

**City of Rockville
Stearns County, Minnesota**

Basic Financial Statements

December 31, 2023



**City of Rockville
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**City of Rockville
Elected Officials and Administration
December 31, 2023**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Duane Willenbring	Mayor	December 31, 2024
Julie Heying	Council Member	December 31, 2026
Brian Stanger	Council Member	December 31, 2024
Jerry Tippelt	Council Member	December 31, 2024
Brian Herberg	Council Member	December 31, 2026

<u>Administration</u>	
Bobbi Kessel	City Administrator/Clerk
Judy Neu	Finance Director



Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rockville, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City of Rockville's basic financial statements as listed in the Table of Contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rockville, as of December 31, 2023, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- ◆ Exercise professional judgment and maintain professional skepticism throughout the audit.
- ◆ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- ◆ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Rockville's internal control. Accordingly, no such opinion is expressed.
- ◆ Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- ◆ Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Rockville's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rockville's basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2024, 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.

Bergan KDV Ltd.

St. Cloud, Minnesota
April 29, 2024

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, 2023.

FINANCIAL HIGHLIGHTS

- ◆ The net position of the City at the close of the most recent year was \$20,838,589. Of this amount, \$5,499,630 may be used to meet government's ongoing obligations to citizens and creditors.
- ◆ The government's total net position increased by \$2,318,068 in 2023. This was attributable due to the city's positive operations of its governmental activities& Capital Assets.
- ◆ As of the close of the current year, the City's governmental funds reported combined ending fund balances of \$4,127,769, an increase of \$348,236. 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 \$2,123,568, or 160% of total General Fund expenditures. While these funds are not legally restricted, \$28,537 is nonspendable, \$104,397 is restricted, \$130,990 is committed and \$534,800 is assigned for future purposes, leaving the unassigned fund balance of \$1,324,304, or 100% of current year expenditures, to be used in the event of a major catastrophe.
- ◆ The City's total long-term liabilities decreased by \$11,624 during the current year because of principal payments on the City's debt.

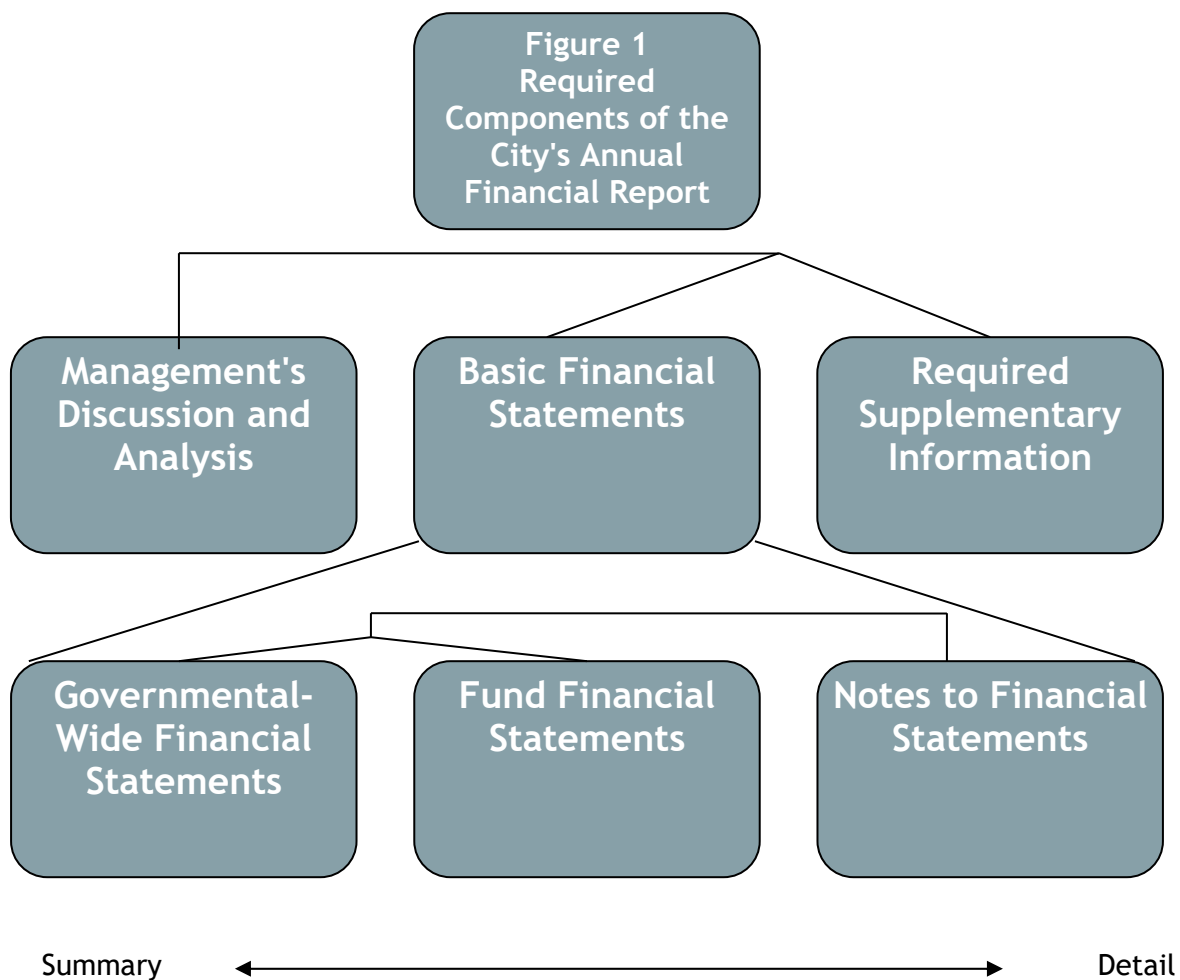
OVERVIEW OF THE FINANCIAL STATEMENTS

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	◆ Statement of Net Position ◆ Statement of Activities	◆ Balance Sheet ◆ Statement of Revenues, Expenditures, and Changes in Fund Balances	◆ Statement of Net Position ◆ Statement of Revenues, Expenses, and Changes in Fund Net Position ◆ Statement of Cash Flows
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset and deferred outflows/liability and deferred inflows of information	All assets and deferred outflows and liabilities and deferred inflows, both financial and capital, and short-term and long-term	Only assets and deferred outflows expected to be used up and liabilities and deferred inflows that come due during the year or soon thereafter, no capital assets included	All assets and deferred outflows and liabilities and deferred inflows, both financial and capital and short-term and long-term
Type of in flow/out flow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

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.

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 seven individual governmental funds. Information is presented separately in the governmental funds Balance Sheet and in the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund and Road Maintenance Capital Project 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.

Proprietary Funds

The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer utilities. The City last raised sewer rates in September 2023.

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

Notes to Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, total assets and deferred outflows exceeded total liabilities and deferred inflows by \$20,838,589 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	
	2023	2022	2023	2022	2023	2022
Assets						
Current and other assets	\$ 4,420,323	\$ 4,534,421	\$ 3,397,955	\$ 3,623,648	\$ 7,818,278	\$ 8,158,069
Capital assets	14,686,162	13,376,665	16,099,268	14,010,115	30,785,430	27,386,780
Less accumulated Depreciation	(5,035,567)	(4,534,621)	(6,075,762)	(5,729,674)	(11,111,329)	(10,264,295)
Total assets	\$ 14,070,918	\$ 13,376,465	\$ 13,421,461	\$ 11,904,089	\$ 27,492,379	\$ 25,280,554
Deferred outflows	\$ 206,841	\$ 159,484	\$ 29,038	\$ 36,074	\$ 235,879	\$ 195,558
Long-term liabilities						
Outstanding	\$ 3,403,734	\$ 3,656,700	\$ 1,154,797	\$ 824,287	\$ 4,558,531	\$ 4,480,987
Other liabilities	498,683	774,222	1,264,045	1,131,842	1,762,728	1,906,064
Total liabilities	\$ 3,902,417	\$ 4,430,922	\$ 2,418,842	\$ 1,956,129	\$ 6,321,259	\$ 6,387,051
Deferred inflows	\$ 158,073	\$ 169,420	\$ 410,337	\$ 399,121	\$ 568,410	\$ 568,541
Net Position						
Net investment in						
Capital assets	\$ 6,277,808	\$ 5,134,111	\$ 8,417,317	\$ 6,952,441	\$ 14,695,125	\$ 12,086,552
Restricted	643,833	527,523	-	-	643,833	527,523
Unrestricted	3,295,628	3,273,973	2,204,003	2,632,472	5,499,631	5,906,445
Total net position	\$ 10,217,269	\$ 8,935,607	\$ 10,621,320	\$ 9,584,913	\$ 20,838,589	\$ 18,520,520

An additional portion of the City's net position (3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (26%) may be used to meet the government's ongoing obligations to citizens and creditors. This is a decrease of \$406,814 from 2023.

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 \$1,281,662. The key element of this increase is due to revenues exceeding expenses or positive fund operations.

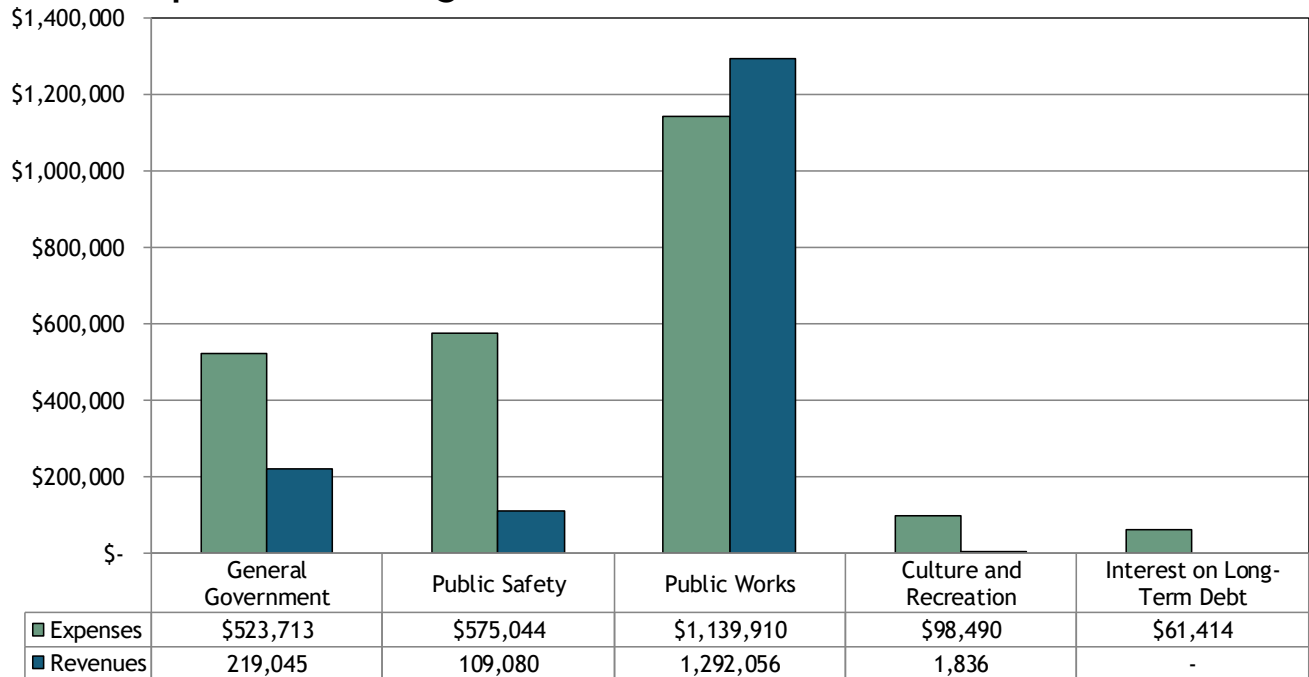
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
Revenues						
Program revenues						
Charges for service	\$ 124,996	\$ 109,363	\$ 719,329	\$ 664,700	\$ 844,325	\$ 774,063
Operating grants and contributions	337,304	260,456	15,839	5,089	353,143	265,545
Capital grants and contributions	1,159,717	27,843	1,322,437	23,044	2,482,154	50,887
General revenues						
Property taxes	1,764,364	1,665,497	16,274	16,049	1,780,638	1,681,546
Other	247,131	250,435	116	358	247,247	250,793
Investment income	46,721	46,509	24,390	23,320	71,111	69,829
				732,560		
Total revenues	3,680,233	2,360,103	2,098,385	732,560	5,778,618	3,092,663
Expenses						
General government	523,713	474,778	-	-	523,713	474,778
Public safety	575,044	277,868	-	-	575,044	277,868
Public works	1,139,910	671,506	-	-	1,139,910	671,506
Culture and recreation	98,490	149,406	-	-	98,490	149,406
Interest on long-term debt	61,414	71,176	-	-	61,414	71,176
Water	-	-	299,663	251,917	299,663	251,917
Sewer	-	-	762,315	579,766	762,315	579,766
Total expenses	2,398,571	1,644,734	1,061,978	831,683	3,460,549	2,476,417
Increase in net position						
Before transfers	1,281,662	715,369	1,036,407	(99,123)	2,318,069	616,246
Transfers	-	(84,211)	-	84,211	-	-
Increase in net position	1,281,662	631,158	1,036,407	(14,912)	2,318,069	616,246
Net Position						
Beginning of year	8,935,607	8,304,449	9,584,913	9,553,446	18,520,520	17,857,895
Prior period adjustment	-	-	-	46,379	-	46,379
Beginning of Year, Restated	8,935,607	8,304,449	9,584,913	9,599,825	18,520,520	17,904,274
End of year	\$ 10,217,269	\$ 8,935,607	\$ 10,621,320	\$ 9,584,913	\$ 20,838,589	\$ 18,520,520

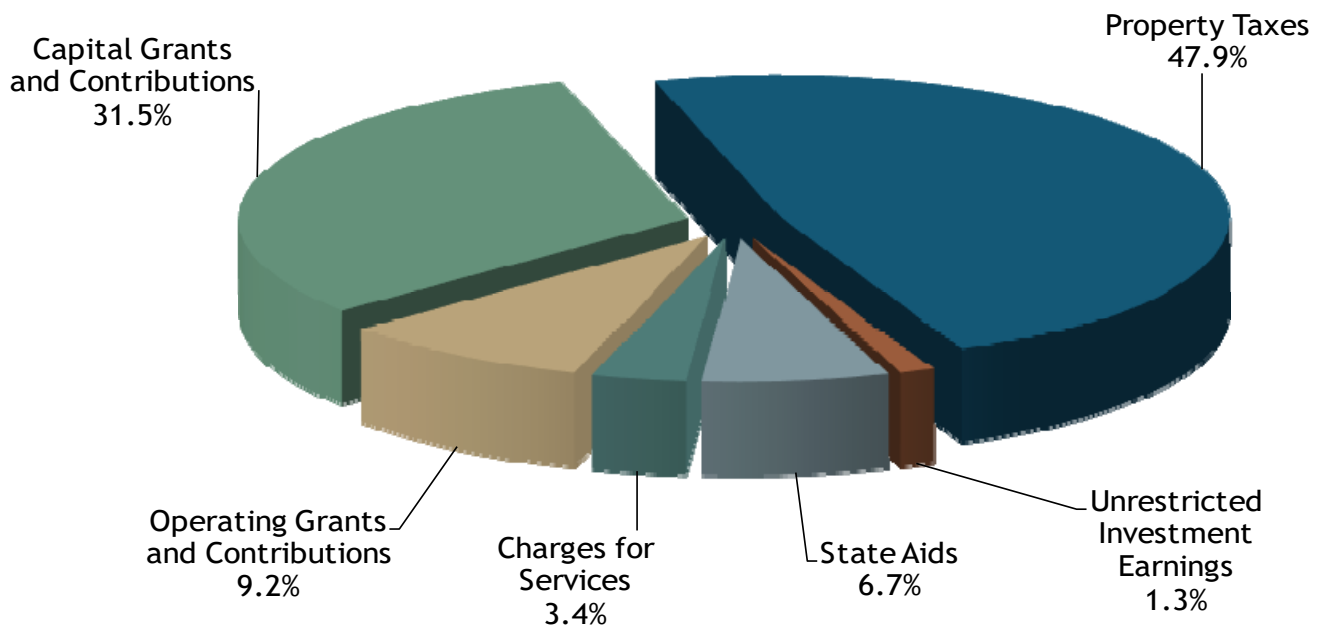
**City of Rockville
Management's Discussion and Analysis**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



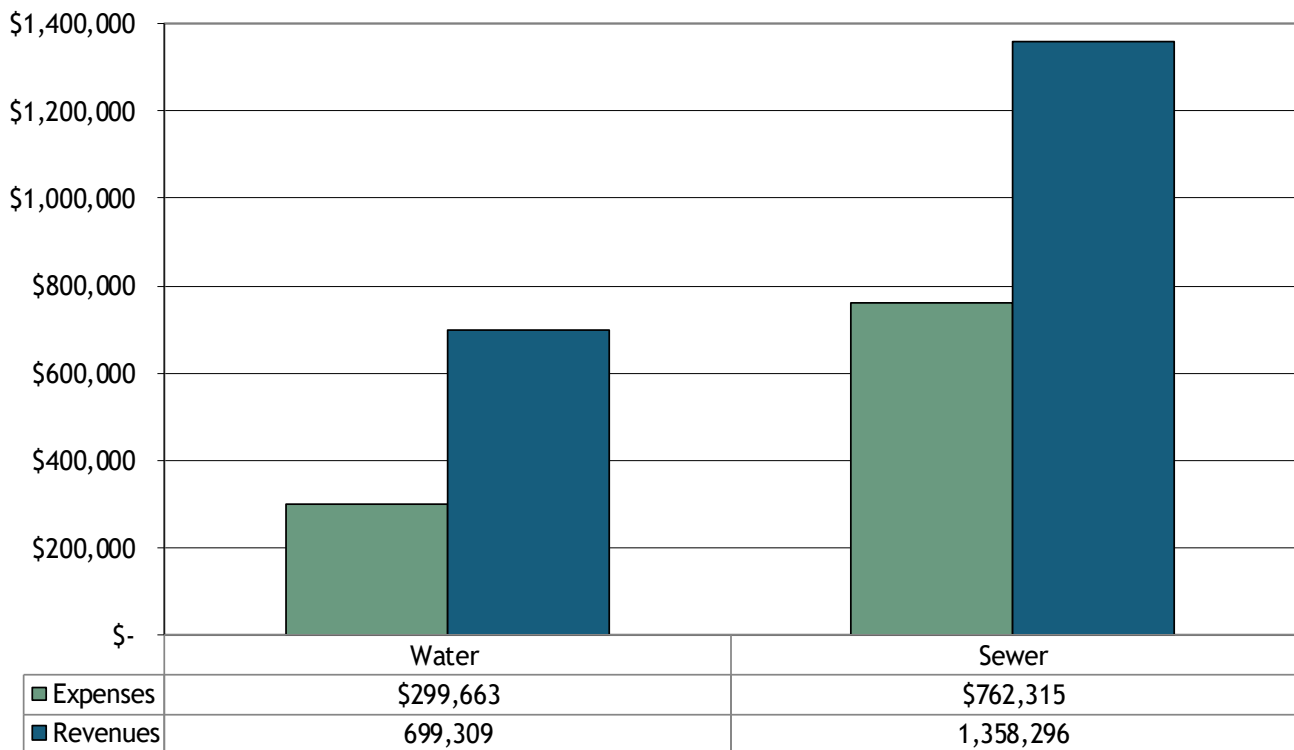
**City of Rockville
Management's Discussion and Analysis**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

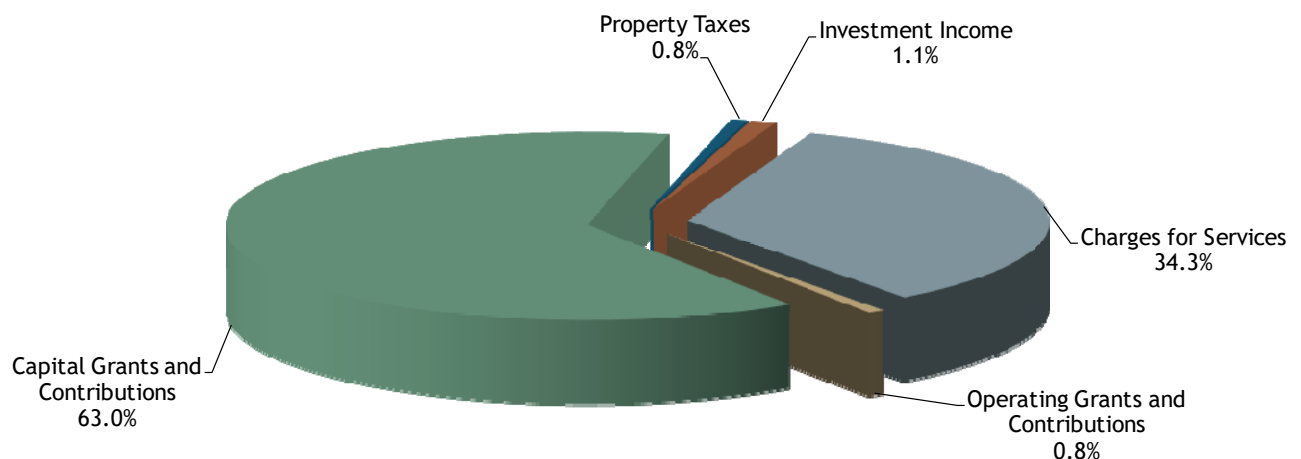
Business Type Activities

Business type activities increased the City's net position by \$1,036,407. Key elements of this increase is capital contributions from a development.

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 \$4,127,769, an increase of \$348,236 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 \$2,123,568. 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 100% of total General Fund expenditures, while total fund balance represents 160% of that same amount.

The fund balance of the City's General Fund increased by \$380,994 during the current year. The key factors for the increase were an increase in taxes and assessments and intergovernmental revenues.

The Road Maintenance fund balance decreased \$40,058 as a result of an ongoing improvement projects.

The 2021A G.O. Street improvement Bond fund balance decreased \$1,941 as expenditures exceeded revenues.

Proprietary Funds

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

The unrestricted net position in the respective proprietary funds are water, \$1,284,186 and sewer, \$919,817. The proprietary funds increased \$1,036,407 in total net position for the year; this increase is primarily due to increase in usage and WAC and SAC fees and capital contributions in the funds.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City approved the 2023 General Fund budget anticipating revenues to exceed expenditures and transfers out. The City amended its budget to recognize additional unplanned obligations during the year, for a planned \$21,405 reduction in fund balance. Actual results were revenues exceeding expenditures and transfers out by \$380,994, due to conservative budgets for revenues that can be unpredictable year to year and using American Rescue Funds that were not budgeted as well as conservative budgeting for expenditures.

**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, 2023, amounts to \$19,674,101 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, furniture and office equipment, infrastructure, and construction in progress. The increase in the governmental activities relates to capital asset additions most notably the public works vehicles. The decrease in the business type activities occurred due depreciation of infrastructure. Additional information on capital assets can be found in Note 4 of this report.

Long-Term Debt

At the end of the current year, the City had total bonded debt outstanding of \$4,385,000, notes from direct borrowing of \$487,000, compensated absences of \$43,459, severance payable of \$21,008, and unamortized premiums of \$106,976.

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

	Governmental Activities	Business-Type Activities	Total
G.O. Improvement Bonds	\$ 3,270,000	\$ -	\$ 3,270,000
G.O. Revenue Bonds	-	1,115,000	1,115,000
Notes from Direct Borrowing	-	487,000	487,000
Unamortized Premiums	102,787	4,189	106,976
Compensated Absences	43,459	-	43,459
Severance	21,008	-	21,008
	<u>\$ 3,437,254</u>	<u>\$ 1,606,189</u>	<u>\$ 5,043,443</u>
Total			

The City's total debt payments of \$946,146 were made during the current year. The City established an "AA+" rating from Standard & Poor's for G.O. debt.

Additional information on long-term debt can be found in Note 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 \$405.
- ◆ 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.



BASIC FINANCIAL STATEMENTS

**City of Rockville
Statement of Net Position
December 31, 2023**

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and investments	\$ 4,157,200	\$ 1,717,422	\$ 5,874,622
Property tax receivable	14,718	140	14,858
Accounts receivable	31,592	654,059	685,651
Interest receivable	-	3,077	3,077
Due from other governments	17,116	2,776	19,892
Lease receivables	-	380,154	380,154
Special assessments receivable			
Delinquent	-	1,187	1,187
Deferred	171,160	423,849	595,009
Land held for resale	-	207,990	207,990
Prepaid items	28,537	7,301	35,838
Capital assets not being depreciated			
Land	456,118	98,295	554,413
Construction in progress	-	840,690	840,690
Capital assets being depreciated			
Buildings	3,286,243	-	3,286,243
Infrastructure	8,934,453	-	8,934,453
Sewer and water improvements	-	14,991,541	14,991,541
Machinery and equipment	2,009,348	168,742	2,178,090
Less accumulated depreciation	(5,035,567)	(6,075,762)	(11,111,329)
Total capital assets, (net of accumulated depreciation)	9,650,595	10,023,506	19,674,101
Total assets	14,070,918	13,421,461	27,492,379
Deferred Outflows of Resources			
Deferred outflows of resources related to pensions	206,841	29,038	235,879
Total assets and deferred outflows of resources	\$ 14,277,759	\$ 13,450,499	\$ 27,728,258
Liabilities			
Accounts payable	\$ 90,324	\$ 618,196	\$ 708,520
Contracts payable	-	64,818	64,818
Due to other governments	351	1,599	1,950
Salaries and benefits payable	9,335	5,228	14,563
Interest payable	29,026	20,418	49,444
Unearned revenue	6,666	3,786	10,452
Bond principal payable (net of premium)			
Payable within one year	335,000	63,000	398,000
Payable after one year	3,037,787	1,056,189	4,093,976
Notes from direct borrowing			
Payable within one year	-	487,000	487,000
Compensated absences payable			
Payable within one year	27,981	-	27,981
Payable after one year	15,478	-	15,478
Net pension liability	329,462	98,608	428,070
Total liabilities	3,902,418	2,418,842	6,321,260
Deferred Inflows of Resources			
Deferred inflows of resources related to leases	-	380,154	380,154
Deferred inflows of resources related to pensions	158,073	30,183	188,256
Total deferred inflows	158,073	410,337	568,410
Net Position			
Net investment in capital assets	6,277,808	8,417,317	14,695,125
Restricted for			
Debt service	538,896	-	538,896
Other purposes	104,937	-	104,937
Unrestricted	3,295,627	2,204,003	5,499,630
Total net position	10,217,268	10,621,320	20,838,588
Total liabilities, deferred inflows of resources, and net position	\$ 14,277,759	\$ 13,450,499	\$ 27,728,258

See notes to basic financial statements.

City of Rockville
Statement of Activities
Year Ended December 31, 2023

Functions/Programs	Program Revenues				Net (Expense) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities							
General government	\$ 523,714	\$ 89,709	\$ 129,336	\$ -	\$ (304,669)	\$ -	\$ (304,669)
Public safety	575,044	33,192	75,888	-	(465,964)	-	(465,964)
Public works	1,139,910	430	131,909	1,159,717	152,146	-	152,146
Culture and recreation	98,490	1,665	171	-	(96,654)	-	(96,654)
Interest on long-term debt	61,414	-	-	-	(61,414)	-	(61,414)
Total governmental activities	<u>2,398,572</u>	<u>124,996</u>	<u>337,304</u>	<u>1,159,717</u>	<u>(776,555)</u>	<u>-</u>	<u>(776,555)</u>
Business-type activities							
Water	299,663	343,071	5,801	350,437	-	399,646	399,646
Sewer	762,315	376,258	10,038	972,000	-	595,981	595,981
Total business-type activities	<u>1,061,978</u>	<u>719,329</u>	<u>15,839</u>	<u>1,322,437</u>	<u>-</u>	<u>995,627</u>	<u>995,627</u>
Total governmental and business-type activities	<u>\$ 3,460,550</u>	<u>\$ 844,325</u>	<u>\$ 353,143</u>	<u>\$ 2,482,154</u>	<u>(776,555)</u>	<u>995,627</u>	<u>219,072</u>
General revenues							
Property taxes					1,764,364	16,274	1,780,638
Unrestricted grants and aids					247,131	116	247,247
Unrestricted investment earnings					46,721	24,390	71,111
Total general revenues and transfers					<u>2,058,216</u>	<u>40,780</u>	<u>2,098,996</u>
Change in net position					<u>1,281,661</u>	<u>1,036,407</u>	<u>2,318,068</u>
Net position - beginning					<u>8,935,607</u>	<u>9,584,913</u>	<u>18,520,520</u>
Net position - ending					<u>\$ 10,217,268</u>	<u>\$ 10,621,320</u>	<u>\$ 20,838,588</u>

City of Rockville
Balance Sheet - Governmental Funds
December 31, 2023

	General Fund (101)	Capital Project Road Maintenance (215)	Debt Service Street Improvement Bond (300)	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	\$ 2,159,517	\$ 1,399,329	\$ 96,404	\$ 501,950	\$ 4,157,200
Taxes receivable - delinquent	8,466	3,344	1,348	1,560	14,718
Special assessment receivable					
Deferred	171,160	-	-	-	171,160
Accounts receivable	31,592	-	-	-	31,592
Due from other governments	10,236	3,221	1,974	1,685	17,116
Prepaid items	28,537	-	-	-	28,537
Total assets	<u>\$ 2,409,508</u>	<u>\$ 1,405,894</u>	<u>\$ 99,726</u>	<u>\$ 505,195</u>	<u>\$ 4,420,323</u>
Liabilities					
Accounts payable	\$ 89,968	\$ 356	\$ -	\$ -	\$ 90,324
Salaries and benefits payable	9,329	-	-	6	9,335
Unearned revenue	6,666	-	-	-	6,666
Due to other governments	351	-	-	-	351
Total liabilities	<u>106,314</u>	<u>356</u>	<u>-</u>	<u>6</u>	<u>106,676</u>
Deferred Inflows of Resources					
Unavailable revenue					
- property taxes	8,466	3,344	1,348	1,560	14,718
Unavailable revenue					
- special assessments	171,160	-	-	-	171,160
Total deferred inflows of resources	<u>179,626</u>	<u>3,344</u>	<u>1,348</u>	<u>1,560</u>	<u>185,878</u>
Fund Balances					
Nonspendable	28,537	-	-	-	28,537
Restricted	104,937	-	98,378	466,742	670,057
Committed	130,990	-	-	36,887	167,877
Assigned	534,800	1,402,194	-	-	1,936,994
Unassigned	1,324,304	-	-	-	1,324,304
Total fund balances	<u>2,123,568</u>	<u>1,402,194</u>	<u>98,378</u>	<u>503,629</u>	<u>4,127,769</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,409,508</u>	<u>\$ 1,405,894</u>	<u>\$ 99,726</u>	<u>\$ 505,195</u>	<u>\$ 4,420,323</u>

City of Rockville
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
December 31, 2023

Total fund balances - governmental funds	\$ 4,127,769
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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	14,686,162
Less accumulated depreciation	(5,035,567)

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	(3,270,000)
Compensated absences payable	(43,459)
Severance payable	(21,008)
Bond premium	(102,787)
Net pension liability	(329,462)

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	14,718
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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	(158,073)
Deferred outflows of resources related to pensions	206,841

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

Deferred special assessments	171,160
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Governmental funds do not report a liability for accrued interest until due and payable.	(29,026)
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Total net position - governmental activities	<u>\$ 10,217,268</u>
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City of Rockville
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended December 31, 2023

		Capital Project	Debt Service		
	General Fund (101)	Road Maintenance (215)	2021A G.O. Street Improvement Bond (300)	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 992,162	\$ 351,284	\$ 215,438	\$ 198,836	\$ 1,757,720
Special assessments	-	5,896	-	-	5,896
Licenses and permits	86,664	-	-	-	86,664
Intergovernmental	529,562	2,494	1,528	12,162	545,746
Charges for services	37,317	-	-	-	37,317
Fines and forfeitures	12,492	-	-	-	12,492
Miscellaneous					
Investment income	20,322	15,589	188	10,622	46,721
Other	27,406	-	-	-	27,406
Total revenues	<u>1,705,943</u>	<u>375,263</u>	<u>217,154</u>	<u>221,620</u>	<u>2,519,980</u>
Expenditures					
Current					
General government	392,668	-	-	31,872	424,540
Public safety	319,234	-	-	-	319,234
Public works	334,508	396,326	-	-	730,834
Culture and recreation	98,109	-	-	-	98,109
Debt service					
Principal	-	-	165,000	160,000	325,000
Interest and other charges	-	-	54,095	20,507	74,602
Capital outlay					
Public safety	25,451	-	-	-	25,451
Public works	100,417	18,995	-	-	119,412
Culture and recreation	54,562	-	-	-	54,562
Total expenditures	<u>1,324,949</u>	<u>415,321</u>	<u>219,095</u>	<u>212,379</u>	<u>2,171,744</u>
Net change in fund balances	380,994	(40,058)	(1,941)	9,241	348,236
Fund Balances					
Beginning of Year	<u>1,742,574</u>	<u>1,442,252</u>	<u>100,319</u>	<u>494,388</u>	<u>3,779,533</u>
End of Year	<u>\$ 2,123,568</u>	<u>\$ 1,402,194</u>	<u>\$ 98,378</u>	<u>\$ 503,629</u>	<u>\$ 4,127,769</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, 2023

Total net change in fund balances - governmental funds	\$ 348,236
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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	167,447
Depreciation expense	(513,418)
Loss on disposal	(4,396)
Donated assets	1,158,918

Compensated absences and severance are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(45,333)
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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.	325,000
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	3,042
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Governmental funds report the effects of bond premiums when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	10,146
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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.	(169,295)
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Delinquent and deferred receivables will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are not revenues in the funds.

Delinquent property taxes	6,626
Deferred and delinquent special assessments	(5,312)

Change in net position - governmental activities	\$ 1,281,661
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City of Rockville
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended December 31, 2023

	Budgeted amounts		Actual	Variance with
	Original	Final	Amounts	final budget - over (under)
Revenues				
Property taxes	\$ 1,007,567	\$ 1,007,567	\$ 992,162	\$ (15,405)
Miscellaneous taxes	-	-	18	18
Special assessments	500	500	-	(500)
Licenses and permits	63,450	63,450	86,664	23,214
Intergovernmental	261,131	366,068	529,562	163,494
Charges for services	33,152	33,152	37,317	4,165
Fines and forfeitures	9,000	9,000	12,492	3,492
Miscellaneous revenues				
Investment income	19,200	19,200	20,322	1,122
Other	7,700	7,700	27,406	19,706
Total revenues	<u>1,401,700</u>	<u>1,506,637</u>	<u>1,705,943</u>	<u>199,306</u>
Expenditures				
Current				
General government	392,773	392,773	392,668	(105)
Public safety	305,196	305,196	319,234	14,038
Public works	361,608	361,608	334,508	(27,100)
Culture and recreation	94,544	94,544	98,109	3,565
Capital outlay				
General government	20,500	20,500	-	(20,500)
Public safety	99,000	99,000	25,451	(73,549)
Public works	40,000	117,987	100,417	(17,570)
Culture and recreation	4,000	52,355	54,562	2,207
Total expenditures	<u>1,317,621</u>	<u>1,443,963</u>	<u>1,324,949</u>	<u>(119,014)</u>
Excess of revenues over expenditures	84,079	62,674	380,994	318,320
Other Financing Uses				
Transfers out	<u>(84,079)</u>	<u>(84,079)</u>	<u>-</u>	<u>84,079</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ (21,405)</u>	<u>380,994</u>	<u>\$ 402,399</u>
Fund Balances				
Beginning of year			<u>1,742,574</u>	
End of year			<u>\$ 2,123,568</u>	

City of Rockville
Statement of Net Positions - Proprietary Funds
December 31, 2023

	Water (311,312,601)	Sewer (309,310,602)	Total
Assets			
Current assets			
Cash and investments	\$ 1,055,642	\$ 661,780	\$ 1,717,422
Taxes receivable - delinquent	140	-	140
Special assessments receivable			
Delinquent	211	976	1,187
Deferred	142,905	280,944	423,849
Accounts receivable	342,645	311,414	654,059
Interest receivable	3,077	-	3,077
Lease receivable	380,154	-	380,154
Due from other governments	206	2,570	2,776
Land held for resale	96,464	111,526	207,990
Prepaid expenses	3,980	3,321	7,301
Total current assets	<u>2,025,424</u>	<u>1,372,531</u>	<u>3,397,955</u>
Noncurrent assets			
Capital assets			
Land	98,295	-	98,295
Sewer and water improvements	2,883,182	12,108,359	14,991,541
Equipment	-	168,742	168,742
Construction in progress	-	840,690	840,690
Total capital assets	<u>2,981,477</u>	<u>13,117,791</u>	<u>16,099,268</u>
Less accumulated depreciation	<u>(1,207,870)</u>	<u>(4,867,892)</u>	<u>(6,075,762)</u>
Net capital assets	<u>1,773,607</u>	<u>8,249,899</u>	<u>10,023,506</u>
Total assets	<u>3,799,031</u>	<u>9,622,430</u>	<u>13,421,461</u>
Deferred Outflows of Resources			
Deferred outflows of resources related to pensions	<u>12,525</u>	<u>16,513</u>	<u>29,038</u>
Total assets and deferred outflows of resources	<u>\$ 3,811,556</u>	<u>\$ 9,638,943</u>	<u>\$ 13,450,499</u>
Liabilities			
Current liabilities			
Accounts payable	\$ 311,270	\$ 306,926	\$ 618,196
Salaries and benefits payable	2,177	3,051	5,228
Interest payable	2,540	17,878	20,418
Due to other governments	1,599	-	1,599
Unearned revenue	470	3,316	3,786
Long-term liabilities due within one year	48,000	502,000	550,000
Total current liabilities	<u>366,056</u>	<u>897,989</u>	<u>1,264,045</u>
Noncurrent liabilities			
Bonds payable, net of unamortized premiums	230,000	889,189	1,119,189
Notes from direct borrowing	-	487,000	487,000
Net pension liability	42,534	56,074	98,608
Less amount due within one year	<u>(48,000)</u>	<u>(502,000)</u>	<u>(550,000)</u>
Total noncurrent liabilities	<u>224,534</u>	<u>930,263</u>	<u>1,154,797</u>
Total liabilities	<u>590,590</u>	<u>1,828,252</u>	<u>2,418,842</u>
Deferred Inflows of Resources			
Deferred inflows of resources related to leases	380,154	-	380,154
Deferred inflows of resources related to pensions	13,019	17,164	30,183
Total deferred inflow of resources	<u>393,173</u>	<u>17,164</u>	<u>410,337</u>
Net Position			
Net investment in capital assets	1,543,607	6,873,710	8,417,317
Unrestricted	1,284,186	919,817	2,204,003
Total net position	<u>2,827,793</u>	<u>7,793,527</u>	<u>10,621,320</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 3,811,556</u>	<u>\$ 9,638,943</u>	<u>\$ 13,450,499</u>

City of Rockville
Statement of Revenues, Expenses, and Changes
in Fund Net Position - Proprietary Funds
Year Ended December 31, 2023

	Water (311,312,601)	Sewer (309,310,602)	Total
Operating Revenues			
Charges for services	\$ 274,713	\$ 352,397	\$ 627,110
Permits, hookup fees, and penalties	26,332	23,588	49,920
Total operating revenues	<u>301,045</u>	<u>375,985</u>	<u>677,030</u>
Operating Expenses			
Wages and salaries	69,455	91,330	160,785
Employee benefits	31,569	44,649	76,218
Materials and supplies	21,347	3,421	24,768
Repairs and maintenance	17,407	71,748	89,155
Professional services	53,440	192,359	245,799
Insurance	6,205	4,965	11,170
Utilities	19,949	26,695	46,644
Depreciation	60,575	285,513	346,088
Equipment	7,683	600	8,283
Miscellaneous	5,652	14,732	20,384
Total operating expenses	<u>293,282</u>	<u>736,012</u>	<u>1,029,294</u>
Operating income (loss)	7,763	(360,027)	(352,264)
Nonoperating Revenues (Expenses)			
Rent	42,021	-	42,021
Investment income	9,223	15,167	24,390
Special assessments	108	14,682	14,790
Property taxes	16,274	-	16,274
Grants	5,136	-	5,136
Refunds and reimbursements	781	10,038	10,819
Interest expense	(6,381)	(26,303)	(32,684)
Total nonoperating revenues	<u>67,162</u>	<u>13,584</u>	<u>80,746</u>
Income (loss) before capital contributions	74,925	(346,443)	(271,518)
Capital contributions	<u>350,334</u>	<u>957,591</u>	<u>1,307,925</u>
Change in net position	425,259	611,148	1,036,407
Net Position			
Beginning of year	<u>2,402,534</u>	<u>7,182,379</u>	<u>9,584,913</u>
End of year	<u>\$ 2,827,793</u>	<u>\$ 7,793,527</u>	<u>\$ 10,621,320</u>

City of Rockville
Statement of Cash Flows - Proprietary Funds
For the Year Ended December 31, 2023

	Water (311,312,601)	Sewer (309,310,602)	Total
Cash Flows - Operating Activities			
Receipts from customers and users	\$ 346,812	\$ 443,384	\$ 790,196
Payments to suppliers	(102,260)	(165,943)	(268,203)
Payments to employees	(89,625)	(117,934)	(207,559)
Miscellaneous revenue	47,938	10,038	57,976
Net cash flows - operating activities	<u>202,865</u>	<u>169,545</u>	<u>372,410</u>
Cash Flows - Capital And Related			
Financing Activities			
Principal paid on debt	(131,000)	(480,000)	(611,000)
Interest paid on debt	(7,810)	(8,919)	(16,729)
Bond proceeds	-	885,000	885,000
Property tax and special assessment revenues received	16,450	160,595	177,045
Acquisition of capital assets	(33,233)	(747,995)	(781,228)
Net cash flows - capital and related financing activities	<u>(155,593)</u>	<u>(191,319)</u>	<u>(346,912)</u>
Cash Flows - Investing Activities			
Interest and dividends received	<u>8,509</u>	<u>15,167</u>	<u>23,676</u>
Net change in cash and cash equivalents	55,781	(6,607)	49,174
Cash and Cash Equivalents			
January 1	<u>999,861</u>	<u>668,387</u>	<u>1,668,248</u>
December 31	<u><u>\$ 1,055,642</u></u>	<u><u>\$ 661,780</u></u>	<u><u>\$ 1,717,422</u></u>
Reconciliation of Operating Income (Loss) to			
Net Cash Flows - Operating Activities			
Operating income (loss)	\$ 7,763	\$ (360,027)	\$ (352,264)
Adjustments to reconcile operating income (loss) to net cash flows - operating activities			
Miscellaneous revenue	47,938	10,038	57,976
Depreciation expense	60,575	285,513	346,088
Net pension expense	10,493	16,555	27,048
Accounts receivable	45,764	68,882	114,646
Due from other governments	(82)	(1,554)	(1,636)
Prepaid items	(640)	(245)	(885)
Accounts payable	28,471	84,004	112,475
Due to other governmental units	1,592	-	1,592
Unearned revenue	85	71	156
Salaries payable	906	1,490	2,396
Total adjustments	<u>195,102</u>	<u>529,572</u>	<u>724,674</u>
Net cash flows - operating activities	<u><u>\$ 202,865</u></u>	<u><u>\$ 169,545</u></u>	<u><u>\$ 372,410</u></u>
Noncash Investing, Capital, and			
Financing Activities			
Contributed assets	\$ 350,334	\$ 957,591	\$ 1,307,925

See notes to basic financial statements



City of Rockville
Notes to Basic 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 the governing body is substantively the same as the City Council and management of the City has operational responsibility for activities of the EDA. Separate financial statements are not prepared for the Rockville EDA.

B. Government-Wide and Fund Financial Statements

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

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

City of Rockville
Notes to Basic 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.

Street Improvement Bonds of 2021A Debt Service Fund - This fund accounts for the resources accumulated and payments made for principal and interest on this bond issue.

Proprietary Funds:

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

**City of Rockville
Notes to Basic 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 § 118a outlines types of investments allowed which includes obligations of the U.S. Treasury, agencies, and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase and reverse repurchase agreements, and commercial paper of the highest quality with a maturity of no longer than 270 days and in the Minnesota Municipal Investment Pool.

City of Rockville
Notes to Basic 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.

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.

City of Rockville
Notes to Basic 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)

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. Lease Receivable

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

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

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

City of Rockville
Notes to Basic 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. Lease Receivable (Continued)

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

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

7. 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	4	32
6 months - 2 years	8	64
2 years	16	128
3-5 years	21	168
6-9 years	26	208
10+ years	31	248

Annual leave will not accrue during unpaid leaves. Regular part-time employees working at least an average of 31.5 hours per week will accrue annual leave on a prorated basis based on regular hours worked.

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

8. Deferred Outflows/Inflows of Resources

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

City of Rockville
Notes to Basic 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. Deferred Outflows/Inflows of Resources (Continued)

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

9. Long-Term Obligations

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

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

10. 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.

11. 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.

City of Rockville
Notes to Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

11. Fund Equity (Continued)

a. Classification (Continued)

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

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

b. Minimum Fund Balance Policy

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

12. 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.

City of Rockville
Notes to Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Use of Estimates

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

F. Budgetary Information

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

NOTE 2 - DEPOSITS AND INVESTMENTS

Cash balances of the City's funds are combined (pooled) and invested to the extent available in various investments authorized by *Minnesota Statutes*. Each fund's portion of this pool (or pools) is displayed in the financial statements as "cash and cash equivalents" or "investments." For purposes of identifying risk of investing public funds, the balances, and related restrictions are summarized as follows.

A. Deposits

Custodial Credit Risk: 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, 2023, the City's bank balance of \$5,733,247 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, 2023, was \$5,679,726 for deposits.

City of Rockville
Notes to Basic Financial Statements

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

Investment Type	Fair Value	Investment Maturities		
		Less than One Year	1-5 Years	Ratings
Pooled investments				
4M Fund	\$ 194,896	\$ 194,896	\$ -	N/A

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.

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

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

Credit Risk: 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 based on type.

Summary of cash deposits and investments as of December 31, 2023, were as follows:

Deposits (Note 3.A.)	\$ 5,679,726
Investments (Note 3.B.)	194,896
	<u>\$ 5,874,622</u>

Deposits and investments are presented in the December 31, 2023, basic financial statements as follows:

Statement of Net Position	
Cash and investments	<u>\$ 5,874,622</u>

City of Rockville
Notes to Basic Financial Statements

NOTE 3 - LEASE RECEIVABLE

The City has entered into a Tower Lease agreement with New Cingular Wireless PCS, LLC for space leased. This lease was entered into in 2009 and will continue to 2053. The lease payment was \$20,250 for 2023 and will increase by 10% on January 1, 2024, and therefore at the beginning of each renewal term, which is every five years. The City received payments of \$20,250 in interest payments in 2023. The deferred inflow and receivable balance related to this lease is \$380,154 as of December 31, 2023.

The City has entered into a Tower Lease agreement with Sprint Spectrum Realty Company, LLC for space leased. This lease was entered into in 1999 and will continue to 2023. The lease payment was \$18,000 for 2023. The City received payments of \$17,475 in principal and \$525 in interest payments in 2023. The deferred inflow and receivable balance related to this lease is \$0 as of December 31, 2023.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2023, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 456,118	\$ -	\$ -	\$ 456,118
Capital assets being depreciated				
Buildings	3,286,243	-	-	3,286,243
Infrastructure	7,775,535	1,158,918	-	8,934,453
Machinery and equipment	1,858,769	167,447	(16,868)	2,009,348
Total capital assets being depreciated	12,920,547	1,326,365	(16,868)	14,230,044
Less accumulated depreciation for				
Buildings	(1,004,723)	(81,745)	-	(1,086,468)
Infrastructure	(2,458,779)	(331,664)	-	(2,790,443)
Machinery and equipment	(1,071,119)	(100,009)	12,472	(1,158,656)
Total accumulated depreciation	(4,534,621)	(513,418)	12,472	(5,035,567)
Total capital assets being depreciated, net	8,385,926	812,947	(4,396)	9,194,477
Governmental activities capital assets, net	<u>\$ 8,842,044</u>	<u>\$ 812,947</u>	<u>\$ (4,396)</u>	<u>\$ 9,650,595</u>

City of Rockville
Notes to Basic 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
Construction in progress	152,391	688,299	-	840,690
Total capital assets not Being depreciated	<u>250,686</u>	<u>688,299</u>	<u>-</u>	<u>938,985</u>
Capital assets being depreciated				
Buildings and systems	13,590,687	1,400,854	-	14,991,541
Machinery and equipment	168,742	-	-	168,742
Total capital assets being depreciated	<u>13,759,429</u>	<u>1,400,854</u>	<u>-</u>	<u>15,160,283</u>
Less accumulated depreciation for				
Buildings and systems	(5,634,392)	(338,743)	-	(5,973,135)
Machinery and equipment	(95,282)	(7,345)	-	(102,627)
Total accumulated depreciation	<u>(5,729,674)</u>	<u>(346,088)</u>	<u>-</u>	<u>(6,075,762)</u>
Business-type activities capital assets, net	<u>\$ 8,280,441</u>	<u>\$ 1,054,766</u>	<u>\$ -</u>	<u>\$ 10,023,506</u>

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

Governmental activities	
General government	\$ 65,978
Public safety	77,687
Public works	362,545
Parks and recreation	<u>7,208</u>
Total depreciation expense - governmental activities	<u>\$ 513,418</u>
Business-type activities	
Water	\$ 60,575
Sewer	<u>285,513</u>
Total depreciation expense - business-type activities	<u>\$ 346,088</u>

City of Rockville
Notes to Basic 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. Capital Improvement Plan Bonds, Series 2014A	05/01/14	2.00%-2.75%	\$ 1,925,000	02/01/27	\$ 680,000	\$ 165,000
G.O. Street Reconstruction Bonds, Series 2021A	12/22/21	2.00%	2,755,000	02/01/37	2,590,000	170,000
Total G.O. Bonds					<u>3,270,000</u>	<u>335,000</u>
Unamortized premiums					102,787	-
Compensated absences					43,459	27,981
Severance					21,008	-
Total governmental activities					<u>3,437,254</u>	<u>362,981</u>
Business-type activities						
G.O. Bonds						
G.O. Utility Revenue Refunding Bonds, Series 2020A	03/16/20	2.65%	365,000	02/01/28	230,000	48,000
G.O. Utility Revenue Bonds, Series 2023A	07/10/23	3.20-4.00%	885,000	02/01/43	885,000	15,000
Total G.O. Bonds					<u>1,115,000</u>	<u>63,000</u>
Note from direct borrowing						
G.O. PFA Sewer Revenue Notes of 2004	04/22/04	1.34%	9,235,403	08/20/24	487,000	487,000
Unamortized premiums					4,189	-
Total business activities					<u>1,606,189</u>	<u>550,000</u>
Total all long-term liabilities					<u>\$ 5,043,443</u>	<u>\$ 912,981</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.

B. Minimum Debt Payments

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

Year Ending December 31,	G.O. Bonds		Governmental Activities
	Principal	Interest	Total
2024	\$ 335,000	\$ 65,900	\$ 400,900
2025	345,000	58,262	403,262
2026	345,000	50,300	395,300
2027	350,000	42,056	392,056
2028	175,000	36,150	211,150
2029-2033	925,000	126,350	1,051,350
2034-2037	795,000	32,150	827,150
Total	<u>\$ 3,270,000</u>	<u>\$ 411,168</u>	<u>\$ 3,681,168</u>

City of Rockville
Notes to Basic Financial Statements

NOTE 5- LONG-TERM DEBT (CONTINUED)

B. Minimum Debt Payments (Continued)

Year Ending December 31,	G.O. Revenue Bond		G.O. Note from Direct Borrowing		Business-Type Activities
	Principal	Interest	Principal	Interest	Total
2024	\$ 63,000	\$ 40,520	\$ 487,000	\$ 6,526	\$ 597,046
2025	81,000	36,528	-	-	117,528
2026	86,000	34,123	-	-	120,123
2027	75,000	31,798	-	-	106,798
2028	80,000	29,534	-	-	109,534
2029-2033	205,000	124,640	-	-	329,640
2034-2038	235,000	82,100	-	-	317,100
2039-2043	290,000	29,600	-	-	319,600
Total	<u>\$ 1,115,000</u>	<u>\$ 408,843</u>	<u>\$ 487,000</u>	<u>\$ 6,526</u>	<u>\$ 2,017,369</u>

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2023, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental activities				
Bonds payable				
G.O. improvement bonds	\$ 3,595,000	\$ -	\$ 325,000	\$ 3,270,000
Unamortized premiums	112,933	-	10,146	102,787
Compensated absences	19,134	39,361	15,036	43,459
Severance payable	-	21,008	-	21,008
Total governmental activities	<u>\$ 3,727,067</u>	<u>\$ 60,369</u>	<u>\$ 350,182</u>	<u>\$ 3,437,254</u>
Business-type activities				
Bonds payable				
G. O. Improvement Bonds	\$ 361,000	\$ 885,000	\$ 131,000	\$ 1,115,000
Unamortized premiums	-	4,189	-	4,189
Notes from direct borrowing	967,000	-	480,000	487,000
Total business-type activities	<u>\$ 1,328,000</u>	<u>\$ 889,189</u>	<u>\$ 611,000</u>	<u>\$ 1,606,189</u>

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

City of Rockville
Notes to Basic Financial Statements

NOTE 6 - FUND BALANCE

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

	General	Road Maintenance	2021A G.O. Street Improvement Bond	Nonmajor Governmental Fund	Total
Nonspendable					
Prepaid items	\$ 28,537	\$ -	\$ -	\$ -	\$ 28,537
Restricted					
Public safety	104,937	-	-	-	104,937
Debt service	-	-	98,378	466,742	565,120
Committed					
Park dedication	-	-	-	4,780	4,780
Fire	130,990	-	-	-	130,990
Lake improvement district	-	-	-	20,759	20,759
Economic development	-	-	-	11,348	11,348
Assigned					
Road maintenance	-	1,402,194	-	-	1,402,194
General government	328,680	-	-	-	328,680
Fire	79,979	-	-	-	79,979
Civil	8,218	-	-	-	8,218
Streets	30,585	-	-	-	30,585
Park and recreation	66,447	-	-	-	66,447
Ball program	12,507	-	-	-	12,507
Eagle Park	8,384	-	-	-	8,384
Unassigned	1,324,304	-	-	-	1,324,304
Total	<u>\$ 2,123,568</u>	<u>\$ 1,402,194</u>	<u>\$ 98,378</u>	<u>\$ 503,629</u>	<u>\$ 4,127,769</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 2023 was estimated to be immaterial based on workers' compensation rates and salaries for the year.

City of Rockville
Notes to Basic Financial Statements

NOTE 7 - RISK MANAGEMENT (CONTINUED)

At December 31, 2023, 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, 2023, was \$262,580. 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 Basic 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. 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. 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. In 2023, legislation repealed the statute delaying increases for members retiring before full retirement age.

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 2023 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, 2023, were \$32,510. 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, 2023, the City reported a liability of \$268,411 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 \$7,351.

The net pension liability was measured as of June 30, 2023, 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, 2022, through June 30, 2023, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0048% at the end of the measurement period and 0.0047% for the beginning of the period.

City of Rockville
Notes to Basic Financial Statements

NOTE 8 - PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

General Employees Fund Pension Costs (Continued)

City's proportionate share of the net pension liability	\$ 268,411
State of Minnesota's proportionate share of the net pension liability associated with the City	<u>7,351</u>
Total	<u><u>\$ 275,762</u></u>

For the year ended December 31, 2023, the City recognized pension expense of \$51,816 for its proportionate share of General Employees Plan's pension expense. Included in the amount, the City recognized \$33 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, 2023, 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	\$ 8,771	\$ 1,733
Changes in actuarial assumptions	40,808	73,569
Net difference between projected and actual investment earnings	-	6,857
Changes in proportion	13,208	-
Contributions paid to PERA subsequent to the measurement date	<u>16,255</u>	<u>-</u>
Total	<u><u>\$ 79,042</u></u>	<u><u>\$ 82,159</u></u>

City of Rockville
Notes to Basic Financial Statements

NOTE 8 - PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

General Employees Fund Pension Costs (Continued)

The \$16,255 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, 2024. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Pension Expense Amount</u>
2024	\$ 12,763
2025	(33,843)
2026	7,531
2027	(5,823)
Total	<u>\$ (19,372)</u>

E. Long-Term Expected Return on Investment

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

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

City of Rockville
Notes to Basic Financial Statements

NOTE 8 - PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

F. Actuarial Methods and Assumptions

The total pension liability in the June 30, 2023, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 7.0%. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 7.0% was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25% for the General Employees Plan. Benefit increases after retirement are assumed to be 1.25% for the General Employees.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25% after one year of service to 3.0% after 27 years of service.

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

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2022. The assumption changes were adopted by the Board and became effective with the July 1, 2023, actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2023:

General Employees Fund

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

G. Discount Rate

The discount rate used for the General Employees Plan used to measure the total pension liability in 2023 was 7.0%. The projection of cash flows used to determine the discount rate assumed that contributions from Plan members and employers will be made at rates set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net position of the General Employees Plan was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Rockville
Notes to Basic Financial Statements

NOTE 8 - PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

H. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.0%)	Current Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's proportionate share of the General Employees Fund net pension liability	\$ 474,840	\$ 268,411	\$ 98,615

I. Pension Plan Fiduciary Net Position

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

Public Employees Defined Contribution Plan (Defined Contribution Plan)

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

The defined contribution plan consists of individual accounts paying a lump-sum benefit. Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses; therefore, there is no future liability to the City. *Minnesota Statutes* Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2% of employer contributions and twenty-five hundredths of 1% (.25%) of the assets in each member's account annually.

City of Rockville
Notes to Basic Financial Statements

NOTE 8 - PENSION PLANS (CONTINUED)

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

Pension expense for the year is equal to the contributions made. Total contributions made by the City during fiscal year 2023 were:

Contribution Amount		Percentage of Covered Payroll		Required Rate
Employee	Employer	Employee	Employer	
\$ 2,505	\$ 2,505	5%	5%	5%

Defined Benefit Pension Plan - Volunteer Firefighter's Relief Association

A. Plan Description

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

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

B. Benefits Provided

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

C. Employees Covered by Benefit Terms

At December 31, 2022, the following employees were covered by the benefit terms:

Inactive members or beneficiaries currently receiving benefits	-
Inactive members entitled to but not yet receiving benefits	-
Active members	22
Total	22

City of Rockville
Notes to Basic Financial Statements

NOTE 8 - PENSION PLANS (CONTINUED)

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

D. Contributions

Minnesota Statutes Chapter 424A.092 specifies minimum support rates required on an annual basis. The minimum support rates from the municipality and from State aids are determined as the amount required to meet the normal cost plus amortizing any existing prior service costs over a ten year period. The City's obligation is the financial requirement for the year less state aids. Any additional payments by the City shall be used to amortize the unfunded liability of the relief association. The Association is comprised of volunteers: therefore, there are no payroll expenditures (i.e., there are no covered payroll percentage calculations). During the year, the City recognized as revenue and as an expenditure on-behalf payment of \$22,606 made by the State of Minnesota for the Relief Association.

E. Net Pension Liability

The City's net pension liability was measured as of December 31, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2022.

Actuarial Assumptions

The total pension liability in the December 31, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 %
Investment rate of return	4.75 %, 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 RP-2010 tables, with mortality improvement scale MP-2021, with slight adjustments for male rates.

City of Rockville
Notes to Basic Financial Statements

NOTE 8 - PENSION PLANS (CONTINUED)

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

E. Net Pension Liability (Continued)

Actuarial Assumptions (Continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	44.00 %	4.10 %
International equity	14.00	4.64
Fixed income	40.00	1.05
Real estate and alternatives	-	3.54
Cash and equivalents	<u>2.00</u>	(0.45)
Total	<u><u>100.00 %</u></u>	

Discount Rate

The discount rate used to measure the total pension liability was 4.75%. Assets were projected using expected benefit payments and expected asset returns. Expected benefit payments by year were discounted using the expected asset return assumption for years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the municipal bond rate. The equivalent single rate is the discount rate.

City of Rockville
Notes to Basic Financial Statements

NOTE 8 - PENSION PLANS (CONTINUED)

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

F. Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at January 1, 2023	\$ 598,051	\$ 761,543	\$ (163,492)
Changes for the year			
Service cost	22,860	-	22,860
Interest	29,493	-	29,493
Differences between expected and actual experience	(30,558)	-	(30,558)
Changes in assumptions	(2,382)	-	(2,382)
Contributions	-	28,820	(28,820)
Changes of benefit terms	180,537	-	180,537
Net investment income	-	(152,020)	152,020
Net changes	199,950	(123,200)	323,150
Balances at December 31, 2023	\$ 798,001	\$ 638,343	\$ 159,658

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 4.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.75%) or 1-percentage-point higher (5.75%) than the current rate:

	1% Decrease in Discount Rate (3.75%)	Current Discount Rate (4.75%)	1% Increase in Discount Rate (5.75%)
Relief's net pension liability	\$ 176,569	\$ 159,658	\$ 143,313

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 Basic Financial Statements

NOTE 8 - PENSION PLANS (CONTINUED)

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

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

For the year ended December 31, 2023, the City recognized pension expense of \$208,259. At December 31, 2023, 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 liability	\$ 30,515	\$ 102,775
Changes of assumptions	10,475	3,322
Net difference between projected and actual earnings on pension plan investments	93,241	-
Contributions paid to Volunteer Firefighter's Relief Association subsequent to the measurement date	22,606	-
	<u>\$ 156,837</u>	<u>\$ 106,097</u>
Total		

The \$22,606 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, 2024. 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
2024	\$ (1,116)
2025	11,103
2026	22,575
2027	30,051
2028	(14,542)
Thereafter	<u>(19,937)</u>
Total	<u>\$ 28,134</u>

City of Rockville
Notes to Basic Financial Statements

NOTE 9 - TAX ABATEMENT AGREEMENT

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

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

NOTE 10 - CONSTRUCTION COMMITMENTS

<u>Project</u>	<u>Contract Amount</u>	<u>Expended through 12/31/23</u>	<u>Future Commitment</u>
Prairie Industrial Park Liftstation	<u>\$ 663,033</u>	<u>\$ 648,183</u>	<u>\$ 14,850</u>



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 Employee Payroll	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Employee 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%
2021	0.0045%	192,170	5,821	197,991	321,427	59.8%	87.00%
2022	0.0047%	372,242	11,053	383,295	354,973	104.9%	76.67%
2023	0.0048%	268,411	7,351	275,762	380,027	70.6%	83.10%

* 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*

<u>Fiscal Year Ending December 31,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>City's Covered Employee Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
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%
2021	25,553	25,553	-	340,707	7.50%
2022	29,644	29,644	-	395,253	7.50%
2023	32,510	32,510	-	433,467	7.50%

* 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	2016	2017
Total Pension Liability (TPL)				
Service cost	\$ 18,132	\$ 18,631	\$ 18,326	\$ 18,412
Interest	25,660	25,479	26,822	31,810
Differenced between expected and actual experience	-	-	82,875	-
Changes of assumptions	-	(5,265)	-	-
Changes of benefit terms	-	-	-	-
Benefit payments, including refunds or member contributions	(15,040)	(80,760)	(82,539)	(176)
Net change in total pension liability	28,752	(41,915)	45,484	50,046
Beginning of year	502,578	531,330	489,415	534,899
End of year	\$ 531,330	\$ 489,415	\$ 534,899	\$ 584,945
Plan Fiduciary Net Pension (FNP)				
Contributions	\$ 29,544	\$ 24,554	\$ 62,710	\$ 37,294
Net investment income	13,120	(14,099)	25,578	56,236
Benefit payments, including refunds of member contributions	(15,040)	(80,760)	(82,539)	(176)
Net change in plan fiduciary net position	27,624	(70,305)	5,749	93,354
Beginning of year	433,726	461,350	391,045	396,794
End of year	\$ 461,350	\$ 391,045	\$ 396,794	\$ 490,148
Net Pension Liability (NPL)	\$ 69,980	\$ 98,370	\$ 138,105	\$ 94,797
Plan fiduciary net position as a percentage of the total pension liability	86.8%	79.9%	74.2%	83.8%
Covered employee payroll	n/a	n/a	n/a	n/a
Net pension liability as a percentage of covered payroll	n/a	n/a	n/a	n/a

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				
2018	2019	2020	2021	2022
\$ 18,918	\$ 20,417	\$ 20,287	\$ 22,357	\$ 22,860
34,722	27,390	29,445	27,119	29,493
(116,080)	-	(21,531)	-	(30,558)
8,862	(2,045)	8,388	-	(2,382)
-	-	-	-	180,537
-	(7,963)	(57,180)	-	-
(53,578)	37,799	(20,591)	49,476	199,950
584,945	531,367	569,166	548,575	598,051
<u>\$ 531,367</u>	<u>\$ 569,166</u>	<u>\$ 548,575</u>	<u>\$ 598,051</u>	<u>\$ 798,001</u>
\$ 36,889	\$ 38,295	\$ 38,295	\$ 19,662	\$ 28,820
(39,438)	85,774	87,675	69,387	(152,020)
-	(7,963)	(57,180)	-	-
(2,550)	116,106	68,790	89,049	(123,200)
490,148	487,598	603,704	672,494	761,543
<u>\$ 487,598</u>	<u>\$ 603,704</u>	<u>\$ 672,494</u>	<u>\$ 761,543</u>	<u>\$ 638,343</u>
<u>\$ 43,769</u>	<u>\$ (34,538)</u>	<u>\$ (123,919)</u>	<u>\$ (163,492)</u>	<u>\$ 159,658</u>
91.8%	106.1%	122.6%	127.3%	80.0%
n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a

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

	Measurement Date			
	2014	2015	2016	2017
Employer				
Statutorily determined contribution (SDC)	\$ 15,767	\$ 5,048	\$ 41,398	\$ 20,664
Contribution in relation to the SDC	15,767	5,048	41,398	20,664
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Non-employer				
2% aid	<u>\$ 15,825</u>	<u>\$ 16,506</u>	<u>\$ 16,645</u>	<u>\$ 16,630</u>
Covered employee payroll	n/a	n/a	n/a	n/a
Contributions as a percentage of covered employee payroll	n/a	n/a	n/a	n/a

Measurement Date					
2018	2019	2020	2021	2022	2023
\$ - 19,960	\$ - 19,960	\$ - 19,600	\$ - -	\$ - -	\$ 25,460 25,460
<u>\$ (19,960)</u>	<u>\$ (19,960)</u>	<u>\$ (19,600)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>\$ 16,929</u>	<u>\$ 17,451</u>	<u>\$ 18,695</u>	<u>\$ 19,662</u>	<u>\$ 20,236</u>	<u>\$ 23,606</u>
n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a

City of Rockville
Notes to Required Supplementary Information

General Employees Fund

2023 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2022 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- ◆ There have been no changes since the prior valuation.

2021 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- ◆ There have been no changes since the prior valuation.

2020 Changes

Changes in Actuarial Assumptions

- ◆ The price inflation assumption was decreased from 2.5% to 2.25%.
- ◆ The payroll growth assumption was decreased from 3.25% to 3.0%.
- ◆ Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- ◆ Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- ◆ Assumed rates of termination were 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.

City of Rockville
Notes to Required Supplementary Information

General Employees Fund (Continued)

2020 Changes (Continued)

Changes in Actuarial Assumptions (Continued)

- ◆ 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.

Changes in Plan Provisions

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

City of Rockville
Notes to Required Supplementary Information

General Employees Fund (Continued)

2017 Changes

Changes in Actuarial Assumptions

- ◆ The assumed annual increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

Changes in Plan Provisions

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

2016 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- ◆ There have been no changes since the prior valuation.

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.

City of Rockville
Notes to Required Supplementary Information

Rockville Fire Relief Association

2023 Changes

Changes in Actuarial Assumptions

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

2022 Changes

Changes in Actuarial Assumptions

- ◆ None

2021 Changes

Changes in Actuarial Assumptions

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

2020 Changes

Changes in Actuarial Assumptions

- ◆ None

2019 Changes

Changes in Actuarial Assumptions

- ◆ The expected investment return and discount rate increased from 5.00% to 5.25% to reflect updated capital market.



SUPPLEMENTARY INFORMATION

City of Rockville
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended December 31, 2023

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Property taxes	\$ 1,007,567	\$ 1,007,567	\$ 992,162	\$ (15,405)
Miscellaneous taxes	-	-	18	18
Special assessments	500	500	-	(500)
Licenses and permits	63,450	63,450	86,664	23,214
Intergovernmental revenue				
Local government aid	234,631	234,631	234,631	-
Market value credit	7,500	7,500	7,045	(455)
Fire aid	19,000	19,000	23,606	4,606
Federal grants	-	-	150,371	150,371
Other grants and aids	-	104,937	113,909	8,972
Total intergovernmental revenue	<u>261,131</u>	<u>366,068</u>	<u>529,562</u>	<u>163,494</u>
Charges for services				
General government	3,200	3,200	4,100	900
Public safety	<u>29,952</u>	<u>29,952</u>	<u>33,217</u>	<u>3,265</u>
Total charges for services	<u>33,152</u>	<u>33,152</u>	<u>37,317</u>	<u>4,165</u>
Fines and forfeitures	9,000	9,000	12,492	3,492
Miscellaneous revenues				
Investment income	19,200	19,200	20,322	1,122
Other	<u>7,700</u>	<u>7,700</u>	<u>27,406</u>	<u>19,706</u>
Total miscellaneous revenues	<u>26,900</u>	<u>26,900</u>	<u>47,728</u>	<u>20,828</u>
Total revenues	<u>1,401,700</u>	<u>1,506,637</u>	<u>1,705,943</u>	<u>199,306</u>
Expenditures				
General government				
Mayor and council	68,738	68,738	70,079	1,341
Administrative and finance	51,877	51,877	51,426	(451)
Other general government	272,158	272,158	271,163	(995)
Capital outlay	<u>20,500</u>	<u>20,500</u>	<u>-</u>	<u>(20,500)</u>
Total general government	<u>413,273</u>	<u>413,273</u>	<u>392,668</u>	<u>(20,605)</u>
Public safety				
Police				
Current	41,334	41,334	43,347	2,013
Fire				
Current	243,073	243,073	264,979	21,906
Capital outlay	<u>99,000</u>	<u>99,000</u>	<u>25,451</u>	<u>(73,549)</u>
Total fire	<u>342,073</u>	<u>342,073</u>	<u>290,430</u>	<u>(51,643)</u>

City of Rockville
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended December 31, 2023

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Expenditures (Continued)				
Public safety (continued)				
Other				
Current	\$ 20,789	\$ 20,789	\$ 10,908	\$ (9,881)
Total public safety	404,196	404,196	344,685	(59,511)
Public works				
Streets and highways				
Storm sewers	332,608	332,608	316,648	(15,960)
Street engineering	13,000	13,000	1,090	(11,910)
Street lighting	16,000	16,000	16,770	770
Street - other capital outlay	40,000	117,987	100,417	(17,570)
Total streets and highways	401,608	479,595	434,925	(44,670)
Culture and recreation				
Current	94,544	94,544	98,109	3,565
Capital outlay	4,000	52,355	54,562	2,207
Total culture and recreation	98,544	146,899	152,671	5,772
Total expenditures	1,317,621	1,443,963	1,324,949	(119,014)
Excess of revenues over expenditures	84,079	62,674	380,994	318,320
Other Financing Sources				
Transfers out	(84,079)	(84,079)	-	84,079
Net change in fund balances	\$ -	\$ (21,405)	380,994	\$ 402,399
Fund Balances				
Beginning of year			1,742,574	
End of year			\$ 2,123,568	

City of Rockville
Combining Balance Sheet -
Nonmajor Governmental Funds
December 31, 2023

	Special Revenue		
	Public Land Dedication (202) and Rocori Trail (205)	Economic Development Authority (209)	Lake Improvement District (221)
Assets			
Cash and investments	\$ 4,780	\$ 11,330	\$ 20,662
Taxes receivable - delinquent	-	17	89
Due from other governments	-	18	103
Total assets	<u>\$ 4,780</u>	<u>\$ 11,365</u>	<u>\$ 20,854</u>
Liabilities			
Salaries and benefits payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6</u>
Deferred Inflows of Resources			
Unavailable revenue - property taxes	<u>-</u>	<u>17</u>	<u>89</u>
Fund Balances			
Restricted	-	-	-
Committed	4,780	11,348	20,759
Total fund balances	<u>4,780</u>	<u>11,348</u>	<u>20,759</u>
Total deferred inflows of resources and fund balances	<u>\$ 4,780</u>	<u>\$ 11,365</u>	<u>\$ 20,854</u>

Debt Service

City Facilities (304)	Total Governmental Funds
\$ 465,178	\$ 501,950
1,454	1,560
1,564	1,685
<u>\$ 468,196</u>	<u>\$ 505,195</u>
<u>\$ -</u>	<u>\$ 6</u>
<u>1,454</u>	<u>1,560</u>
466,742	466,742
-	36,887
<u>466,742</u>	<u>503,629</u>
<u>\$ 468,196</u>	<u>\$ 505,195</u>

City of Rockville
Combining Statement of Revenues, Expenditures, and Changes in
Fund Balances - Nonmajor Governmental Funds
Year Ended December 31, 2023

	Special Revenue		
	Public Land Dedication (202) and Rocori Trail (205)	Economic Development Authority (209)	Lake Improvement District (221)
Revenues			
Property taxes	\$ -	\$ 1,964	\$ 19,389
Intergovernmental	-	14	10,886
Miscellaneous			
Investment income	164	123	269
Total revenues	<u>164</u>	<u>2,101</u>	<u>30,544</u>
Expenditures			
Current			
General government	-	-	31,872
Debt service			
Principal	-	-	-
Interest and other charges	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>31,872</u>
Excess of revenues over (under) expenditures	164	2,101	(1,328)
Fund Balances			
Beginning of year	<u>4,616</u>	<u>9,247</u>	<u>22,087</u>
End of year	<u>\$ 4,780</u>	<u>\$ 11,348</u>	<u>\$ 20,759</u>

Debt Service

City Facilities (304)	Total Other Governmental Funds
\$ 177,483	\$ 198,836
1,262	12,162
10,066	10,622
<u>188,811</u>	<u>221,620</u>
-	31,872
160,000	160,000
20,507	20,507
<u>180,507</u>	<u>212,379</u>
8,304	9,241
458,438	494,388
<u>\$ 466,742</u>	<u>\$ 503,629</u>





**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, 2023, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 29, 2024.

Report on Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Finding and Response on Internal Control that we consider to be a material weakness, listed as Audit Finding 2023-001.

Report on Compliance and Other Matters

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

City's Response to the Finding

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the finding identified in our audit is described in the accompanying Schedule of Finding and Response on Internal Control. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

Bergan KDV Ltd.

St. Cloud, Minnesota
April 29, 2024



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, 2023, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 29, 2024.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the contracting - bid laws, depositories of public funds and public 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 insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions, insofar 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.

Bergan KDV Ltd.

St. Cloud, Minnesota
April 29, 2024

**City of Rockville
Schedule of Finding and Response
on Internal Control**

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDING:

Material Weakness:

Audit Finding 2023-001 - Lack of Segregation of Accounting Duties

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

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

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

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

City's Response:

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