

**City of Rockville  
Stearns County, Minnesota**

**Financial Statements**

**December 31, 2020**





**City of Rockville  
Table of Contents**

<b>Elected Officials and Administration</b>	1
<b>Independent Auditor's Report</b>	2
<b>Management's Discussion and Analysis</b>	5
<b>Basic Financial Statements</b>	
Government-Wide Financial Statements	
Statement of Net Position	18
Statement of Activities	19
Fund Financial Statements	
Balance Sheet – Governmental Funds	20
Reconciliation of the Balance Sheet to the Statement of Net Position – Governmental Funds	22
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	23
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities – Governmental Funds	26
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	27
Statement of Net Position – Proprietary Funds	28
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	29
Statement of Cash Flows – Proprietary Funds	30
Notes to Financial Statements	31
<b>Required Supplementary Information</b>	
Schedule of City's Proportionate Share of Net Pension Liability General Employees Retirement Fund	60
Schedule of City Contributions General Employees Retirement Fund	61
Schedule of Changes in the Net Pension Liability and Related Ratios – Fire Relief Association	62
Schedule of City Contributions and Non Employer Contributing Entities– Fire Relief Association	64
Notes to Required Supplementary Information	66
<b>Supplementary Information</b>	
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	70
Combining Balance Sheet – Nonmajor Governmental Funds	72
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	74

**City of Rockville  
Table of Contents**

<b>Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b>	77
<b>Minnesota Legal Compliance</b>	79
<b>Schedule of Findings and Responses on Internal Control</b>	80

**City of Rockville  
Elected Officials and Administration  
December 31, 2020**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Duane Willenbring	Mayor	December 31, 2020
William Becker	Council Member	December 31, 2022
Don Simon	Council Member	December 31, 2020
Jerry Tippelt	Council Member	December 31, 2020
Brian Herberg	Council Member	December 31, 2022
<u>Administration</u>		
Martin Bode	City Administrator/Clerk	
Judy Neu	Finance/Utility Billing Clerk/ Administrative Assistant	

## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rockville, Minnesota, as of and for the year ended December 31, 2020, and the related notes to financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## **Opinions**

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rockville, Minnesota, as of December 31, 2020, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and Required Supplementary Information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

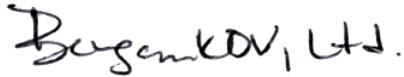
### *Other Information*

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2021, 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.



St. Cloud, Minnesota  
May 19, 2021



## **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, 2020.

### **FINANCIAL HIGHLIGHTS**

- ◆ The net position of the City at the close of the most recent year was \$16,667,462. Of this amount, \$5,157,412 may be used to meet government's ongoing obligations to citizens and creditors.
- ◆ The government's total net position increased by \$680,951 in 2020. This was attributable due to the city's positive operations of its governmental funds.
- ◆ As of the close of the current year, the City's governmental funds reported combined ending fund balances of \$2,677,740, an increase of \$664,924. 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 \$1,777,817, or 145% of total General Fund expenditures. While these funds are not legally restricted, \$21,585 is nonspendable, \$5,002 is committed and \$388,694 is assigned for future purposes, leaving the unassigned fund balance of \$1,362,536, or 111% of current year expenditures, to be used in the event of a major catastrophe.
- ◆ The City's total long-term debt decreased by \$740,325 during the current year because of principal payments on the City's debt.

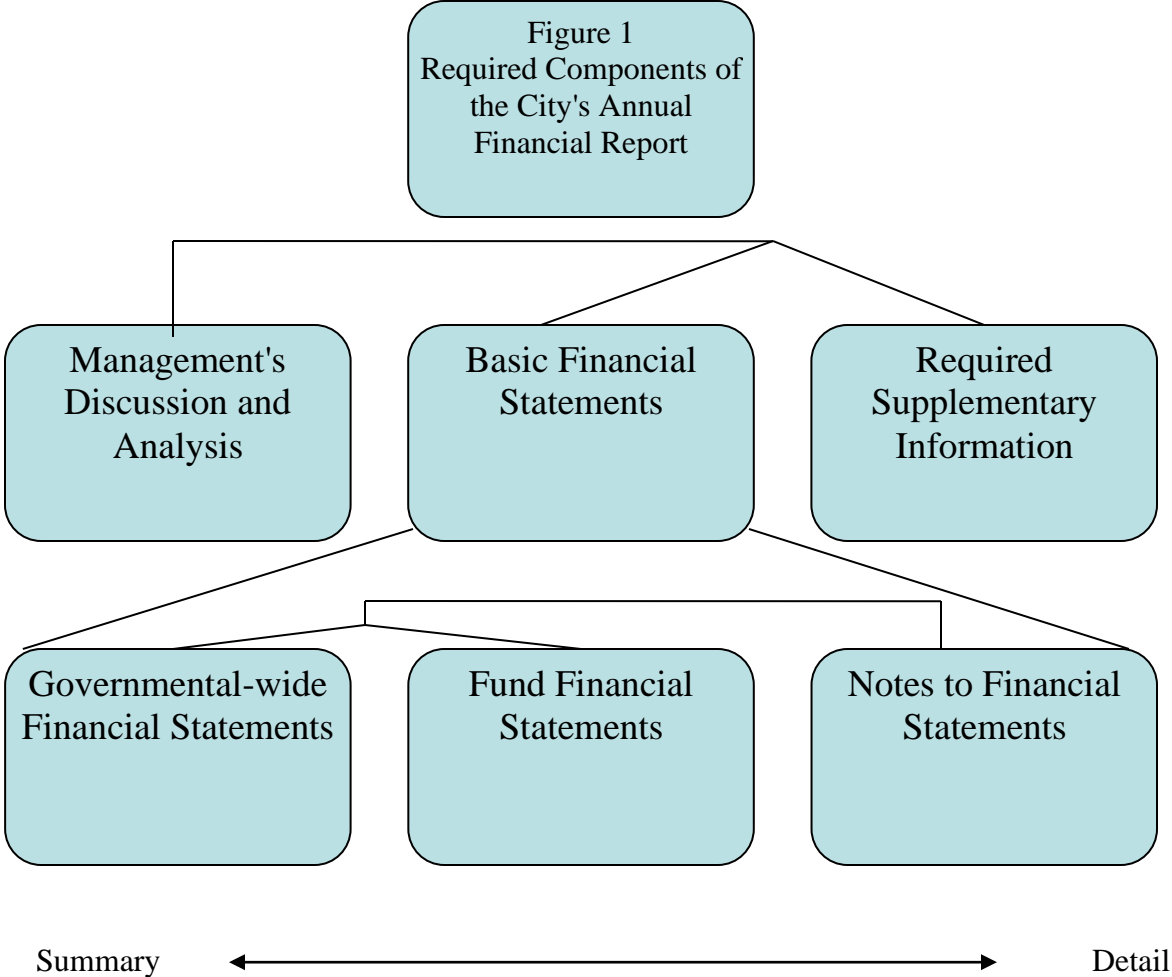
### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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.

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

**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.



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

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

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

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

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

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

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

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

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

### **Fund Financial Statements**

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

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

### **GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)**

#### **Governmental Funds (Continued)**

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

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

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

#### **Proprietary Funds**

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

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

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

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

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

#### **Other Information**

The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the Notes to Financial Statements. Combining and individual fund statements and schedules can be found on pages 72-75 of this report.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, total assets and deferred outflows exceeded total liabilities and deferred inflows by \$16,667,462 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.

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

**Summary of Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
<b>ASSETS</b>						
Current and other assets	\$ 3,169,762	\$ 2,329,039	\$ 3,205,109	\$ 3,448,009	\$ 6,374,871	\$ 5,777,048
Capital assets	9,661,935	9,446,604	13,841,788	13,841,788	23,503,723	23,288,392
Less accumulated Depreciation	<u>(3,832,022)</u>	<u>(3,500,333)</u>	<u>(5,036,552)</u>	<u>(4,690,809)</u>	<u>(8,868,574)</u>	<u>(8,191,142)</u>
Total assets	<u>\$ 8,999,675</u>	<u>\$ 8,275,310</u>	<u>\$ 12,010,345</u>	<u>\$ 12,598,988</u>	<u>\$ 21,010,020</u>	<u>\$ 20,874,298</u>
Deferred outflows	<u>\$ 119,144</u>	<u>\$ 165,145</u>	<u>\$ 7,178</u>	<u>\$ 5,756</u>	<u>\$ 126,322</u>	<u>\$ 170,901</u>
Long-term liabilities						
Outstanding	\$ 1,280,321	\$ 1,479,821	\$ 1,992,285	\$ 2,561,195	\$ 3,272,606	\$ 4,041,016
Other liabilities	<u>436,232</u>	<u>247,143</u>	<u>628,944</u>	<u>617,702</u>	<u>1,065,176</u>	<u>864,845</u>
Total liabilities	<u>\$ 1,716,553</u>	<u>\$ 1,726,964</u>	<u>\$ 2,621,229</u>	<u>\$ 3,178,897</u>	<u>\$ 4,337,782</u>	<u>\$ 4,905,861</u>
Deferred inflows	<u>\$ 128,044</u>	<u>\$ 141,993</u>	<u>\$ 3,054</u>	<u>\$ 10,834</u>	<u>\$ 131,098</u>	<u>\$ 152,827</u>
<b>NET POSITION</b>						
Net investment in						
Capital assets	\$ 4,601,505	\$ 4,569,271	\$ 6,288,236	\$ 6,064,959	\$ 10,889,741	\$ 10,634,230
Restricted	620,309	591,611	-	-	620,309	591,611
Unrestricted	<u>2,052,408</u>	<u>1,410,616</u>	<u>3,105,004</u>	<u>3,350,054</u>	<u>5,157,412</u>	<u>4,760,670</u>
Total net position	<u>\$ 7,274,222</u>	<u>\$ 6,571,498</u>	<u>\$ 9,393,240</u>	<u>\$ 9,415,013</u>	<u>\$ 16,667,462</u>	<u>\$ 15,986,511</u>

An additional portion of the City's net position (9%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (28%) may be used to meet the government's ongoing obligations to citizens and creditors. This is an increase of \$396,742 from 2019.

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

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

**Governmental Activities**

Governmental activities increased the City's net position by \$702,724. The key element of this increase is due to revenues exceeding expenses.

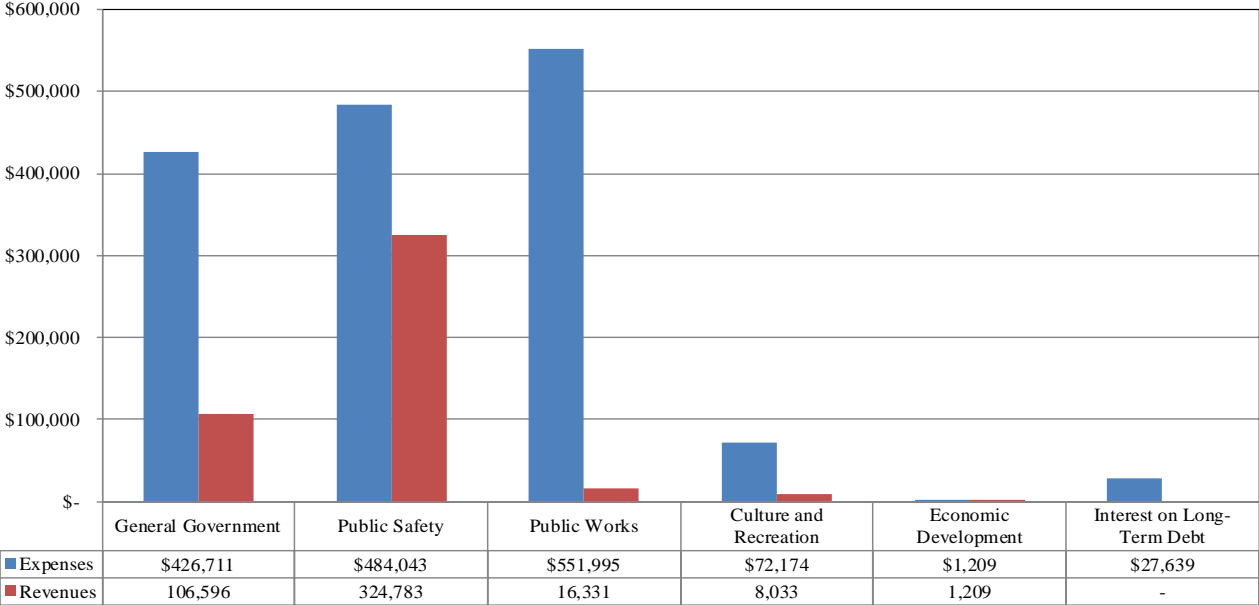
**Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
<b>REVENUES</b>						
Program revenues						
Charges for service	\$ 77,655	\$ 119,552	\$ 628,199	\$ 489,218	\$ 705,854	\$ 608,770
Operating grants and contributions	318,938	75,457	48,341	55,142	367,279	130,599
Capital grants and contributions	60,359	15,580	31,662	43,320	92,021	58,900
General revenues						
Property taxes	1,632,714	1,355,168	16,708	16,164	1,649,422	1,371,332
Other	235,418	210,946	130	155	235,548	211,101
Investment income	25,730	56,304	32,454	54,519	58,184	110,823
Total revenues	<u>\$ 2,350,814</u>	<u>\$ 1,833,007</u>	<u>\$ 757,494</u>	<u>\$ 658,518</u>	<u>\$ 3,108,308</u>	<u>\$ 2,491,525</u>
<b>EXPENSES</b>						
General government	426,711	406,832	-	-	426,711	406,832
Public safety	484,043	298,742	-	-	484,043	298,742
Public works	551,995	647,484	-	-	551,995	647,484
Culture and recreation	72,174	66,989	-	-	72,174	66,989
Economic development	1,209	-	-	-	1,209	-
Interest on long-term debt	27,639	31,101	-	-	27,639	31,101
Water	-	-	180,375	173,704	180,375	173,704
Sewer	-	-	683,211	603,791	683,211	603,791
Total expenses	<u>\$ 1,563,771</u>	<u>\$ 1,451,148</u>	<u>\$ 863,586</u>	<u>\$ 777,495</u>	<u>\$ 2,427,357</u>	<u>\$ 2,228,643</u>
Increase in net position						
Before transfers	787,043	381,859	(106,092)	(118,977)	680,951	262,882
Transfers	(84,319)	(84,537)	84,319	84,537	-	-
Increase in net position	702,724	297,322	(21,773)	(34,440)	680,951	262,882
<b>NET POSITION</b>						
Beginning of year	<u>6,571,498</u>	<u>6,274,176</u>	<u>9,415,013</u>	<u>9,449,453</u>	<u>15,986,511</u>	<u>15,723,629</u>
End of year	<u>\$ 7,274,222</u>	<u>\$ 6,571,498</u>	<u>\$ 9,393,240</u>	<u>\$ 9,415,013</u>	<u>\$ 16,667,462</u>	<u>\$ 15,986,511</u>

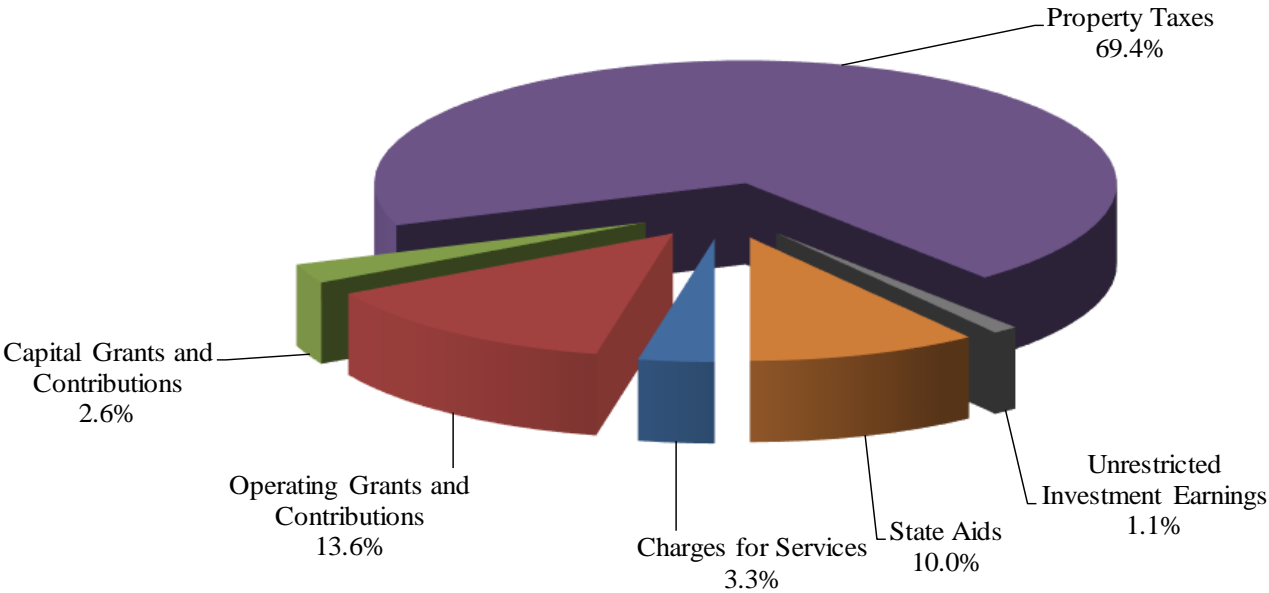
**City of Rockville  
Management's Discussion and Analysis**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

**Expenses and Program Revenues - Governmental Activities**



**Revenues by Source - Governmental Activities**





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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

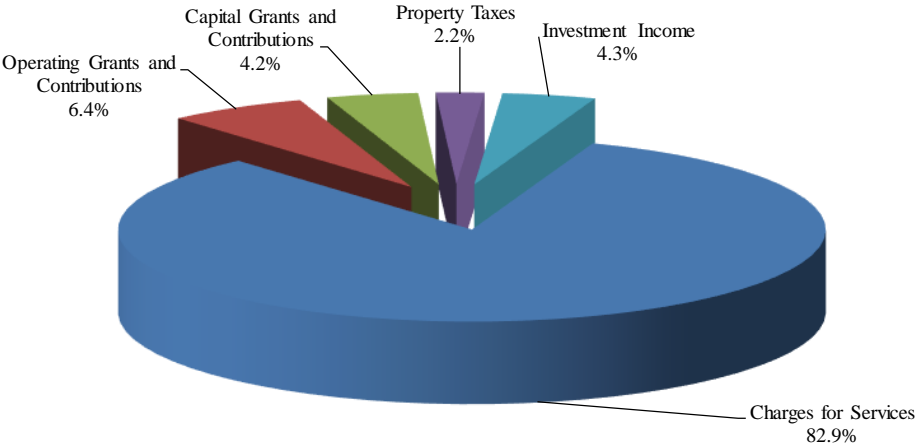
**Business Type Activities**

Business type activities decreased the City's net position by \$21,773. Key elements of this decrease are as follows: depreciation expense and professional services.

**Expenses and Program Revenues - Business-Type Activities**



**Revenues by Source - Business-Type Activities**



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

### **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 \$2,677,740, an increase of \$664,924 in comparison with the prior year.

The General Fund is the chief operating fund of the City. At the end of the current year, fund balance of the General Fund was \$1,777,817. 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 111% of total General Fund expenditures, while total fund balance represents 145% of that same amount.

The fund balance of the City's General Fund increased by \$302,771 during the current year. The key factors for the increase was an increase in property tax revenue and decreased capital outlay expenditures.

The Road Maintenance fund balance increased \$358,821 as a result of building up funds for ongoing improvement projects.

The City Facilities Fund fund balance increased \$7,111 as a result of revenues exceeding expenditures.

#### **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, \$978,763 and sewer, \$2,126,241. The proprietary funds decreased \$21,773 in total net position for the year; this decrease is primarily due to depreciation expense of \$345,743 in the funds as well as \$144,724 in professional services.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

The City approved the 2020 General Fund budget anticipating revenues to exceed expenditures by \$2,000. The City amended its budget to recognize additional unplanned revenue and obligations during the year, for a planned \$81,222 addition, as previously discussed. Actual results were revenues exceeding expenditures by \$302,771, a result of expenditures coming in under budget due to conservative budgeting and not completing budgeted projects.

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

**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, 2020, amounts to \$14,635,149 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, furniture and office equipment, infrastructure and construction in progress. The decrease in the governmental activities and business type activities occurred due depreciation of infrastructure. Additional information on capital assets can be found in Note 4 of this report.

**Long-Term Debt**

At the end of the current year, the City had total bonded debt outstanding of \$1,836,408, notes from direct borrowing of \$1,909,000, compensated absences of \$41,047, and severance of \$21,408.

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

	Governmental Activities	Business-Type Activities	Total
G.O. Improvement Bonds	\$ 1,207,000	\$ -	\$ 1,207,000
G.O. Revenue Bonds	-	608,000	608,000
Notes from Direct Borrowing	-	1,909,000	1,909,000
Unamortized Premiums	21,408	-	21,408
Compensated Absences	41,047	-	41,047
Severance	21,451	-	21,451
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total	<u>\$ 1,290,906</u>	<u>\$ 2,517,000</u>	<u>\$ 3,807,906</u>

The City's total debt payments of \$1,144,011 were made during the current year. The City established an "AAA" rating from Standard & Poor's for G.O. debt.

Additional information on long-term debt can be found in Note 5 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 \$26,755.
- 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.

(THIS PAGE LEFT BLANK INTENTIONALLY)

## **BASIC FINANCIAL STATEMENTS**

**City of Rockville  
Statement of Net Position  
December 31, 2020**

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and investments	\$ 2,810,575	\$ 1,647,248	\$ 4,457,823
Property tax receivable	11,416	124	11,540
Accounts receivable	13,740	197,408	211,148
Due from other governments	53,450	8,566	62,016
Special assessments receivable			
Delinquent	-	1,156	1,156
Deferred	224,458	883,975	1,108,433
Land held for resale	-	462,200	462,200
Prepaid items	21,585	4,432	26,017
Net pension asset - Fire Relief Association	34,538	-	34,538
Capital assets not being depreciated			
Land	456,118	98,295	554,413
Construction in progress	111,825	-	111,825
Capital assets being depreciated			
Buildings	2,674,248	-	2,674,248
Infrastructure	4,776,108	-	4,776,108
Sewer and water improvements	-	13,574,751	13,574,751
Machinery and equipment	1,643,636	168,742	1,812,378
Less accumulated depreciation	<u>(3,832,022)</u>	<u>(5,036,552)</u>	<u>(8,868,574)</u>
Total capital assets, (net of accumulated depreciation)	5,829,913	8,805,236	14,635,149
Total assets	<u>8,999,675</u>	<u>12,010,345</u>	<u>21,010,020</u>
<b>Deferred Outflows of Resources</b>			
Deferred outflows of resources related to pensions	119,144	7,178	126,322
Total assets and deferred outflows of resources	<u>\$ 9,118,819</u>	<u>\$ 12,017,523</u>	<u>\$ 21,136,342</u>
<b>Liabilities</b>			
Accounts payable	\$ 211,592	\$ 16,800	\$ 228,392
Due to other governments	241	932	1,173
Salaries and benefits payable	3,324	1,281	4,605
Interest payable	12,517	18,931	31,448
Unearned revenue	6,453	-	6,453
Bond principal payable (net of premium)			
Payable within one year	170,000	123,000	293,000
Payable after one year	1,058,408	485,000	1,543,408
Notes from direct borrowing			
Payable within one year	-	468,000	468,000
Payable after one year	-	1,441,000	1,441,000
Compensated absences payable			
Payable within one year	32,105	-	32,105
Payable after one year	8,942	-	8,942
Severance payable			
Payable after one year	21,451	-	21,451
Net pension liability	191,520	66,285	257,805
Total liabilities	<u>1,716,553</u>	<u>2,621,229</u>	<u>4,337,782</u>
<b>Deferred Inflows of Resources</b>			
Deferred inflows of resources related to pensions	128,044	3,054	131,098
<b>Net Position</b>			
Net investment in capital assets	4,601,505	6,288,236	10,889,741
Restricted for			
Debt service	591,922	-	591,922
Other purposes	28,387	-	28,387
Unrestricted	2,052,408	3,105,004	5,157,412
Total net position	<u>7,274,222</u>	<u>9,393,240</u>	<u>16,667,462</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 9,118,819</u>	<u>\$ 12,017,523</u>	<u>\$ 21,136,342</u>

**City of Rockville  
Statement of Activities  
Year Ended December 31, 2020**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities							
General government	\$ 426,711	\$ 36,641	\$ 69,955	\$ -	\$ (320,115)	\$ -	\$ (320,115)
Public safety	484,043	33,741	241,042	50,000	(159,260)	-	(159,260)
Public works	551,995	370	5,602	10,359	(535,664)	-	(535,664)
Culture and recreation	72,174	6,903	1,130	-	(64,141)	-	(64,141)
Economic development	1,209	-	1,209	-	-	-	-
Interest on long-term debt	27,639	-	-	-	(27,639)	-	(27,639)
Total governmental activities	<u>1,563,771</u>	<u>77,655</u>	<u>318,938</u>	<u>60,359</u>	<u>(1,106,819)</u>	<u>-</u>	<u>(1,106,819)</u>
Business-type activities							
Water	180,375	268,593	1,237	1,067	-	90,522	90,522
Sewer	683,211	359,606	47,104	30,595	-	(245,906)	(245,906)
Total business-type activities	<u>863,586</u>	<u>628,199</u>	<u>48,341</u>	<u>31,662</u>	<u>-</u>	<u>(155,384)</u>	<u>(155,384)</u>
Total governmental and business-type activities	<u>\$ 2,427,357</u>	<u>\$ 705,854</u>	<u>\$ 367,279</u>	<u>\$ 92,021</u>	<u>(1,106,819)</u>	<u>(155,384)</u>	<u>(1,262,203)</u>
General revenues							
Property taxes					1,632,714	16,708	1,649,422
Unrestricted grants and aids					235,418	130	235,548
Unrestricted investment earnings					25,730	32,454	58,184
Transfers					(84,319)	84,319	-
Total general revenues and transfers					<u>1,809,543</u>	<u>133,611</u>	<u>1,943,154</u>
Change in net position					702,724	(21,773)	680,951
Net position - beginning					<u>6,571,498</u>	<u>9,415,013</u>	<u>15,986,511</u>
Net position - ending					<u>\$ 7,274,222</u>	<u>\$ 9,393,240</u>	<u>\$ 16,667,462</u>

See notes to financial statements.

**City of Rockville**  
**Balance Sheet - Governmental Funds**  
**December 31, 2020**

		<u>Capital Project Road</u>	<u>Debt Service</u>
	<u>General Fund (101)</u>	<u>Maintenance (215)</u>	<u>City Facilities (304)</u>
<b>Assets</b>			
Cash and investments	\$ 1,800,211	\$ 439,902	\$ 448,214
Taxes receivable - delinquent	6,899	3,082	1,254
Special assessment receivable			
Deferred	116,708	18,950	-
Accounts receivable	13,740	-	-
Due from other governments	33,360	13,691	5,448
Prepaid items	21,585	-	-
	<u>1,992,503</u>	<u>475,625</u>	<u>454,916</u>
Total assets	<u>\$ 1,992,503</u>	<u>\$ 475,625</u>	<u>\$ 454,916</u>
<b>Liabilities</b>			
Accounts payable	\$ 81,064	\$ 130,528	\$ -
Salaries and benefits payable	3,321	-	-
Unearned revenue	6,453	-	-
Due to other governments	241	-	-
	<u>91,079</u>	<u>130,528</u>	<u>-</u>
Total liabilities	<u>91,079</u>	<u>130,528</u>	<u>-</u>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue - property taxes	6,899	3,082	1,254
Unavailable revenue - special assessments	116,708	18,950	-
	<u>123,607</u>	<u>22,032</u>	<u>1,254</u>
Total deferred inflows of resources	<u>123,607</u>	<u>22,032</u>	<u>1,254</u>
<b>Fund Balances</b>			
Nonspendable	21,585	-	-
Restricted	-	-	453,662
Committed	5,002	-	-
Assigned	388,694	323,065	-
Unassigned	1,362,536	-	-
	<u>1,777,817</u>	<u>323,065</u>	<u>453,662</u>
Total fund balances	<u>1,777,817</u>	<u>323,065</u>	<u>453,662</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,992,503</u>	<u>\$ 475,625</u>	<u>\$ 454,916</u>



Other Governmental Funds	Total Governmental Funds
\$ 122,248	\$ 2,810,575
181	11,416
88,800	224,458
-	13,740
951	53,450
-	21,585
<u>\$ 212,180</u>	<u>\$ 3,135,224</u>
\$ -	\$ 211,592
3	3,324
-	6,453
-	241
<u>3</u>	<u>221,610</u>
181	11,416
88,800	224,458
<u>88,981</u>	<u>235,874</u>
-	21,585
88,990	542,652
29,121	34,123
5,085	716,844
-	1,362,536
<u>123,196</u>	<u>2,677,740</u>
<u>\$ 212,180</u>	<u>\$ 3,135,224</u>

(THIS PAGE LEFT BLANK INTENTIONALLY)

**City of Rockville**  
**Reconciliation of the Balance Sheet to**  
**the Statement of Net Position - Governmental Funds**  
**December 31, 2020**

Total fund balances - governmental funds	\$ 2,677,740
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	9,661,935
Less accumulated depreciation	(3,832,022)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of:	
Bond principal payable	(1,207,000)
Compensated absences payable	(41,047)
Severance payable	(21,451)
Bond premium	(21,408)
Net pension liability	(191,520)
Net pension assets created through non-employer contributions to defined benefit pension plans are not recognized in the governmental funds.	
	34,538
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	11,416
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	(128,044)
Deferred outflows of resources related to pensions	119,144
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	
Deferred special assessments	224,458
Governmental funds do not report a liability for accrued interest until due and payable.	
	<u>(12,517)</u>
Total net position - governmental activities	<u><u>\$ 7,274,222</u></u>

**City of Rockville**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Governmental Funds**  
**Year Ended December 31, 2020**

	General Fund (101)	Capital Project Road Maintenance (215)	Debt Service City Facilities (304)
<b>Revenues</b>			
Property taxes	\$ 960,418	\$ 456,145	\$ 179,653
Miscellaneous taxes	1,244	-	-
Special assessments	23,896	31,469	-
Licenses and permits	27,728	-	-
Intergovernmental	446,967	3,566	1,401
Charges for services	42,374	-	-
Fines and forfeitures	7,129	-	-
Miscellaneous			
Investment income	15,524	1,606	6,983
Other	84,452	-	-
Total revenues	<u>1,609,732</u>	<u>492,786</u>	<u>188,037</u>
<b>Expenditures</b>			
Current			
General government	336,847	-	-
Public safety	450,338	-	-
Public works	328,787	64	-
Culture and recreation	57,837	-	-
Economic development	-	-	-
Debt service			
Principal	-	-	150,000
Interest and other charges	-	-	30,926
Capital outlay			
Public safety	21,833	-	-
Public works	27,000	133,901	-
Culture and recreation	-	-	-
Total expenditures	<u>1,222,642</u>	<u>133,965</u>	<u>180,926</u>
Excess of revenues over (under) expenditures	387,090	358,821	7,111
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	-	-
Transfers out	(84,319)	-	-
Total other financing sources (uses)	<u>(84,319)</u>	<u>-</u>	<u>-</u>
Net change in fund balances	302,771	358,821	7,111
<b>Fund Balances</b>			
Beginning of Year	<u>1,475,046</u>	<u>(35,756)</u>	<u>446,551</u>
End of Year	<u>\$ 1,777,817</u>	<u>\$ 323,065</u>	<u>\$ 453,662</u>

Other Governmental Funds	Total Governmental Funds
\$ 37,412	\$ 1,633,628
-	1,244
-	55,365
-	27,728
10,531	462,465
6,000	48,374
-	7,129
1,617	25,730
-	84,452
<u>55,560</u>	<u>2,346,115</u>
28,924	365,771
-	450,338
-	328,851
-	57,837
1,209	1,209
20,000	170,000
1,706	32,632
-	21,833
-	160,901
7,500	7,500
<u>59,339</u>	<u>1,596,872</u>
(3,779)	749,243
5,952	5,952
<u>(5,952)</u>	<u>(90,271)</u>
-	<u>(84,319)</u>
(3,779)	664,924
<u>126,975</u>	<u>2,012,816</u>
<u>\$ 123,196</u>	<u>\$ 2,677,740</u>

**City of Rockville**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances to**  
**the Statement of Activities - Governmental Funds**  
**December 31, 2020**

Total net change in fund balances - governmental funds \$ 664,924

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	165,331
Depreciation expense	(331,689)
Donated assets	50,000

Compensated absences and severance are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(2,263)
---	---------

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.	170,000
--	---------

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	1,425
--	-------

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

Governmental funds recognize pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.	27,240
---	--------

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	(2,158)
Deferred and delinquent special assessments	(43,654)

Change in net position - governmental activities	<u><u>\$ 702,724</u></u>
--	--------------------------

**City of Rockville**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances -**  
**Budget and Actual - General Fund**  
**Year Ended December 31, 2020**

	Budgeted amounts		Actual Amounts	Variance with final budget - over (under)
	Original	Final		
<b>Revenues</b>				
Property taxes	\$ 965,191	\$ 965,191	\$ 960,418	\$ (4,773)
Miscellaneous taxes	-	-	1,244	1,244
Special assessments	12,975	12,975	23,896	10,921
Licenses and permits	50,000	50,000	27,728	(22,272)
Intergovernmental	239,951	438,575	446,967	8,392
Charges for services	25,600	25,600	42,374	16,774
Fines and forfeitures	-	-	7,129	7,129
Miscellaneous revenues				
Investment income	12,650	12,650	15,524	2,874
Other	1,000	109,098	84,452	(24,646)
Total revenues	<u>1,307,367</u>	<u>1,614,089</u>	<u>1,609,732</u>	<u>(4,357)</u>
<b>Expenditures</b>				
Current				
General government	356,223	397,723	336,847	(60,876)
Public safety	298,885	501,385	450,338	(51,047)
Public works	416,616	394,116	328,787	(65,329)
Culture and recreation	64,143	64,143	57,837	(6,306)
Capital outlay				
General government	500	500	-	(500)
Public safety	73,000	56,500	21,833	(34,667)
Public works	4,500	27,000	27,000	-
Culture and recreation	6,500	6,500	-	(6,500)
Total expenditures	<u>1,220,367</u>	<u>1,447,867</u>	<u>1,222,642</u>	<u>(225,225)</u>
Excess of revenues over expenditures	87,000	166,222	387,090	220,868
<b>Other Financing Uses</b>				
Transfers out	(85,000)	(85,000)	(84,319)	681
Net change in fund balances	<u>\$ 2,000</u>	<u>\$ 81,222</u>	302,771	<u>\$ 221,549</u>
<b>Fund Balances</b>				
Beginning of year			<u>1,475,046</u>	
End of year			<u>\$ 1,777,817</u>	

**City of Rockville**  
**Statement of Net Position - Proprietary Funds**  
**December 31, 2020**

	Water (311,312,601)	Sewer (309,310,602)	Total
<b>Assets</b>			
Current assets			
Cash and investments	\$ 625,700	\$ 1,021,548	\$ 1,647,248
Taxes receivable - delinquent	124	-	124
Special assessments receivable			
Delinquent	434	722	1,156
Deferred	143,644	740,331	883,975
Accounts receivable	34,983	162,425	197,408
Due from other governments	140	8,426	8,566
Land held for resale	213,401	248,799	462,200
Prepaid expenses	1,831	2,601	4,432
Total current assets	1,020,257	2,184,852	3,205,109
Noncurrent assets			
Capital assets			
Land	98,295	-	98,295
Sewer and water improvements	2,483,679	11,091,072	13,574,751
Equipment	-	168,742	168,742
Total capital assets	2,581,974	11,259,814	13,841,788
Less accumulated depreciation	(1,031,630)	(4,004,922)	(5,036,552)
Net capital assets	1,550,344	7,254,892	8,805,236
Total assets	2,570,601	9,439,744	12,010,345
<b>Deferred Outflows of Resources</b>			
Deferred outflows of resources related to pensions	3,300	3,878	7,178
Total assets and deferred outflows of resources	\$ 2,573,901	\$ 9,443,622	\$ 12,017,523
<b>Liabilities</b>			
Current liabilities			
Accounts payable	\$ 1,711	\$ 15,089	\$ 16,800
Salaries and benefits payable	586	695	1,281
Interest payable	9,686	9,245	18,931
Due to other governments	932	-	932
Long-term liabilities due within one year	123,000	468,000	591,000
Total current liabilities	135,915	493,029	628,944
Noncurrent liabilities			
Bonds payable, net of unamortized premiums	608,000	-	608,000
Notes from direct borrowing	-	1,909,000	1,909,000
Net pension liability	30,475	35,810	66,285
Less amount due within one year	(123,000)	(468,000)	(591,000)
Total noncurrent liabilities	515,475	1,476,810	1,992,285
Total liabilities	651,390	1,969,839	2,621,229
<b>Deferred Inflows of Resources</b>			
Deferred inflows of resources related to pensions	1,404	1,650	3,054
<b>Net Position</b>			
Net investment in capital assets	942,344	5,345,892	6,288,236
Unrestricted	978,763	2,126,241	3,105,004
Total net position	1,921,107	7,472,133	9,393,240
Total liabilities, deferred inflows of resources, and net position	\$ 2,573,901	\$ 9,443,622	\$ 12,017,523

See notes to financial statements.



**City of Rockville**  
**Statement of Revenues, Expenses, and Changes**  
**in Net Position - Proprietary Funds**  
**Year Ended December 31, 2020**

	Water (311,312,601)	Sewer (309,310,602)	Total
Operating revenues			
Charges for services	\$ 216,678	\$ 358,892	\$ 575,570
Permits, hookup fees, and penalties	520	633	1,153
Total operating revenues	<u>217,198</u>	<u>359,525</u>	<u>576,723</u>
Operating expenses			
Wages and salaries	38,980	46,238	85,218
Employee benefits	10,381	13,215	23,596
Materials and supplies	12,368	55,133	67,501
Repairs and maintenance	6,845	82,552	89,397
Professional services	4,485	140,239	144,724
Insurance	2,300	3,335	5,635
Utilities	16,200	20,320	36,520
Depreciation	57,832	287,911	345,743
Equipment	-	2,208	2,208
Miscellaneous	18,178	3,214	21,392
Total operating expenses	<u>167,569</u>	<u>654,365</u>	<u>821,934</u>
Operating income (loss)	49,629	(294,840)	(245,211)
Nonoperating revenues (expenses)			
Rent	51,425	-	51,425
Investment income	5,933	26,521	32,454
Special assessments	1,067	30,676	31,743
Property taxes	-	16,708	16,708
Grants	-	130	130
Refunds and reimbursements	971	46,954	47,925
Amortization	3,734	1,286	5,020
Interest expense	(16,540)	(30,132)	(46,672)
Other income	236	150	386
Total nonoperating revenues	<u>46,826</u>	<u>92,293</u>	<u>139,119</u>
Income (loss) before transfers	96,455	(202,547)	(106,092)
Transfers			
Transfers in	<u>84,319</u>	<u>-</u>	<u>84,319</u>
Change in net position	180,774	(202,547)	(21,773)
Net position			
Beginning of year	<u>1,740,333</u>	<u>7,674,680</u>	<u>9,415,013</u>
End of year	<u>\$ 1,921,107</u>	<u>\$ 7,472,133</u>	<u>\$ 9,393,240</u>

**City of Rockville**  
**Statement of Cash Flows - Proprietary Funds**  
**For the Year Ended December 31, 2020**

	Water (311,312,601)	Sewer (309,310,602)	Total
<b>Cash Flows - Operating Activities</b>			
Receipts from customers and users	\$ 205,176	\$ 287,145	\$ 492,321
Payments to suppliers	(62,653)	(300,879)	(363,532)
Payments to employees	(49,907)	(59,085)	(108,992)
Miscellaneous revenue	52,632	47,234	99,866
Net cash flows - operating activities	145,248	(25,585)	119,663
<b>Cash Flows - Noncapital Financing Activities</b>			
Transfer from other funds	84,319	-	84,319
<b>Cash Flows - Capital And Related Financing Activities</b>			
Principal paid on debt	(363,000)	(566,000)	(929,000)
Interest paid on debt	(15,033)	(34,389)	(49,422)
Bond proceeds	365,000	-	365,000
Property tax and special assessment revenues received	1,523	232,221	233,744
Net cash flows - capital and related financing activities	(11,510)	(368,168)	(379,678)
<b>Cash Flows - Investing Activities</b>			
Interest and dividends received	5,933	26,521	32,454
Net change in cash and cash equivalents	223,990	(367,232)	(143,242)
<b>Cash and Cash Equivalents</b>			
January 1	401,710	1,388,780	1,790,490
December 31	\$ 625,700	\$ 1,021,548	\$ 1,647,248
<b>Reconciliation of Operating Income (Loss) to Net Cash Flows - Operating Activities</b>			
Operating income (loss)	\$ 49,629	\$ (294,840)	\$ (245,211)
Adjustments to reconcile operating income (loss) to net cash flows - operating activities			
Miscellaneous revenue	52,632	47,234	99,866
Depreciation expense	57,832	287,911	345,743
Net pension expense	888	2,020	2,908
Accounts receivable	(11,882)	(76,788)	(88,670)
Due from other governments	(140)	4,408	4,268
Prepaid items	(424)	(809)	(1,233)
Accounts payable	(2,653)	8,051	5,398
Due to other governmental units	800	(1,120)	(320)
Salaries payable	(1,434)	(1,652)	(3,086)
Total adjustments	95,619	269,255	364,874
Net cash flows - operating activities	\$ 145,248	\$ (25,585)	\$ 119,663

See notes to financial statements.

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

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

#### **A. Reporting Entity**

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

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

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

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

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

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

#### **1. Blended Component Unit**

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

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

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the 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.

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

**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.

City Facilities Debt Service Fund – This fund accounts for the resources accumulated and payments made for debt service related to the 2014A General Obligation Capital Improvement Plan Bonds.

Proprietary Funds:

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

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

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

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

**Description of Funds: (Continued)**

Proprietary Funds: (Continued)

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

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

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

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

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

**1. Deposits and Investments**

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

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

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

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

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

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

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

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.

**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.

**City of Rockville  
Notes to Financial Statements**

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

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

**4. Land Held for Resale**

Land is acquired by the City for subsequent resale for development purposes. Land held for resale is reported as an asset at the net realizable value in the fund that acquired the asset.

**5. Capital Assets**

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

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

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

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

**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:

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

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

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

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

**6. Compensated Absences (Continued)**

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

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

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

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

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

**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.



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

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

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

**8. Long-Term Obligations (Continued)**

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.

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

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

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

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

**10. Fund Equity**

**a. Classification (Continued)**

- Unassigned Fund Balance – These are residual amounts in the General Fund not reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance.

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

**b. Minimum Fund Balance Policy**

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

**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.

**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.

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

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

**F. Budgetary Information (Continued)**

5. Expenditures may not legally exceed budgeted appropriations at the department level. No fund's budget can be increased without City Council approval. The City Council may authorize transfer of budgeted amounts between departments within any fund.
6. Annual appropriated budgets are adopted during the year for the General and Special Revenue Funds. Annual appropriated budgets are not adopted for Debt Service Funds because effective budgetary control is alternatively achieved through bond indenture provisions. Budgetary control for Capital Projects Funds is accomplished through the use of project controls and formal appropriated budgets are not adopted.
7. Budgeted amounts are as originally adopted or as amended by the City Council. Individual amendments were not material in relation to the original amounts budgeted. Budgeted expenditure appropriations lapse at year-end.

**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: For deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. *Minnesota Statutes* requires all deposits be protected by federal deposit insurance, corporate surety bonds, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds. The City's deposit policy addresses custodial credit risk for deposits by stating collateralization will be required on all demand deposit accounts in excess of federal deposit insurance. As of December 31, 2020, the City's bank balance of \$3,738,975 was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the City's name. The book balance as of December 31, 2020, was \$3,926,728 for deposits.

**B. Investments**

Investment Type	Fair Value	Investment Maturities		
		Less than One Year	1-5 Years	Ratings
Pooled investments				
Brokered certificates of deposit	\$ 531,004	\$ 344,329	\$ 186,675	N/A
4M Fund	91	91	-	N/A
Total investments	<u>\$ 531,095</u>	<u>\$ 344,420</u>	<u>\$ 186,675</u>	

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

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments (Continued)**

Concentration of Credit Risk: For an investment, this is the risk of loss due to over investment in a particular security or broker. The City's investment policy states it will attempt to diversify its investment according to type and maturity and match its investments with anticipated cash flow requirements. The City had more than 5% of their total investments in Discover Bank (12.6%), Synchrony Bank (12.8%), Capital One Bank (USA), National Association (46.4%), and Goldman Sachs Bank USA (28.2%).

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

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

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

The City has the following recurring fair value measurements as of December 31, 2020:

- \$531,004 of investments are valued using a matrix pricing model (Level 2 inputs)

Summary of cash deposits and investments as of December 31, 2020, were as follows:

Deposits (Note 3.A.)	\$ 3,926,728
Investments (Note 3.B.)	<u>531,095</u>
Total deposits and investments	<u><u>\$ 4,457,823</u></u>

Deposits and investments are presented in the December 31, 2020, basic financial statements as follows:

Statement of Net Position	
Cash and investments	<u><u>\$ 4,457,823</u></u>

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

**NOTE 3 – INTERFUND ACTIVITY**

**A. Interfund transfers**

Transfers during the year ended December 31, 2020, were as follows:

	Transfer in		Total
	Other Nonmajor	Water	
Transfers out			
General Fund	\$ -	\$ 84,319	\$ 84,319
Other Nonmajor	5,952	-	5,952
	<u>\$ 5,952</u>	<u>\$ 84,319</u>	<u>\$ 90,271</u>

The transfers were completed to finance debt payments and to help with the covering fees.

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2020, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 456,118	\$ -	\$ -	\$ 456,118
Construction in progress	-	111,825	-	111,825
Total Capital Assets not being Depreciated	<u>456,118</u>	<u>111,825</u>	<u>-</u>	<u>567,943</u>
Capital assets being depreciated				
Buildings	2,674,248	-	-	2,674,248
Infrastructure	4,776,108	-	-	4,776,108
Machinery and equipment	1,540,130	103,506	-	1,643,636
Total capital assets being depreciated	<u>8,990,486</u>	<u>103,506</u>	<u>-</u>	<u>9,093,992</u>
Less accumulated depreciation for				
Buildings	(803,574)	(67,391)	-	(870,965)
Infrastructure	(1,889,368)	(181,944)	-	(2,071,312)
Machinery and equipment	(807,391)	(82,354)	-	(889,745)
Total accumulated depreciation	<u>(3,500,333)</u>	<u>(331,689)</u>	<u>-</u>	<u>(3,832,022)</u>
Total capital assets being depreciated, net	<u>5,490,153</u>	<u>(228,183)</u>	<u>-</u>	<u>5,261,970</u>
Governmental activities capital assets, net	<u>\$ 5,946,271</u>	<u>\$ (116,358)</u>	<u>\$ -</u>	<u>\$ 5,829,913</u>

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

**NOTE 4 – CAPITAL ASSETS (CONTINUED)**

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	\$ 98,295	\$ -	\$ -	\$ 98,295
Capital assets being depreciated				
Buildings and systems	13,574,751	-	-	13,574,751
Machinery and equipment	168,742	-	-	168,742
Total capital assets being depreciated	<u>13,743,493</u>	<u>-</u>	<u>-</u>	<u>13,743,493</u>
Less accumulated depreciation for				
Buildings and systems	(4,620,346)	(337,687)	-	(4,958,033)
Machinery and equipment	(70,463)	(8,056)	-	(78,519)
Total accumulated depreciation	<u>(4,690,809)</u>	<u>(345,743)</u>	<u>-</u>	<u>(5,036,552)</u>
Business-type activities capital assets, net	<u>\$ 9,150,979</u>	<u>\$ (345,743)</u>	<u>\$ -</u>	<u>\$ 8,805,236</u>

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

Governmental activities	
General government	\$ 65,977
Public safety	58,782
Public works	199,409
Parks and recreation	<u>7,521</u>
Total depreciation expense - governmental activities	<u>\$ 331,689</u>
Business-type activities	
Water	\$ 57,832
Sewer	<u>287,911</u>
Total depreciation expense - business-type activities	<u>\$ 345,743</u>

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

**NOTE 5– LONG-TERM DEBT**

**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. Improvement Refunding Bonds, Series 2014B	05/01/14	2.10%	\$ 176,000	02/01/23	\$ 62,000	\$ 20,000
G.O. Capital Improvement Plan Bonds, Series 2014A	05/01/14	2.00%-2.75%	1,925,000	02/01/27	1,145,000	150,000
Total G.O. Bonds					<u>1,207,000</u>	<u>170,000</u>
Unamortized premiums					21,408	-
Compensated absences					41,047	32,105
Severance					21,451	-
Total governmental activities					<u>1,290,906</u>	<u>202,105</u>
Business-type activities						
G.O. Bonds						
G.O. Utility Revenue Refunding Bonds, Series 2014C	05/01/14	2.60%	539,000	02/01/23	243,000	79,000
G.O. Utility Revenue Refunding Bonds, Series 2020A	03/16/20	2.65%	365,000	02/01/28	365,000	44,000
Total G.O. Bonds					<u>608,000</u>	<u>123,000</u>
Note from direct borrowing						
G.O. PFA Sewer Revenue Notes of 2004	04/22/04	1.34%	9,235,403	08/20/24	1,909,000	468,000
Total business activities					<u>2,517,000</u>	<u>591,000</u>
Total all long-term liabilities					<u>\$ 3,807,906</u>	<u>\$ 793,105</u>

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

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

In March 2020, the City issued \$365,000 General Obligation Refunding Bond, Series 2020A for the current refunding of the General Obligation Utility Bonds, Series 2009A. The refunding was done to take advantage of lower interest rates. The refunding resulted in a decrease in future debt service payments of \$14,062. The net present value cash flow savings from this transaction was \$12,722. The call date for the 2020A bond is February 1, 2028.

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

**NOTE 5– LONG-TERM DEBT (CONTINUED)**

**B. Minimum Debt Payments**

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

Year Ending December 31,	G.O. Bonds		G.O. Bonds		Governmental Activities
	Principal	Interest	Principal	Interest	Total
2021	\$ 170,000	\$ 28,329			\$ 198,329
2022	176,000	24,462			200,462
2023	181,000	20,083			201,083
2024	165,000	15,800			180,800
2025	170,000	11,613			181,613
2026-2027	345,000	9,556			354,556
Total	<u>\$ 1,207,000</u>	<u>\$ 109,843</u>			<u>\$ 1,316,843</u>

Year Ending December 31,	G.O. Revenue Bond		G.O. Note from Direct Borrowing		Business-Type Activities
	Principal	Interest	Principal	Interest	Total
2021	\$ 123,000	\$ 18,008	\$ 468,000	\$ 25,581	\$ 634,589
2022	124,000	11,148	474,000	19,309	628,457
2023	131,000	7,810	480,000	12,958	631,768
2024	48,000	5,459	487,000	6,526	546,985
2025	46,000	4,213	-	-	50,213
2026-2028	136,000	5,247	-	-	141,247
Total	<u>\$ 608,000</u>	<u>\$ 51,885</u>	<u>\$ 1,909,000</u>	<u>\$ 64,374</u>	<u>\$ 2,633,259</u>



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

**NOTE 5– LONG-TERM DEBT (CONTINUED)**

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

Long-term liability activity for the year ended December 31, 2020, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental activities				
Bonds payable				
G.O. improvement bonds	\$ 1,377,000	\$ -	\$ 170,000	\$ 1,207,000
Unamortized premiums	24,976	-	3,568	21,408
Compensated absences	39,408	38,062	36,423	41,047
Severance payable	20,827	624	-	21,451
Total governmental activities	<u>\$ 1,462,211</u>	<u>\$ 38,686</u>	<u>\$ 209,991</u>	<u>\$ 1,290,906</u>
Business-type activities				
Bonds payable				
G. O. Improvement Bonds	\$ 710,000	\$ 365,000	\$ 467,000	\$ 608,000
Unamortized premiums	5,020	-	5,020	-
Notes from direct borrowing	2,371,000	-	462,000	1,909,000
Total business-type activities	<u>\$ 3,086,020</u>	<u>\$ 365,000</u>	<u>\$ 934,020</u>	<u>\$ 2,517,000</u>

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

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

**NOTE 6 – FUND BALANCE**

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

	<u>General</u>	<u>Road Maintenance</u>	<u>City Facilities</u>	<u>Nonmajor Governmental Fund</u>	<u>Total</u>
Nonspendable					
Prepaid items	\$ 21,585	\$ -	\$ -	\$ -	\$ 21,585
Restricted					
Debt service	-	-	453,662	60,603	514,265
Park dedication	-	-	-	28,387	28,387
Committed					
Fire	5,002	-	-	-	5,002
Lake improvement district	-	-	-	29,121	29,121
Assigned					
Economic development	-	-	-	5,085	5,085
Escrow	55,000	-	-	-	55,000
Road maintenance	-	323,065	-	-	323,065
General government	205,130	-	-	-	205,130
Fire	31,171	-	-	-	31,171
Police	25,075	-	-	-	25,075
Park and recreation	52,220	-	-	-	52,220
Ball program	12,016	-	-	-	12,016
Eagle Park	8,082	-	-	-	8,082
Unassigned	1,362,536	-	-	-	1,362,536
Total	<u>\$ 1,777,817</u>	<u>\$ 323,065</u>	<u>\$ 453,662</u>	<u>\$ 123,196</u>	<u>\$ 2,677,740</u>

**NOTE 7 – 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 2020 was estimated to be immaterial based on workers' compensation rates and salaries for the year.

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

**NOTE 7 – RISK MANAGEMENT (CONTINUED)**

At December 31, 2020, 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 8 –PENSION PLANS**

The City participates in various pension plans, total pension expense for the year ended December 31, 2020, was \$853. 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 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan

All full-time and certain part-time employees of the City are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

**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.

General Employees Plan Benefits

General Employees Plan 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 PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for a Coordinated members is 1.2% for each of the first 10 years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

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

**NOTE 8 – PENSION PLANS (CONTINUED)**

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

**B. Benefits Provided (Continued)**

General Employees Plan Benefits (Continued)

Benefit increases are provided to benefit recipients each January. Beginning in 2019, 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%. 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. For 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. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

**C. Contributions**

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2020 and the City was required to contribute 7.5% for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2020, were \$24,498. The City's contributions were equal to the required contributions as set by state statute.

**D. Pension Costs**

General Employees Fund Pension Costs

At December 31, 2020, the City reported a liability of \$257,805 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 \$7,891. The net pension liability was measured as of June 30, 2020, 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, 2019, through June 30, 2020, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0043% at the end of the measurement period and 0.0041% for the beginning of the period.

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

**NOTE 8 – PENSION PLANS**

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

**D. Pension Costs (Continued)**

General Employees Fund Pension Costs (Continued)

City's proportionate share of the net pension liability	\$ 257,805
State of Minnesota's proportionate share of the net pension liability associated with the City	<u>7,891</u>
Total	<u><u>\$ 265,696</u></u>

For the year ended December 31, 2020, the City recognized pension expense of \$19,021 for its proportionate share of General Employees Plan's pension expense. Included in the amount, the City recognized \$687 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.

At December 31, 2020, 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
Differences between expected and actual economic experience	\$ 2,242	\$ 975
Changes in actuarial assumptions	-	9,307
Net collective difference between projected and actual investment earnings	5,136	-
Changes in proportion	8,292	1,596
Contributions paid to PERA subsequent to the measurement date	<u>12,249</u>	<u>-</u>
Total	<u><u>\$ 27,919</u></u>	<u><u>\$ 11,878</u></u>

**City of Rockville  
Notes to Financial Statements**

**NOTE 8 –PENSION PLANS**

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

**D. Pension Costs (Continued)**

General Employees Fund Pension Costs (Continued)

The \$12,249 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, 2021. 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
2021	\$ (12,830)
2022	2,745
2023	7,648
2024	6,229
Total	\$ 3,792

**E. Actuarial Assumptions**

The total pension liability in the June 30, 2020, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

	General Employees Fund	Police and Fire Fund
Inflation	2.25 % Per Year	2.50 % Per year
Salary increase	3.00 % Per Year	3.25 % Per year
Investment rate of return	7.50 %	7.50 %

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year for the General Employees Plan.

Actuarial assumptions used in the June 30, 2020, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020, actuarial valuation. The recommended assumptions for that plan was adopted by the Board and will be effective with the July 1, 2021, actual valuation if approved by the Legislature.

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

**NOTE 8 –PENSION PLANS**

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

**E. Actuarial Assumptions (Continued)**

The following changes in actuarial assumptions occurred in 2020:

General Employees Fund

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 changed 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 retirees 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.

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

**NOTE 8 –PENSION PLANS**

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

**E. Actuarial Assumptions (Continued)**

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	35.5%	5.10 %
International stocks	17.5%	5.30
Bond (fixed income)	20.0%	0.75
Alternative assets (private markets)	25.0%	5.90
Cash	<u>2.0%</u>	0.00
Total	<u><u>100%</u></u>	

**F. Discount Rate**

The discount rate used to measure the total pension liability in 2020 was 7.5%. 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 positions of the General Employees Fund and the Police and Fire Fund were 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.



**City of Rockville  
Notes to Financial Statements**

**NOTE 8 –PENSION PLANS (CONTINUED)**

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

**G. 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 (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
City's proportionate share of the General Employees Fund net pension liability	\$ 413,171	\$ 257,805	\$ 129,640

**H. Pension Plan Fiduciary Net Position**

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

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

**A. Plan Description**

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

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

**B. Benefits Provided**

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

**City of Rockville  
Notes to Financial Statements**

**NOTE 8 – PENSION PLANS (CONTINUED)**

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

**C. Employees Covered by Benefit Terms**

At December 31, 2018, 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	1
Active members	22
Total	23

**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 \$18,695 made by the State of Minnesota for the Relief Association. The City also contributed \$19,600 to the Relief Association.

**E. Net Pension Liability**

The City's net pension liability was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018.

*Actuarial assumptions:*

The total pension liability in the December 31, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 %
Investment rate of return	5.25 %, net of pensions plan investment expense: including inflation

The value of death benefits is similar to the value of the retirement pension. Mortality rates for active members, retirees and disabilitants were based on RP2014 tables, with mortality improvement scale MP-2017 from a base year 2006, with slight adjustments for male rates.

**City of Rockville  
Notes to Financial Statements**

**NOTE 8 – PENSION PLANS (CONTINUED)**

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

**E. Net Pension Liability (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.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	44.38 %	4.76%
International equity	18.38	5.41
Fixed income	33.83	2.01
Real estate and alternatives	0.16	4.53
Cash and equivalents	3.25	0.74
	<u>100.00 %</u>	

*Discount Rate:*

The discount rate used to measure the total pension liability was 5.25%. Assets were projected using expected benefit payments and expected asset returns. Expected benefit payments by year were discounted using the expected asset return assumption for years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the municipal bond rate. The equivalent single rate is the discount rate.

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

**NOTE 8 – PENSION PLANS (CONTINUED)**

**Defined Benefit Pension Plan – Volunteer Fire Fighter'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, 2020	\$ 531,367	\$ 487,598	\$ 43,769
Changes for the year			
Service cost	20,417	-	20,417
Interest	27,390	-	27,390
Differences between expected and actual experience	-	-	-
Changes in assumptions	(2,045)	-	(2,045)
Contributions	-	38,295	(38,295)
Net investment income	-	85,774	(85,774)
Benefit payments, including refunds of employee contributions	(7,963)	(7,963)	-
Net changes	37,799	116,106	(78,307)
Balances at December 31, 2020	<u>\$ 569,166</u>	<u>\$ 603,704</u>	<u>\$ (34,538)</u>

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 5.25%, 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 (4.25%) or 1-percentage-point higher (6.25%) than the current rate:

	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Relief's net pension asset	<u>\$ (26,172)</u>	<u>\$ (34,538)</u>	<u>\$ (42,388)</u>

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.

**City of Rockville  
Notes to Financial Statements**

**NOTE 8 – PENSION PLANS (CONTINUED)**

**Defined Benefit Pension Plan – Volunteer Fire Fighter'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, 2020, the City recognized pension expense of \$(18,168). At December 31, 2020, 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
Differences between expected and actual experience	\$ 52,955	\$ 93,714
Changes of assumptions	7,154	3,763
Net difference between projected and actual earnings on pension plan investments	-	21,743
Contributions paid to Volunteer Firefighter's Relief Association subsequent to the measurement date	38,294	-
Total	\$ 98,403	\$ 119,220

\$38,294 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, 2021. 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
2021	\$ (9,412)
2022	(8,959)
2023	(2,287)
2024	(15,284)
2025	(3,066)
Thereafter	(20,103)
Total	\$ (59,111)

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

**NOTE 9 – CONSTRUCTION COMMITMENTS**

Project	Contract Amount	Expended through 12/31/20	Future Commitment
210th Street Project	\$ 177,444	\$ 127,988	\$ 49,456

**NOTE 10 – SUBSEQUENT EVENT**

On March 2, 2021, the City issued a \$320,659 tax abatement promissory note. The amounts due under this Note shall be payable on August 1, 2023, and thereafter for a period of fifteen years. There is no interest due on this note. The note was issued in exchange for improvements on city property that are being financed by a developer.

On April 28, 2021, the council approved the sale of city property for \$500,000, the scheduled closing date is July 2, 2021.

**NOTE 11 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED**

GASB Statement No. 87, Leases establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This statement will be effective for the year ending December 31, 2022.

GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. This statement will be effective for the year ending December 31, 2021.

**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
2015	0.0039%	\$ 202,118	\$ -	\$ 202,118	\$ 226,307	89.3%	78.19%
2016	0.0039%	316,661	4,082	320,743	240,560	131.6%	68.91%
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%

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



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

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

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

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

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

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

Measurement Date

2016	2017	2018	2019
\$ 18,326	\$ 18,412	\$ 18,918	\$ 20,417
26,822	31,810	34,722	27,390
82,875	-	(116,080)	-
-	-	8,862	(2,045)
(82,539)	(176)	-	(7,963)
<u>45,484</u>	<u>50,046</u>	<u>(53,578)</u>	<u>37,799</u>
<u>489,415</u>	<u>534,899</u>	<u>584,945</u>	<u>531,367</u>
<u>\$ 534,899</u>	<u>\$ 584,945</u>	<u>\$ 531,367</u>	<u>\$ 569,166</u>
\$ 62,710	\$ 37,294	\$ 36,889	\$ 38,295
25,578	56,236	(39,438)	85,774
(82,539)	(176)	-	(7,963)
<u>5,749</u>	<u>93,354</u>	<u>(2,550)</u>	<u>116,106</u>
<u>391,045</u>	<u>396,794</u>	<u>490,148</u>	<u>487,598</u>
<u>\$ 396,794</u>	<u>\$ 490,148</u>	<u>\$ 487,598</u>	<u>\$ 603,704</u>
<u>\$ 138,105</u>	<u>\$ 94,797</u>	<u>\$ 43,769</u>	<u>\$ (34,538)</u>

74.2%                      83.8%                      91.8%                      106.1%

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**

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Employer			
Statutorily determined contribution (SDC)	\$ 15,767	\$ 5,048	\$ 41,398
Contribution in relation to the SDC	<u>15,767</u>	<u>5,048</u>	<u>41,398</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Non-employer			
2% aid	<u>\$ 15,825</u>	<u>\$ 16,506</u>	<u>\$ 16,645</u>
Covered employee payroll	n/a	n/a	n/a
Contributions as a percentage of covered employee payroll	n/a	n/a	n/a

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

<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
\$ 20,664	\$ -	\$ -	\$ -
<u>20,664</u>	<u>19,960</u>	<u>19,960</u>	<u>19,600</u>
<u>\$ -</u>	<u>\$ (19,960)</u>	<u>\$ (19,960)</u>	<u>\$ (19,600)</u>
<u>\$ 16,630</u>	<u>\$ 16,929</u>	<u>\$ 17,451</u>	<u>\$ 18,695</u>
n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a

**City of Rockville**  
**Notes to Required Supplementary Information**

**GENERAL EMPLOYEES FUND**

**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 changed 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 retirees 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.

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.

**City of Rockville**  
**Notes to Required Supplementary Information**

**GENERAL EMPLOYEES FUND (CONTINUED)**

**2018 Changes (Continued)**

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.
- Postretirement benefit 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; 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 post-retirement benefit 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.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

**City of Rockville**  
**Notes to Required Supplementary Information**

**GENERAL EMPLOYEES FUND (CONTINUED)**

**2016 Changes (Continued)**

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**2015 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6.0 million, which meets the special funding situation definition was due September 2015.

**ROCKVILLE FIRE RELIEF ASSOCIATION**

**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 Balances -**  
**Budget and Actual - General Fund**  
**Year Ended December 31, 2020**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues</b>				
Property taxes	\$ 965,191	\$ 965,191	\$ 960,418	\$ (4,773)
Miscellaneous taxes	-	-	1,244	1,244
Special assessments	12,975	12,975	23,896	10,921
Licenses and permits	50,000	50,000	27,728	(22,272)
Intergovernmental revenue				
Local government aid	220,791	220,791	222,165	1,374
Market value credit	2,500	2,500	7,483	4,983
PERA aid	60	60	-	(60)
Fire aid	16,600	16,600	18,695	2,095
Federal grants	-	193,624	193,624	-
Other grants and aids	-	5,000	5,000	-
Total intergovernmental revenue	239,951	438,575	446,967	8,392
Charges for services				
General government	4,500	4,500	7,951	3,451
Public safety	21,100	21,100	33,741	12,641
Culture and recreation	-	-	682	682
Total charges for services	25,600	25,600	42,374	16,774
Fines and forfeitures	-	-	7,129	7,129
Miscellaneous revenues				
Investment income	12,650	12,650	15,524	2,874
Other	1,000	109,098	84,452	(24,646)
Total miscellaneous revenues	13,650	121,748	99,976	(21,772)
Total revenues	1,307,367	1,614,089	1,609,732	(4,357)
<b>Expenditures</b>				
General government				
Mayor and council	64,328	64,328	59,285	(5,043)
Administrative and finance	47,656	47,656	41,799	(5,857)
Other general government	244,239	285,739	235,763	(49,976)
Capital outlay	500	500	-	(500)
Total general government	356,723	398,223	336,847	(61,376)
Public safety				
Police				
Current	41,161	41,161	39,110	(2,051)
Fire				
Current	226,831	429,331	384,833	(44,498)
Capital outlay	73,000	56,500	21,833	(34,667)
Total fire	299,831	485,831	406,666	(79,165)

**City of Rockville**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances -**  
**Budget and Actual - General Fund**  
**Year Ended December 31, 2020**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Expenditures (Continued)</b>				
Public safety (continued)				
Other				
Current	\$ 30,893	\$ 30,893	\$ 26,395	\$ (4,498)
Total public safety	<u>371,885</u>	<u>557,885</u>	<u>472,171</u>	<u>(85,714)</u>
Public works				
Streets and highways				
Street maintenance and				
Storm sewers	399,016	364,616	300,758	(63,858)
Street engineering	3,100	15,000	14,904	(96)
Street lighting	14,500	14,500	13,125	(1,375)
Street - other capital outlay	4,500	27,000	27,000	-
Total streets and highways	<u>421,116</u>	<u>421,116</u>	<u>355,787</u>	<u>(65,329)</u>
Culture and recreation				
Current	64,143	64,143	57,837	(6,306)
Capital outlay	6,500	6,500	-	(6,500)
Total culture and recreation	<u>70,643</u>	<u>70,643</u>	<u>57,837</u>	<u>(12,806)</u>
Total expenditures	<u>1,220,367</u>	<u>1,447,867</u>	<u>1,222,642</u>	<u>(225,225)</u>
Excess of revenues over (under) expenditures	87,000	166,222	387,090	220,868
<b>Other Financing Sources</b>				
Transfers out	<u>(85,000)</u>	<u>(85,000)</u>	<u>(84,319)</u>	<u>681</u>
Net change in fund balances	<u>\$ 2,000</u>	<u>\$ 81,222</u>	302,771	<u>\$ 221,549</u>
<b>Fund Balances</b>				
Beginning of year			<u>1,475,046</u>	
End of year			<u>\$ 1,777,817</u>	

**City of Rockville  
Combining Balance Sheet -  
Nonmajor Governmental Funds  
December 31, 2020**

	Special Revenue			
	Public Land Dedication (202)	Economic Development Authority (209)	Rocori Trail (205)	Lake Improvement District (221)
<b>Assets</b>				
Cash and investments	\$ 28,387	\$ 5,027	\$ -	\$ 28,702
Taxes receivable - delinquent	-	14	-	48
Special assessment receivable				
Deferred	-	-	-	-
Due from other governments	-	58	-	422
<b>Total assets</b>	<b>\$ 28,387</b>	<b>\$ 5,099</b>	<b>\$ -</b>	<b>\$ 29,172</b>
<b>Liabilities</b>				
Salaries and benefits payable	\$ -	\$ -	\$ -	\$ 3
<b>Deferred Inflows of Resources</b>				
Unavailable revenue - property taxes	-	14	-	48
Unavailable revenue - special assessments	-	-	-	-
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>14</b>	<b>-</b>	<b>48</b>
<b>Fund Balances</b>				
Restricted	28,387	-	-	-
Committed	-	-	-	29,121
Assigned	-	5,085	-	-
<b>Total fund balances</b>	<b>28,387</b>	<b>5,085</b>	<b>-</b>	<b>29,121</b>
<b>Total deferred inflows of resources and fund balances</b>	<b>\$ 28,387</b>	<b>\$ 5,099</b>	<b>\$ -</b>	<b>\$ 29,172</b>

<u>Debt Service</u>	
<u>2008A G.O. Improvement Bonds (308)</u>	<u>Total Governmental Funds</u>
\$ 60,132	\$ 122,248
119	181
88,800	88,800
<u>471</u>	<u>951</u>
<u>\$ 149,522</u>	<u>\$ 212,180</u>
\$ -	\$ 3
119	181
<u>88,800</u>	<u>88,800</u>
<u>88,919</u>	<u>88,981</u>
60,603	88,990
-	29,121
-	5,085
<u>60,603</u>	<u>123,196</u>
<u>\$ 149,522</u>	<u>\$ 212,180</u>

**City of Rockville**  
**Combining Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances - Nonmajor Governmental Funds**  
**Year Ended December 31, 2020**

	Special Revenue			
	Public Land Dedication (202)	Economic Development Authority (209)	Rocori Trail (205)	Lake Improvement District (221)
<b>Revenues</b>				
Property taxes	\$ -	\$ 1,988	\$ -	\$ 19,430
Intergovernmental	-	1,225	-	9,181
Charges for services	6,000	-	-	-
Miscellaneous				
Investment income	483	44	18	317
Total revenues	<u>6,483</u>	<u>3,257</u>	<u>18</u>	<u>28,928</u>
<b>Expenditures</b>				
Current				
General government	-	-	-	28,924
Economic development	-	1,209	-	-
Debt service				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital outlay				
Culture and recreation	-	-	7,500	-
Total expenditures	<u>-</u>	<u>1,209</u>	<u>7,500</u>	<u>28,924</u>
Excess of revenues over (under) expenditures	6,483	2,048	(7,482)	4
<b>Fund Balances</b>				
Beginning of year	<u>27,856</u>	<u>3,037</u>	<u>1,530</u>	<u>29,117</u>
End of year	<u>\$ 28,387</u>	<u>\$ 5,085</u>	<u>\$ -</u>	<u>\$ 29,121</u>

<u>Debt Service</u>	
<u>2008A G.O. Improvement Bonds (308)</u>	<u>Total Other Governmental Funds</u>
\$ 15,994	\$ 37,412
125	10,531
-	6,000
755	1,617
<u>16,874</u>	<u>55,560</u>
-	28,924
-	1,209
20,000	20,000
1,706	1,706
-	7,500
<u>21,706</u>	<u>59,339</u>
(4,832)	(3,779)
<u>65,435</u>	<u>126,975</u>
<u>\$ 60,603</u>	<u>\$ 123,196</u>

(THIS PAGE LEFT BLANK INTENTIONALLY)



**Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance with  
*Government Auditing Standards***

**Independent Auditor's Report**

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rockville, Minnesota, as of and for the year ended December 31, 2020, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 19, 2021.

**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 a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses on Internal Controls that we consider to be a material weakness, listed as Audit Finding 2020-001.

### **Compliance and Other Matters**


As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 Response to Findings**

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

### **Purpose of this Report**

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



St. Cloud, Minnesota  
May 19, 2021

**Minnesota Legal Compliance**

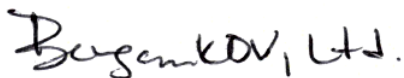
**Independent Auditor's Report**

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, 2020, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 19, 2021.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Rockville failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to *Minnesota Statutes* § 6.65 in so far 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 provisions, in so far as they relate to accounting matters.

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



St. Cloud, Minnesota  
May 21, 2020

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

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

**Material Weakness:**

**Audit Finding 2020-001 – 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.

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

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

**City's Response:**

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