3,589	-
Contributions paid to Volunteer Firefighter's Relief Association subsequent to the measurement date	30,494	-
Total	$ 56,735	$ 96,684

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

Year Ending December 31,	Pension Expense Amount
2026	$ 343
2027	7,819
2028	(36,775)
2029	(18,809)
2030	(7,727)
Thereafter	(15,294)
Total	$ (70,443)

NOTE 10 - TAX ABATEMENT AGREEMENT

The City has entered into a tax abatement agreement, which meet the criteria for disclosure under Government Accounting Standards Board Statement No. 77, Tax Abatement Disclosures. The City's authority to enter into these agreements comes from *Minnesota Statute* § 469. The City entered into this agreement for the purpose of creating new employment opportunities within the City of Rockville and help provide access to services for businesses and residents in the City of Rockville.

The City entered into a tax abatement agreement with Eichi, Inc on February 22, 2021, for the construction of residential development. The tax abatement levy began in 2023 and is for 100.00 percent of the City's share of real estate taxes derived from the tax abatement property for a 15-year term and an aggregate amount of $504,425.

NOTE 11 – CHANGE WITHIN FINANCIAL REPORTING ENTITY

During the year ended December 31, 2025, changes to or within the financial reporting entity resulted in adjustments to and restatement of beginning net position for a non-major fund moving to a major fund.

	Reporting Units Affected by adjustments and Restatements of Beginning Balances	
	2021A G.O. Street Improvement Bond (300)	Other Governmental Funds
12/31/2024, as previously reported	$ -	$ 606,778
Changes to or within the entity	96,560	(96,560)
12/31/2024, as restated	$ 96,560	$ 510,218

NOTE 12 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 103, *Financial Reporting Model Improvements*. The changes required by this Statement provide clarity, enhance the relevance of information, provide more useful information for decision-making, and provide for greater comparability amongst government entities. This Statement will be effective for the year ending December 31, 2026.

GASB Statement No. 104, *Disclosure of Certain Capital Assets*. The disclosures required by this Statement provide users of the financial statements with essential information about certain types of capital assets. This Statement will be effective for the year ending December 31, 2026.

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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

For Fiscal Year Ended June 30,	City's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	City's Proportionate Share (Amount) of the Net Pension Liability (Asset)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the City	City's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the City	City's Covered Payroll	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.0039%	$ 316,661	$ 4,082	$ 320,743	$ 240,560	131.6%	68.91%
2017	0.0042%	268,125	3,367	271,492	270,253	99.2%	75.90%
2018	0.0041%	227,451	7,400	234,851	275,493	82.6%	79.53%
2019	0.0041%	226,680	7,000	233,680	288,067	78.7%	80.23%
2020	0.0043%	257,805	7,891	265,696	305,960	84.3%	79.06%
2021	0.0045%	192,170	5,821	197,991	321,427	59.8%	87.00%
2022	0.0047%	372,242	11,053	383,295	354,973	104.9%	76.67%
2023	0.0048%	268,411	7,351	275,762	380,027	70.6%	83.10%
2024	0.0059%	216,446	5,597	222,043	495,520	43.7%	89.08%
2025	0.0055%	183,599	4,429	188,028	501,773	36.6%	90.78%

See notes to required supplementary information.

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

For Fiscal Year Ending December 31,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
2016	$ 19,441	$ 19,441	$ -	$ 259,213	7.50%
2017	21,244	21,244	-	283,253	7.50%
2018	21,282	21,282	-	283,760	7.50%
2019	23,275	23,275	-	310,333	7.50%
2020	24,498	24,498	-	326,640	7.50%
2021	25,553	25,553	-	340,707	7.50%
2022	29,644	29,644	-	395,253	7.50%
2023	32,510	32,510	-	433,467	7.50%
2024	37,462	37,462	-	499,493	7.50%
2025	38,679	38,679	-	515,720	7.50%

See notes to required supplementary information.

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

	Measurement Date			
	2015	2016	2017	2018
Total Pension Liability (TPL)				
Service cost	$ 18,631	$ 18,326	$ 18,412	$ 18,918
Interest	25,479	26,822	31,810	34,722
Differenced between expected and actual experience	-	82,875	-	(116,080)
Changes of assumptions	(5,265)	-	-	8,862
Changes of benefit terms	-	-	-	-
Benefit payments, including refunds or member contributions	(80,760)	(82,539)	(176)	-
Net change in total pension liability	(41,915)	45,484	50,046	(53,578)
Beginning of year	531,330	489,415	534,899	584,945
End of year	$ 489,415	$ 534,899	$ 584,945	$ 531,367
Plan Fiduciary Net Pension (FNP)				
Contributions	$ 24,554	$ 62,710	$ 37,294	$ 36,889
Net investment income	(14,099)	25,578	56,236	(39,438)
Benefit payments, including refunds of member contributions	(80,760)	(82,539)	(176)	-
Net change in plan fiduciary net position	(70,305)	5,749	93,354	(2,550)
Beginning of year	461,350	391,045	396,794	490,148
End of year	$ 391,045	$ 396,794	$ 490,148	$ 487,598
Net Pension Liability (NPL)	$ 98,370	$ 138,105	$ 94,797	$ 43,769
Plan fiduciary net position as a percentage of the total pension liability	79.9%	74.2%	83.8%	91.8%
Covered employee payroll	n/a	n/a	n/a	n/a
Net pension liability as a percentage of covered payroll	n/a	n/a	n/a	n/a

	Measurement Date					
	2019	2020	2021	2022	2023	2024
	$ 20,417	$ 20,287	$ 22,357	$ 22,860	$ 26,594	$ 27,259
	27,390	29,445	27,119	29,493	39,168	42,324
	-	(21,531)	-	(30,558)	-	(13,129)
	(2,045)	8,388	-	(2,382)	-	(14,246)
	-	-	-	180,537	-	-
	(7,963)	(57,180)	-	-	-	-
	37,799	(20,591)	49,476	199,950	65,762	42,208
	531,367	569,166	548,575	598,051	798,001	863,763
	$ 569,166	$ 548,575	$ 598,051	$ 798,001	$ 863,763	$ 905,971
	$ 38,295	$ 38,295	$ 19,662	$ 28,820	$ 48,066	$ 25,852
	85,774	87,675	69,387	(152,020)	91,293	72,505
	(7,963)	(57,180)	-	-	-	-
	116,106	68,790	89,049	(123,200)	139,359	98,357
	487,598	603,704	672,494	761,543	638,343	777,702
	$ 603,704	$ 672,494	$ 761,543	$ 638,343	$ 777,702	$ 876,059
	$ (34,538)	$ (123,919)	$ (163,492)	$ 159,658	$ 86,061	$ 29,912
	106.1%	122.6%	127.3%	80.0%	90.0%	96.7%
	n/a	n/a	n/a	n/a	n/a	n/a
	n/a	n/a	n/a	n/a	n/a	n/a

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

	Fiscal Year Ended December 31,			
	2016	2017	2018	2019
Employer				
Statutorily determined contribution (SDC)	$ 41,398	$ 20,664	$ -	$ -
Contribution in relation to the SDC	41,398	20,664	19,960	19,960
Contribution deficiency (excess)	$ -	$ -	$ (19,960)	$ (19,960)
Non-employer				
2% aid	$ 16,645	$ 16,630	$ 16,929	$ 17,451
Covered employee payroll	n/a	n/a	n/a	n/a
Contributions as a percentage of covered employee payroll	n/a	n/a	n/a	n/a

Fiscal Year Ended December 31,					
2020	2021	2022	2023	2024	2025
$ -	$ -	$ -	$ 25,460	$ 17,479	$ 30,494
19,600	-	-	25,460	25,460	17,479
$ (19,600)	$ -	$ -	$ -	$ (7,981)	$ 13,015
$ 18,695	$ 19,662	$ 20,236	$ 23,606	$ 25,852	$ 30,494
n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a

General Employees Fund

2025 Changes
Changes in Actuarial Assumptions

- The combined service annuity loading factors increased from 15% to 19% for vested, terminated members and from 3% to 44% for non-vested, terminated members.
- The assumed post-retirement benefit increase changed from 1.25% to 1.5%.

Changes in Plan Provisions

- The post-retirement benefit increase formula changed to 100% of the Social Security annual increase, between 1% and 1.75%, beginning January 1, 2026. If the funded ratio (on a market value of assets basis) is less than 85% for the last two consecutive annual valuations or is less than 80% in the most recent actuarial valuation, the maximum is reduced to 1.5%. Previously, the benefit increase was 50% of the Social Security annual increase, between 1% and 1.5%.
- The 1% additional employer contribution is eliminated when the plan reaches 98% funded status (on an actuarial value of assets basis); this contribution was previously scheduled to stop when the plan reached 100% funded status.

2024 Changes
Changes in Actuarial Assumptions

- Rates of merit and seniority were adjusted, resulting in slightly higher rates.
- Assumed rates of retirement were adjusted as follows: increase the rate of assumed unreduced retirements, slight adjustments to Rule of 90 retirement rates, and slight adjustments to early retirement rates for Tier 1 and Tier 2 members.
- Minor increase in assumed withdrawals for males and females.
- Lower rates of disability.
- Continued use of Pub-2010 general mortality table with slight rate adjustments as recommended in the most recent experience study.
- Minor changes to form of payment assumptions for male and female retirees.
- Minor changes to assumptions made with respect to missing participant data.

Changes in Plan Provisions

- The workers' compensation offset for disability benefits was eliminated. The actuarial equivalent factors updated to reflect the changes in assumptions.

2023 Changes
Changes in Actuarial Assumptions

- The investment return assumption and single discount rate were changed from 6.5% to 7.0%.

Changes in Plan Provisions

- An additional one-time direct state aid contribution of $170.1 million was contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- A one-time, non-compounding benefit increase of 2.5% minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

2022 Changes
Changes in Actuarial Assumptions

- The mortality improvement scale was changed from scale MP-2020 to scale MP-2021.

General Employees Fund (Continued)

2022 Changes (Continued)
Changes in Plan Provisions

- There have been no changes since the prior valuation.

2021 Changes
Changes in Actuarial Assumptions

- The investment return and single discount rates were changed from 7.5% to 6.5% for financial reporting purposes.
- The mortality improvement scale was changed from scale MP-2019 to scale MP-2020.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2020 Changes
Changes in Actuarial Assumptions

- The price inflation assumption was decreased from 2.5% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.0%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changes as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the Pub-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint and Survivor option changed from 35% to 45%. The assumed number of married female new retires electing the 100% Joint and Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions

- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020, through December 31, 2023, and 0.0% thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019 Changes
Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2017 to MP-2018.

General Employees Fund (Continued)

2019 Changes (Continued)

Changes in Plan Provisions

- The employer supplemental contribution was changed prospectively, decreasing from $31.0 million to $21.0 million per year. The State's special funding contribution was changed prospectively, requiring $16.0 million due per year through 2031.

2018 Changes

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

Changes in Plan Provisions

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00% to 3.00%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Annual increases were changed from 1.00% per year with a provision to increase to 2.50% upon attainment of 90.00% funding ratio to 50.00% of the Social Security Cost of Living Adjustment, not less than 1.00% and not more than 1.50%, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age. This does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes

Changes in Actuarial Assumptions

- The CSA loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability and 3% for non-vested deferred member liability.
- The assumed annual increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

Changes in Plan Provisions

- The State's contribution for the Minneapolis Employees Retirement Fund equals $16,000,000 in 2017 and 2018, and $6,000,000 thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from $21,000,000 to $31,000,000 in calendar years 2019 to 2031. The State's contribution changed from $16,000,000 to $6,000,000 in calendar years 2019 to 2031.

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.

General Employees Fund (Continued)

2016 Changes (Continued)

Changes in Actuarial Assumptions (Continued)

- 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 was decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

Rockville Fire Relief Association

2025 Changes
Changes in Actuarial Assumptions
- The discount rate increased from 4.75% to 5.50%

2024 Changes
Changes in Actuarial Assumptions
- None

2023 Changes
Changes in Actuarial Assumptions
- The disability, mortality, and withdrawal assumptions were updated from the rates used in the July 1, 2020 Minnesota PERA Police and Fire Plan actuarial valuation to the rates used in the July 1, 2022 Minnesota PERA Police and Fire Plan actuarial valuation.
- The inflation assumption increased from 2.25% to 2.50%.

2022 Changes
Changes in Actuarial Assumptions
- None

2021 Changes
Changes in Actuarial Assumptions
- The expected investment return and discount rate decreased from 5.25% to 4.75% to reflect updated capital market assumptions.
- The mortality assumptions were updated from the rates used in the July 1, 2018, Minnesota PERA Police and Fire Plan actuarial valuation to the rates used in the July 1, 2020, Minnesota PERA Police and Fire Plan actuarial valuation.
- The inflation assumption decreased from 2.50% to 2.25%.

2020 Changes
Changes in Actuarial Assumptions
- None

2019 Changes
Changes in Actuarial Assumptions
- The expected investment return and discount rate increased from 5.00% to 5.25% to reflect updated capital market.

SUPPLEMENTARY INFORMATION

City of Rockville
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended December 31, 2025

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Property taxes	$ 1,347,090	$ 1,347,090	$ 1,332,618	$ (14,472)
Special assessments	-	-	386	386
Licenses and permits	70,000	70,000	101,398	31,398
Intergovernmental revenue				
Local government aid	288,811	288,811	288,811	-
Market value credit	-	-	8,214	8,214
Fire aid	19,000	19,000	30,494	11,494
Other grants and aids	-	-	1,714	1,714
Total intergovernmental revenue	307,811	307,811	329,233	21,422
Charges for services				
General government	-	-	5,684	5,684
Public safety	32,000	32,000	34,482	2,482
Total charges for services	32,000	32,000	40,166	8,166
Fines and forfeitures	-	-	11,213	11,213
Miscellaneous revenues				
Investment income	-	-	31,637	31,637
Other	-	-	21,588	21,588
Total miscellaneous revenues	-	-	53,225	53,225
Total revenues	1,756,901	1,756,901	1,868,239	111,338
Expenditures				
General government				
Mayor and council	19,974	19,974	21,022	1,048
Administrative and finance	286,754	286,754	293,249	6,495
Other general government	258,775	323,803	273,650	(50,153)
Total general government	565,503	630,531	587,921	(42,610)
Public safety				
Police				
Current	42,740	42,740	42,467	(273)
Fire				
Current	278,584	278,584	261,889	(16,695)
Capital outlay	216,733	216,733	27,211	(189,522)
Total fire	495,317	495,317	289,100	(206,217)

City of Rockville
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended December 31, 2025

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Expenditures (Continued)				
Public safety (Continued)				
Other				
Current	$ 11,973	$ 11,973	$ 4,187	$ (7,786)
Capital outlay	9,000	9,000	-	(9,000)
Total other	20,973	20,973	4,187	(16,786)
Total public safety	559,030	559,030	335,754	(223,276)
Public works				
Streets and highways				
Storm sewers	381,481	381,481	268,295	(113,186)
Street engineering	-	-	100	100
Street lighting	18,000	18,000	17,028	(972)
Street construction capital outlay	20,000	20,000	-	(20,000)
Street - other capital outlay	125,000	125,000	500	(124,500)
Total streets and highways	544,481	544,481	285,923	(258,558)
Culture and recreation				
Current	45,887	45,887	42,466	(3,421)
Capital outlay	42,000	42,000	-	(42,000)
Total culture and recreation	87,887	87,887	42,466	(45,421)
Total expenditures	1,756,901	1,821,929	1,252,064	(569,865)
Net change in fund balances	$ -	$ (65,028)	616,175	$ 681,203
Fund Balances				
Beginning of year			2,513,433	
End of year			$ 3,129,608	

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Combining Balance Sheet -
Nonmajor Governmental Funds
December 31, 2025

	Special Revenue			Debt Service	
	Public Land Dedication (202) and Rocori Trail (205)	Economic Development Authority (209)	Lake Improvement District (221)	City Facilities (304)	Total Governmental Funds
Assets					
Cash and investments	$ 51,288	$ 15,679	$ 19,138	$ 475,419	$ 561,524
Taxes receivable - delinquent	-	29	267	2,509	2,805
Due from other governments	-	9	58	748	815
Total assets	$ 51,288	$ 15,717	$ 19,463	$ 478,676	$ 565,144
Deferred Inflows of Resources					
Unavailable revenue - property taxes	$ -	$ 29	$ 267	$ 2,509	$ 2,805
Fund Balances					
Restricted	-	-	-	476,167	476,167
Committed	51,288	15,688	19,196	-	86,172
Total fund balances	51,288	15,688	19,196	476,167	562,339
Total deferred inflows of resources and fund balances	$ 51,288	$ 15,717	$ 19,463	$ 478,676	$ 565,144

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended December 31, 2025

	Special Revenue		
	Public Land Dedication (202) and Rocori Trail (205)	Economic Development Authority (209)	Lake Improvement District (221)
Revenues			
Property taxes	$ -	$ 1,986	$ 24,456
Intergovernmental	-	13	5,420
Miscellaneous			
Investment income	656	201	221
Other	48,297	-	-
Total revenues	48,953	2,200	30,097
Expenditures			
Current			
General government	-	-	28,172
Debt service			
Principal	-	-	-
Interest and other charges	-	-	-
Capital outlay			
Culture and recreation	1,000	-	-
Total expenditures	1,000	-	28,172
Net change in fund balances	47,953	2,200	1,925
Fund Balances			
Beginning of year, as previously stated	3,335	13,488	17,271
Change within financial reporting entity (See Note 11)	-	-	-
Beginning of year, as restated	3,335	13,488	17,271
End of year	$ 51,288	$ 15,688	$ 19,196

Debt Service		
2021A G.O. Street Improvement Bond (300)	City Facilities (304)	Total Other Governmental Funds
$ -	$ 172,076	$ 198,518
-	1,110	6,543
-	9,780	10,858
-	-	48,297
-	182,966	264,216
-	-	28,172
-	170,000	170,000
-	12,923	12,923
-	-	1,000
-	182,923	212,095
-	43	52,121
96,560	476,124	606,778
(96,560)	-	(96,560)
-	476,124	510,218
$ -	$ 476,167	$ 562,339

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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 (*Government Auditing Standards*), 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, 2025, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 20, 2026.

Report on 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) as a basis for designing 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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses on Legal Compliance and Internal Control that we consider to be material weaknesses, listed as Audit Findings 2025-001 and 2025-002.

Report on 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 financial statements. 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 Responses to the Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses on Legal Compliance and Internal Control. The City's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the 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.

BerganKDV, Ltd.

St. Cloud, Minnesota
May 20, 2026

Minnesota 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, 2025, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 20, 2026.

In connection with our audit, we noted that the City failed to comply with provisions of the miscellaneous provisions and depositories of public funds and public investments sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to *Minnesota Statutes* § 6.65, insofar as they relate to accounting matters as described in the Schedule of Findings and Responses on Legal Compliance and Internal Control as items 2025-003, 2025-004, and 2025-005. Also, in connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the contracting – bid laws, conflicts of interest, public indebtedness and claims and disbursements sections of the *Minnesota Legal Compliance Audit Guide for Cities* insofar as they relate to accounting matters. 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 provision, insofar as they relate to accounting matters.

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the legal compliance findings identified in our audit and described in the accompanying Schedule of Findings and Responses on Legal Compliance and Internal Control. The City's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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.

BerganKDV, Ltd.

St. Cloud, Minnesota
May 20, 2026

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

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDING:

Audit Finding 2025-001 – Lack of Segregation of Accounting Duties

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

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

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

We recommend management, along with the City Council, evaluate the risks related to 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.

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

CURRENT YEAR INTERNAL CONTROL FINDING:

Audit Finding 2025-002 – Material Audit Adjustment

During our audit, we identified and proposed a material audit adjustment for the MPFA grant receivable to reimburse the City for eligible 2025 expenses in the Sewer Fund. This was necessary for the financial statements to be presented fairly in accordance with accounting principles generally accepted in the United State of America (GAAP) and to ensure the financial statements were free from material misstatement.

We recommend the City review all activity and ensure all necessary adjustments to financial data are recorded to ensure management can prepare GAAP compliant financial statements.

City's Response:
The City acknowledges the oversight in the recording of this receivable during 2025. Going forward, the City will ensure that the receivables listing is complete for the City for the entirety of the fiscal year.

CURRENT YEAR LEGAL COMPLIANCE FINDINGS:

Audit Finding 2025-003 – Council Member Quorum at Fire Department Meeting

The City had multiple City Council Members attend an open fire department meeting but did not create a recording or keep minute notes in a council member capacity as required by *Minnesota Statutes*. Specifically, *Minnesota Statutes* § 13D.01, states that all meetings of the City Council and of any committee, subcommittee, board, department, or commission of the city council or other public body open to the public.

Our review found that the City did not make an audio recording of one such open meeting during 2025.

We recommend that the City ensure compliance with *Minnesota Statutes* regarding open meetings by clearly stating the legal basis for council attendance at Fire Department meetings and making the required audio recording of the open session. Implementing consistent procedures and staff training will help reduce the risk of future noncompliance.

City's Response:
The City acknowledges the oversight in not recording the open fire department meeting during 2025. Going forward, the City will ensure that all council members are aware they cannot operate in a City Council capacity at the fire department meetings. Staff involved in meeting preparation and administration will receive additional guidance to support compliance.

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

CURRENT YEAR LEGAL COMPLIANCE FINDINGS (CONTINUED):

Audit Finding 2025-004 – Broker Acknowledgment Forms

During our audit, we noted the City did not have proper broker acknowledgement as required by *Minnesota Statutes*. Specifically, *Minnesota Statutes* § 118A.04 requires that City annually provides the broker with a written statement of investment restriction.

Our review found that the City did not provide proper broker acknowledgement during 2025.

We recommend that the City ensure they provide broker acknowledgment annually.

City's Response:
The City acknowledges the oversight in not providing broker acknowledgment during 2025. Going forward, the City will ensure that the banks have broker acknowledgement for the fiscal year.

Audit Finding 2025-005 – Maintain Proper Collateralization

During our audit, we noted the City did not have proper collateralization of deposits as required by *Minnesota Statutes*. Specifically, *Minnesota Statutes* § 118A.03 requires that City funds that are not insured need to be either bonded or collateralized.

Our review found that the City did not obtain proper collateralization during all of 2025.

We recommend that the City ensure the bank is maintaining enough collateral for the City for the entirety of the fiscal year.

City's Response:
The City acknowledges the oversight in not obtaining proper collateralization during 2025. Going forward, the City will ensure that the banks are maintaining enough collateral for the City for the entirety of the fiscal year.