

**CITY OF HERMANTOWN  
HERMANTOWN, MINNESOTA**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2021**



**WEALTH ADVISORY | OUTSOURCING  
AUDIT, TAX, AND CONSULTING**

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## INTRODUCTORY SECTION

**CITY OF HERMANTOWN  
ELECTED AND APPOINTED OFFICIALS  
DECEMBER 31, 2021**

**ELECTED**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Wayne Boucher	Mayor	December 31, 2024
John Geissler	Councilor	December 31, 2024
Grant Hauschild	Councilor	December 31, 2024
Gloria Nelson	Councilor	December 31, 2022
Natalie Peterson	Councilor	December 31, 2022

**APPOINTED**

John Mulder	City Administrator	Appointed
Kevin Orme	Director of Finance & Administration	Appointed
James M. Crace	Police Chief	Appointed
Jackie Dolentz	City Clerk	Appointed
Paul Senst	Public Works Director	Appointed



## INDEPENDENT AUDITORS' REPORT

Honorable City Council  
City of Hermantown  
Hermantown, Minnesota

### Report on the Financial Statements

#### ***Opinions***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hermantown, Minnesota (the City) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above 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 Hermantown, as of December 31, 2021, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund, City Sales Tax Fund, and the Essentia Wellness Center Special Revenue Fund for the year then ended, in accordance with accounting principles generally accepted in the United States.

#### ***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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Hermantown 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.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of American, 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 Hermantown's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

***Auditors' 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 auditors' 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 Hermantown'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 Hermantown'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 require that the management's discussion and analysis on pages 6 through 11, information about the City's other postemployment benefits plan, pages 60 through 61, and information about the City's net pension liability, pages 67 through 67, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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, 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's financial statements as a whole. The combining nonmajor governmental fund financial statements, pages 68 through 75, and combining nonmajor enterprise fund financial statements, pages 76 through 79, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor governmental fund financial statements and combining nonmajor enterprise fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

### ***Other Information***

Management is responsible for the other information included in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

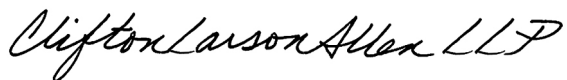
In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.



Honorable City Council  
City of Hermantown

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2022 on our consideration of the City'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 the City's 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's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
May 16, 2022

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF HERMANTOWN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2021**

Our discussion and analysis of the City of Hermantown's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2021. Please read it in conjunction with the City's financial statements, which begin on page 12.

**FINANCIAL HIGHLIGHTS**

- The City's net position increased \$4,154,152 or 5.14% as a result of this year's operations. The net position of the governmental activities increased \$2,978,372, or 9.45%. The net position of the business-type activities increased \$1,175,780, or 2.38%.
- The General Fund unassigned fund balance was \$4,658,981 or 73.9% of the total General Fund expenditures and other financing uses for 2021.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis serves as an introduction to the City of Hermantown's basic financial statements, which consists of three components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements.

- The first two statements are government-wide financial statements that provide information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City, reporting the City's operations in more detail than the government-wide statements. The governmental funds statements explain how general government services were financed, as well as, how grant proceeds were utilized for the short-term and what remains for future spending.
- 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 required and other supplementary information that further explains and supports the information in the financial statements.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide financial statements are designed to give users a broad overview of the City's finances, in a manner similar to that of a private-sector business. The statement of 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 the two reported as net position. Increases and decreases in net position over time may serve as a useful indicator of whether the City's financial position is improving or deteriorating. The statement of activities shows how the City's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event that caused the change occurs, regardless of the timing of the related cash flows. There are revenues and expenses reported in this statement for some items that will only result in cash flows in future fiscal years; examples include uncollected grants and vacation days that are earned, but not used.

**CITY OF HERMANTOWN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2021**

Both government-wide financial statements distinguish between functions that are governmental and business-type activities. The City's governmental activities include public safety, streets and highways, community and economic development, culture and recreation, and general administration. Property taxes and state grants and aids finance most of these activities.

The City charges fees to customers to help cover all or most of the cost of certain services it provides. The City's business-type activities include the Water Utility, Sewage Disposal, Storm Water Utility and Street Lighting funds.

The two government-wide financial statements are presented immediately after this discussion and analysis.

### **FUND FINANCIAL STATEMENTS**

A fund is a set of related accounts that is used to control resources that have been segregated to carry on specific activities or to attain certain objectives in accordance with special regulations, restrictions, or limitations. The City of Hermantown, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All City funds are either governmental funds or proprietary funds.

- Governmental funds – Because the focus of governmental fund financial statements is narrower than government-wide financial statements, it is useful to compare information presented for governmental funds with similar information presented for governmental activities in order to gain a better understanding of the long-term impact of the City's near-term financing decisions. The Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits) provide a reconciliation to aid in the comparison of governmental funds with governmental activities.

The City maintains a number of individual governmental funds. Information is presented separately in the governmental fund financial statements for the General, City Sales Tax, G.O. Improvement Bonds Series 2014A Fund, G.O. Improvement Bonds Series 2020A Fund, G.O. Improvement Series 2021A Fund, Special Assessment/Road Improvement Fund and Essential Wellness Center Special Revenue Funds which are considered to be major funds. Data from the remaining governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is included in the combining fund statements in the supplementary information section of this report.

- Proprietary funds – The City maintains four enterprise funds which are included in these financial statements. 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 operation of the Water Utility and Sewage Disposal funds, which are considered to be major funds. Data from the remaining enterprise funds is combined into a single, aggregated presentation.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

**CITY OF HERMANTOWN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2021**

**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**

In addition to the basic financial statements and accompanying notes, this report also contains required supplementary information and the combining statements referred to earlier in connection with nonmajor governmental funds. The required supplementary information and combining statements follow the notes to the financial statements.

**Government-Wide Financial Analysis**

As noted earlier, over time net position may serve as a useful indicator of the City's financial position. A portion of the City's net position is invested in capital assets. The City uses these assets to provide services to its constituents; therefore, these assets are not available for future spending. The following table presents a summary of the City's net position at December 31:

	2021			2020		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
<b>Assets:</b>						
Current and Other Assets	\$ 28,092,677	\$ 12,882,607	\$ 40,975,284	\$ 26,500,122	\$ 11,969,454	\$ 38,469,576
Capital Assets	51,145,315	38,593,925	89,739,240	50,036,533	38,100,534	88,137,067
Total Assets	<u>79,237,992</u>	<u>51,476,532</u>	<u>130,714,524</u>	<u>76,536,655</u>	<u>50,069,988</u>	<u>126,606,643</u>
Deferred Outflows of Resources	2,223,557	222,041	2,445,598	991,208	28,287	1,019,495
<b>Liabilities:</b>						
Long-Term Liabilities	39,711,501	734,971	40,446,472	41,552,251	569,362	42,121,613
Other Liabilities	4,379,014	217,328	4,596,342	3,287,519	211,801	3,499,320
Total Liabilities	<u>44,090,515</u>	<u>952,299</u>	<u>45,042,814</u>	<u>44,839,770</u>	<u>781,163</u>	<u>45,620,933</u>
Deferred Inflows of Resources	2,891,100	260,156	3,151,256	1,186,531	6,774	1,193,305
<b>Net Position:</b>						
Net Investment in Capital Assets	14,796,569	38,593,925	53,390,494	12,737,938	38,100,534	50,838,472
Restricted	16,611,859	-	16,611,859	16,958,145	2,849,354	19,807,499
Unrestricted	<u>3,071,506</u>	<u>11,892,193</u>	<u>14,963,699</u>	<u>1,805,479</u>	<u>8,360,450</u>	<u>10,165,929</u>
Total Net Position	<u>\$ 34,479,934</u>	<u>\$ 50,486,118</u>	<u>\$ 84,966,052</u>	<u>\$ 31,501,562</u>	<u>\$ 49,310,338</u>	<u>\$ 80,811,900</u>

**CITY OF HERMANTOWN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2021**

To give users a better understanding of the sources and uses of the City's net position, the table that follows presents a summary of revenues, expenses, and changes in net position for the years ended December 31:

	2021			2020		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
<b>REVENUES</b>						
Program Revenues:						
Charges for Service	\$ 957,515	\$ 4,225,123	\$ 5,182,638	\$ 681,337	\$ 3,755,693	\$ 4,437,030
Operating Grants and Contributions	727,586	-	727,586	9,268,834	-	9,268,834
Capital Grants and Contributions	215,644	-	215,644	2,084,906	-	2,084,906
General Revenues:						
Property Taxes	6,653,682	-	6,653,682	6,427,203	-	6,427,203
Sales Tax	3,882,209	-	3,882,209	3,573,577	-	3,573,577
Interest	(29,109)	(16,261)	(45,370)	137,371	135,440	272,811
Other	189,873	177,742	367,615	114,961	241,320	356,281
Gain on Sale of Capital Assets	374,425	-	374,425	-	-	-
Transfers	(800,014)	800,014	-	(3,691,235)	3,691,235	-
Total Revenues	12,176,096	5,186,618	17,362,714	18,596,954	7,823,688	26,420,642
<b>EXPENSES</b>						
General Government	999,823	-	999,823	1,216,723	-	1,216,723
Public Safety	3,445,590	-	3,445,590	3,728,153	-	3,728,153
Streets and Highways	2,088,937	-	2,088,937	1,998,839	-	1,998,839
Community and Economic Development	423,637	-	423,637	381,012	-	381,012
Culture and Recreation	1,346,246	-	1,346,246	943,541	-	943,541
Interest and Fiscal Charges	893,491	-	893,491	1,144,086	-	1,144,086
Water Utility	-	2,038,401	2,038,401	-	1,325,920	1,325,920
Sewage Disposal	-	1,685,061	1,685,061	-	1,427,914	1,427,914
Street Lighting	-	35,245	35,245	-	74,462	74,462
Storm Water Utility	-	252,131	252,131	-	218,507	218,507
Total Expenses	9,197,724	4,010,838	13,208,562	9,412,354	3,046,803	12,459,157
Change in Net Position	2,978,372	1,175,780	4,154,152	9,184,600	4,776,885	13,961,485
Net Position - Beginning of Year	31,501,562	49,310,338	80,811,900	22,316,962	44,533,453	66,850,415
Net Position - End of Year	\$ 34,479,934	\$ 50,486,118	\$ 84,966,052	\$ 31,501,562	\$ 49,310,338	\$ 80,811,900

**CITY OF HERMANTOWN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2021**

**Governmental Funds**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. This information is helpful in assessing the City's financing requirements; unassigned fund balance may be an especially useful measure of the net resources available for spending at the end of the fiscal year. As of December 31, 2021, the City's governmental funds reported a combined fund balance of \$19,865,388, an increase of \$1,500,098 from the 2020 balance of \$18,365,290.

The General Fund is the main operating fund of the City of Hermantown. At December 31, 2021, fund balance of the General Fund was \$4,748,462 with 98.12% reported as unassigned. As a measure of the General Fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Unassigned fund balance represents 80.1% of total General Fund expenditures. During 2021, the fund balance of the General Fund increased by \$652,837.

**Proprietary Funds**

The City's proprietary fund financial statements provide the same type of information found in the government-wide financial statements, only in more detail. The proprietary funds net position increased \$1,231,022 in 2021. Net operating income for 2021 was \$269,527.

**General Fund Budgetary Highlights**

The City adopted an original General Fund revenue and other financing sources budget of \$6,288,201 which was not revised during the year. The City adopted an original General Fund expenditure and other financing uses budget of \$6,288,201 which was not revised during the year.

The City's final budget for the General Fund anticipated that expenditures and other financing uses would match revenues and other financing sources. The actual results for the year showed revenues and other financing sources exceeding expenditures and other financing uses by \$652,837. Actual revenues and other financing sources were \$666,359 more than anticipated.

Actual expenditures and other financing uses were \$13,522 more than anticipated.

**Capital Assets**

The City of Hermantown's investment in capital assets as of December 31, 2021 was \$89,739,240, net of accumulated depreciation. This investment includes land, permanent easements, buildings, infrastructure, equipment, and construction in progress. Additional information related to the City's capital assets can be found in Note 4 of the notes to the financial statements.

**CITY OF HERMANTOWN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2021**

**Debt**

The City had \$35,015,000 in general obligation bonds outstanding at the end of 2021.

The City continues to stay below the debt limits established by the State.

Other liabilities for obligations such as vacation, sick leave, net pension liability, and severance are discussed further in the Note 5 to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The following key indicators provide highlights on the City's economic outlook and future budget impact:

- A comprehensive Finance Management Plan study was conducted by Ehlers Inc. and the City. Based on that study, that plan was implemented in 2019 and is continuing in 2022 and addresses future staffing increases, additional funding for parks, additional funding for municipal buildings, additional funding for HEDA, additional funding for capital improvements, and a long-term Road Improvement Plan. In 2022 the City will engage Ehlers Inc. to refresh the Financial Management Plan as it has been several years and the economic environment has changed greatly since 2019.
- The City continues to monitor the financial and other issues surrounding the COVID-19 Pandemic and has and will continue to pivot depending on economic changes.
- 2022 General Fund budgeted expenditures increased 7% or \$444,785. Some of the increase was due to normal personnel increases, a substantial insurance increase, election expenditures, funding for capital improvements back to pre-pandemic levels, and anticipated retirements.
- The City increased the total tax levy by 9.4% while net tax capacity increased 2%. At the December 2021 Truth and Taxation meeting, the City Council approved a local tax rate increase from 43.54% in 2021 to 46.65% in 2022.

**REQUESTS FOR INFORMATION**

This financial report is meant to provide a general overview of the City of Hermantown's finances for all those with an interest in the City's finances. Questions concerning information provided in the report, or requests for additional financial information, should be addressed to the City of Hermantown, 5105 Maple Grove Road, Hermantown, Minnesota 55811, or visit the City's website at [www.hermantownmn.com](http://www.hermantownmn.com).



## **BASIC FINANCIAL STATEMENTS**

**CITY OF HERMANTOWN  
STATEMENT OF NET POSITION  
DECEMBER 31, 2021**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and Investments	\$ 22,438,076	\$ 11,376,057	\$ 33,814,133
Accounts Receivable	849,956	533,212	1,383,168
Interest Receivable	12,495	9,919	22,414
Delinquent Taxes Receivable	69,641	9,747	79,388
Special Assessments Receivable	5,171,634	186,573	5,358,207
Contracts Receivable	-	113,817	113,817
Internal Balances	(550,000)	550,000	-
Inventories	-	82,496	82,496
Prepaid Items	100,875	20,786	121,661
Capital Assets, Net of Depreciation:			
Assets Not Being Depreciated	5,315,975	607,514	5,923,489
Assets Being Depreciated, Net	45,829,340	37,986,411	83,815,751
Total Assets	<u>79,237,992</u>	<u>51,476,532</u>	<u>130,714,524</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Other Postemployment Benefits Related	45,478	10,980	56,458
Pension Related	2,178,079	211,061	2,389,140
Total Deferred Outflows of Resources	<u>2,223,557</u>	<u>222,041</u>	<u>2,445,598</u>
 Total Assets and Deferred Outflows of Resources	 <u><u>\$ 81,461,549</u></u>	 <u><u>\$ 51,698,573</u></u>	 <u><u>\$ 133,160,122</u></u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 208,234	\$ 191,691	\$ 399,925
Accrued Wages and Related Liabilities	69,227	15,416	84,643
Accrued Interest	448,642	-	448,642
Customer Deposits	148,433	10,221	158,654
Unearned Revenue	3,504,478	-	3,504,478
Long-Term Liabilities:			
Total Other Postemployment Benefits Liability	1,355,975	327,452	1,683,427
Net Pension Liability	1,535,737	283,158	1,818,895
Amount Due within One Year	2,919,781	-	2,919,781
Amounts Due in More than One Year	33,900,008	124,361	34,024,369
Total Liabilities	<u>44,090,515</u>	<u>952,299</u>	<u>45,042,814</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension Related	<u>2,891,100</u>	<u>260,156</u>	<u>3,151,256</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	14,796,569	38,593,925	53,390,494
Restricted	16,611,859	-	16,611,859
Unrestricted	3,071,506	11,892,193	14,963,699
Total Net Position	<u>34,479,934</u>	<u>50,486,118</u>	<u>84,966,052</u>
 Total Liabilities, Deferred Inflows of Resources and Net Position	 <u><u>\$ 81,461,549</u></u>	 <u><u>\$ 51,698,573</u></u>	 <u><u>\$ 133,160,122</u></u>

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2021**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
<b>GOVERNMENTAL ACTIVITIES</b>							
General Government	\$ 999,823	\$ 106,133	\$ -	\$ -	\$ (893,690)	\$ -	\$ (893,690)
Public Safety	3,445,590	371,828	224,078	-	(2,849,684)	-	(2,849,684)
Streets and Highways	2,088,937	-	-	215,644	(1,873,293)	-	(1,873,293)
Community and Economic Development	423,637	238,652	-	-	(184,985)	-	(184,985)
Culture and Recreation	1,346,246	240,902	503,508	-	(601,836)	-	(601,836)
Interest and Fiscal Charges	893,491	-	-	-	(893,491)	-	(893,491)
Total Governmental Activities	<u>\$ 9,197,724</u>	<u>\$ 957,515</u>	<u>\$ 727,586</u>	<u>\$ 215,644</u>	(7,296,979)	-	(7,296,979)
<b>BUSINESS-TYPE ACTIVITIES</b>							
Water Utility	\$ 2,038,401	\$ 1,973,148	\$ -	\$ -	-	(65,253)	(65,253)
Sewage Disposal	1,685,061	1,695,395	-	-	-	10,334	10,334
Street Lighting	35,245	139,542	-	-	-	104,297	104,297
Storm Water Utility	252,131	417,038	-	-	-	164,907	164,907
Total Business-Type Activities	<u>\$ 4,010,838</u>	<u>\$ 4,225,123</u>	<u>\$ -</u>	<u>\$ -</u>	-	214,285	214,285
<b>GENERAL REVENUES</b>							
Property Taxes					6,653,682	-	6,653,682
Sales Tax					3,882,209	-	3,882,209
Unrestricted Federal Aid					4,285	-	4,285
Investment Income					(29,109)	(16,261)	(45,370)
Other					189,873	177,742	367,615
Gain on Sale of Capital Assets					374,425	-	374,425
<b>TRANSFERS</b>					(800,014)	800,014	-
Total General Revenues and Transfers					<u>10,275,351</u>	<u>961,495</u>	<u>11,236,846</u>
<b>CHANGE IN NET POSITION</b>					2,978,372	1,175,780	4,154,152
Net Position - Beginning of Year					<u>31,501,562</u>	<u>49,310,338</u>	<u>80,811,900</u>
<b>NET POSITION - END OF YEAR</b>					<u>\$ 34,479,934</u>	<u>\$ 50,486,118</u>	<u>\$ 84,966,052</u>

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2021**

	General	City Sales Tax Fund	G.O. Improvement Bonds Series 2014A Fund	G.O. Improvement Bonds Series 2020A Fund	G.O. Improvement Bonds Series 2021A Fund	Special Assessment/ Road Improvement Fund	Essentia Wellness Center Special Revenue Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>									
Cash and Investments	\$ 4,921,846	\$ 7,566,364	\$ 223,745	\$ 684,479	\$ 1,887,582	\$ 3,825	\$ 2,000,000	\$ 5,150,235	\$ 22,438,076
Accounts Receivable	25,797	310,342	-	-	-	-	151,795	362,022	849,956
Interest Receivable	4,187	7,173	-	-	-	-	-	1,135	12,495
Delinquent Taxes Receivable	60,707	-	-	344	-	-	-	8,590	69,641
Special Assessments Receivable	-	52,952	1,063,997	1,062,266	1,509,897	199,363	-	1,283,159	5,171,634
Prepaid Items	89,481	-	-	-	-	-	11,349	45	100,875
Due from Other Funds	-	725,570	-	-	-	-	-	-	725,570
Advance to Other Funds	-	-	-	-	-	-	-	150,000	150,000
<b>Total Assets</b>	<b>\$ 5,102,018</b>	<b>\$ 8,662,401</b>	<b>\$ 1,287,742</b>	<b>\$ 1,747,089</b>	<b>\$ 3,397,479</b>	<b>\$ 203,188</b>	<b>\$ 2,163,144</b>	<b>\$ 6,955,186</b>	<b>\$ 29,518,247</b>
<b>LIABILITIES</b>									
Accounts Payable	\$ 92,789	\$ 30,372	\$ -	\$ -	\$ -	\$ 26,133	\$ 17,866	\$ 41,074	\$ 208,234
Accrued Wages Payable	68,501	-	-	-	-	-	-	726	69,227
Due to Other Funds	-	-	-	-	-	-	123,078	602,492	725,570
Deposits Payable	142,830	-	-	-	-	-	-	5,603	148,433
Advance from Other Funds	-	-	-	-	-	-	-	700,000	700,000
Unearned Revenue	-	52,952	-	-	1,202,892	-	1,726,342	522,292	3,504,478
<b>Total Liabilities</b>	<b>304,120</b>	<b>83,324</b>	<b>-</b>	<b>-</b>	<b>1,202,892</b>	<b>26,133</b>	<b>1,867,286</b>	<b>1,872,187</b>	<b>5,355,942</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>									
Delinquent Property Taxes	49,436	-	-	-	-	-	-	6,439	55,875
Deferred Special Assessments	-	-	1,062,599	1,061,637	300,753	198,907	-	1,460,910	4,084,806
Deferred Inflows - Other	-	-	-	-	-	-	-	156,236	156,236
<b>Total Deferred Inflows of Resources</b>	<b>49,436</b>	<b>-</b>	<b>1,062,599</b>	<b>1,061,637</b>	<b>300,753</b>	<b>198,907</b>	<b>-</b>	<b>1,623,585</b>	<b>4,296,917</b>
<b>FUND BALANCES</b>									
Nonspendable	89,481	-	-	-	-	-	11,349	150,045	250,875
Restricted	-	8,579,077	225,143	685,452	1,893,834	-	284,509	1,951,568	13,619,583
Committed	-	-	-	-	-	-	-	1,379,664	1,379,664
Assigned	-	-	-	-	-	-	-	1,250,263	1,250,263
Unassigned	4,658,981	-	-	-	-	(21,852)	-	(1,272,126)	3,365,003
<b>Total Fund Balances</b>	<b>4,748,462</b>	<b>8,579,077</b>	<b>225,143</b>	<b>685,452</b>	<b>1,893,834</b>	<b>(21,852)</b>	<b>295,858</b>	<b>3,459,414</b>	<b>19,865,388</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 5,102,018</b>	<b>\$ 8,662,401</b>	<b>\$ 1,287,742</b>	<b>\$ 1,747,089</b>	<b>\$ 3,397,479</b>	<b>\$ 203,188</b>	<b>\$ 2,163,144</b>	<b>\$ 6,955,186</b>	<b>\$ 29,518,247</b>

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN  
RECONCILIATION OF THE BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2021**

Total Fund Balances - Governmental Funds	\$ 19,865,388
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of Capital Assets	85,170,741
Less Accumulated Depreciation	(34,025,426)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	(36,819,789)
The net pension liability and total OPEB liability and the related deferred outflows and deferred inflows of resources are only reported in the statement of net position.	
Net Pension Liability	(1,535,737)
Total OPEB Liability	(1,355,975)
Deferred Outflows of Resources - Pension Related	2,178,079
Deferred Outflows of Resources - OPEB	45,478
Deferred Inflows of Resources - Pension Related	(2,891,100)
Long-term assets that are not available to pay for current period expenditures and, therefore, are deferred in the funds.	4,296,917
Governmental funds do not report a liability for accrued interest until due and payable	<u>(448,642)</u>
Total Net Position - Governmental Activities	<u><u>\$ 34,479,934</u></u>

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICITS)**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2021**

	General	City Sales Tax Fund	G.O. Improvement Bonds Series 2014A Fund	G.O. Improvement Bonds Series 2020A Fund	G.O. Improvement Bonds Series 2021A Fund	Special Assessment/ Road Improvement Fund	Essentia Wellness Center Special Revenue Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>									
Taxes	\$ 6,006,578	\$ 3,882,209	\$ -	\$ 59,069	\$ -	\$ -	\$ -	\$ 617,050	\$ 10,564,906
Franchise Fees	16,500	-	-	-	-	-	-	40,807	57,307
Special Assessments	-	-	69,910	192,305	227,941	40,207	-	236,201	766,564
Licenses and Permits	288,624	-	-	-	-	-	-	155,250	443,874
Intergovernmental	279,683	-	-	-	-	-	-	783,968	1,063,651
Charges for Services	109,886	-	-	-	-	-	335,882	-	445,768
Fines and Forfeitures	61,402	-	-	-	-	-	-	6,121	67,523
Investment Income	(14,955)	(16,376)	-	3	-	321	-	1,898	(29,109)
Miscellaneous	58,369	-	-	-	-	-	162,879	22,875	244,123
Total Revenues	6,806,087	3,865,833	69,910	251,377	227,941	40,528	498,761	1,864,170	13,624,607
<b>EXPENDITURES</b>									
Current:									
General Government	1,009,398	52,952	-	-	-	-	-	7,790	1,070,140
Public Safety	3,535,779	-	-	-	-	-	-	7,484	3,543,263
Streets and Highways	764,046	-	-	-	-	-	-	-	764,046
Community and Economic Development	198,653	107,106	-	-	-	-	-	378,240	683,999
Culture and Recreation	175,748	-	-	-	-	-	389,516	36,340	601,604
Capital Outlay	133,099	702,000	-	-	-	1,895,422	7,157	1,677,323	4,415,001
Debt Service:									
Principal	-	-	235,000	365,000	-	-	-	2,140,253	2,740,253
Interest and Fiscal Charges	-	1,771	28,705	113,809	-	38,377	-	1,006,006	1,188,668
Issuance Costs	-	-	-	-	-	-	-	-	-
Total Expenditures	5,816,723	863,829	263,705	478,809	-	1,933,799	396,673	5,253,436	15,006,974
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	989,364	3,002,004	(193,795)	(227,432)	227,941	(1,893,271)	102,088	(3,389,266)	(1,382,367)
<b>OTHER FINANCING SOURCES (USES)</b>									
Bonds Issued	-	-	-	-	-	1,715,000	-	2,145,000	3,860,000
Premium on Issuance of Bonds	-	-	-	-	-	59,373	-	93,540	152,913
Bond Principal Refunded	-	-	-	-	-	-	-	(2,175,000)	(2,175,000)
Capital Leases Issued	-	-	-	-	-	-	-	343,862	343,862
Contributed Capital	(140,000)	-	-	-	-	-	-	-	(140,000)
Transfer In	-	137,689	231,200	309,705	1,665,893	-	-	3,278,535	5,623,022
Transfer Out	(345,000)	(3,264,206)	-	-	-	-	-	(1,836,599)	(5,445,805)
Sales of Capital Assets	148,473	-	-	-	-	-	-	515,000	663,473
Net Other Financing Sources (Uses)	(336,527)	(3,126,517)	231,200	309,705	1,665,893	1,774,373	-	2,364,338	2,882,465
<b>NET CHANGE IN FUND BALANCE</b>	652,837	(124,513)	37,405	82,273	1,893,834	(118,898)	102,088	(1,024,928)	1,500,098
Fund Balance - Beginning	4,095,625	8,703,590	187,738	603,179	-	97,046	193,770	4,484,342	18,365,290
<b>FUND BALANCE (DEFICIT) - ENDING</b>	<u>\$ 4,748,462</u>	<u>\$ 8,579,077</u>	<u>\$ 225,143</u>	<u>\$ 685,452</u>	<u>\$ 1,893,834</u>	<u>\$ (21,852)</u>	<u>\$ 295,858</u>	<u>\$ 3,459,414</u>	<u>\$ 19,865,388</u>

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES (DEFICITS) TO THE  
STATEMENT OF ACTIVITIES  
GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2021**

Total Net Changes in Fund Balances - Governmental Funds	\$ 1,500,098
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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 costs of those assets is allocated over the estimated useful lives as depreciated expense.

Capital Outlays	3,573,818
Proceeds from Sale of Capital Assets	(661,000)
Gain on Disposal of Capital Assets	374,425
Depreciation Expense	(2,178,461)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(1,025,395)
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The issuance of long-term debt provides current financial resources to governmental funds, but increases long-term liabilities in the statement of net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences.	(4,078,286)
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	4,915,253
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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. However, in the statement of activities, interest expense is recognized as it accrues, regardless of when due.	26,357
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Pension expenditures in the governmental funds are measured by current year employer contributions. Pension expenses on the statement of activities are measured by the change in the net pension liability and the related deferred inflows and outflows of resources.	600,314
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Other postemployment benefit (OPEB) expenditures in the governmental funds are measured by current year employer contributions. OPEB expenses on the statement of activities are measured by the change in the total OPEB liability and the related deferred inflows and outflows of resources.	(18,840)
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Compensated absences are an expense in the governmental funds, but increase long-term liabilities in the statement of net position.	(49,911)
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Change in Net Position - Governmental Activities	<u><u>\$ 2,978,372</u></u>
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**CITY OF HERMANTOWN**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2021**

	Budget			Variance Over (Under)
	Original	Final	Actual	
<b>REVENUES</b>				
Taxes	\$ 5,661,571	\$ 5,661,571	\$ 6,006,578	\$ 345,007
Franchise Fees	16,500	16,500	16,500	-
Licenses and Permits	182,265	182,265	288,624	106,359
Intergovernmental	233,950	233,950	279,683	45,733
Charges for Services	102,330	102,330	109,886	7,556
Fines and Forfeitures	42,575	42,575	61,402	18,827
Investment Income	8,000	8,000	(14,955)	(22,955)
Miscellaneous	40,010	40,010	58,369	18,359
Total Revenues	6,287,201	6,287,201	6,806,087	518,886
<b>EXPENDITURES</b>				
Current:				
General Government	1,029,257	1,029,257	1,009,398	(19,859)
Public Safety	3,620,741	3,620,741	3,535,779	(84,962)
Streets and Highways	789,488	789,488	764,046	(25,442)
Community and Economic Development	253,708	253,708	198,653	(55,055)
Culture and Recreation	123,957	123,957	175,748	51,791
Capital Outlay	126,050	126,050	133,099	7,049
Total Expenditures	5,943,201	5,943,201	5,816,723	(126,478)
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	344,000	344,000	989,364	645,364
<b>OTHER FINANCING SOURCES (USES)</b>				
Contributed Capital	-	-	(140,000)	(140,000)
Transfer Out	(345,000)	(345,000)	(345,000)	-
Sales of Capital Assets	1,000	1,000	148,473	147,473
Net Other Financing Sources (Uses)	(344,000)	(344,000)	(336,527)	7,473
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ -</u>	<u>\$ -</u>	652,837	<u>\$ 652,837</u>
Fund Balance - Beginning			4,095,625	
<b>FUND BALANCE - ENDING</b>			<u>\$ 4,748,462</u>	

See accompanying Notes to Financial Statements.



**CITY OF HERMANTOWN**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**CITY SALES TAX FUND**  
**YEAR ENDED DECEMBER 31, 2021**

	Budget			Variance Over (Under)
	Original	Final	Actual	
<b>REVENUES</b>				
Taxes:				
Sales Taxes	\$ 2,990,000	\$ 2,990,000	\$ 3,882,209	\$ 892,209
Investment Income	10,000	10,000	(16,376)	(26,376)
Total Revenues	3,000,000	3,000,000	3,865,833	865,833
<b>EXPENDITURES</b>				
Current:				
General Government	-	-	52,952	52,952
Economic Development	100,000	100,000	107,106	7,106
Capital Outlay	1,500,000	1,500,000	702,000	(798,000)
Debt Service:				
Interest and Fiscal Charges	-	-	1,771	1,771
Total Expenditures	1,600,000	1,600,000	863,829	(789,123)
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	1,400,000	1,400,000	3,002,004	1,654,956
<b>OTHER FINANCING USES</b>				
Transfer In	-	-	137,689	
Transfer Out	(2,905,249)	(2,905,249)	(3,264,206)	(358,957)
Net Other Financing Uses	(2,905,249)	(2,905,249)	(3,126,517)	(358,957)
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (1,505,249)</u>	<u>\$ (1,505,249)</u>	(124,513)	<u>\$ 1,295,999</u>
Fund Balance - Beginning			8,703,590	
<b>FUND BALANCE - ENDING</b>			<u>\$ 8,579,077</u>	

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**ESSENTIA WELLNESS CENTER SPECIAL REVENUE FUND**  
**DECEMBER 31, 2021**

	Budget			Variance Over (Under)
	Original	Final	Actual	
<b>REVENUES</b>				
Charges for Services	\$ 216,128	\$ 216,128	\$ 335,882	\$ 119,754
Miscellaneous	-	-	162,879	162,879
Total Revenues	216,128	216,128	498,761	282,633
<b>EXPENDITURES</b>				
Current:				
Culture and Recreation	216,128	216,128	389,516	173,388
Capital Outlay	-	-	7,157	7,157
Total Expenditures	216,128	216,128	396,673	180,545
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	-	-	102,088	102,088
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ -</u>	<u>\$ -</u>	102,088	<u>\$ 102,088</u>
Fund Balance - Beginning			193,770	
<b>FUND BALANCE - ENDING</b>			<u>\$ 295,858</u>	

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2021**

	Business-Type Activities Enterprise Fund			
	Water Utility Funds	Sewage Disposal Fund	Nonmajor Enterprise Funds	Total Enterprise Funds
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 5,086,804	\$ 5,407,938	\$ 881,315	\$ 11,376,057
Interest Receivable	4,372	4,718	829	9,919
Accounts Receivable	206,048	248,181	91,448	545,677
Advance to Other Funds	-	-	550,000	550,000
Inventories	74,406	8,090	-	82,496
Prepaid Items	11,432	8,523	831	20,786
Total Current Assets	5,383,062	5,677,450	1,524,423	12,584,935
Noncurrent Assets:				
Capital Assets, Net of Depreciation:				
Assets Not Being Depreciated	221,869	385,645	-	607,514
Assets Being Depreciated, Net	8,772,306	28,805,887	408,218	37,986,411
Total Capital Assets, Net of Depreciation	8,994,175	29,191,532	408,218	38,593,925
Long-Term Portion of Contracts Receivable	82,969	28,130	-	111,099
Special Assessments Receivable	4,813	181,760	-	186,573
Total Noncurrent Assets	9,081,957	29,401,422	408,218	38,891,597
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Other Postemployment Benefits Related	5,356	3,718	1,908	10,982
Pension Related	102,133	72,637	36,289	211,059
Total Deferred Outflows of Resources	107,489	76,355	38,197	222,041
Total Assets and Deferred Outflows of Resources	<u>\$ 14,572,508</u>	<u>\$ 35,155,227</u>	<u>\$ 1,970,838</u>	<u>\$ 51,698,573</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts Payable	\$ 100,022	\$ 84,303	\$ 7,366	\$ 191,691
Accrued Wages and Related Liabilities	7,195	5,480	2,741	15,416
Customer Deposits	10,221	-	-	10,221
Total Current Liabilities	117,438	89,783	10,107	217,328
Noncurrent Liabilities:				
Compensated Absences	56,725	45,341	22,295	124,361
Net Pension Liability	137,022	97,450	48,686	283,158
Total OPEB Liability	159,710	110,853	56,889	327,452
Total Noncurrent Liabilities	353,457	253,644	127,870	734,971
Total Liabilities	470,895	343,427	137,977	952,299
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension Related	125,892	89,533	44,731	260,156
<b>NET POSITION</b>				
Net Investment in Capital Assets	8,994,175	29,191,532	408,218	38,593,925
Unrestricted	4,981,546	5,530,735	1,379,912	11,892,193
Total Net Position	13,975,721	34,722,267	1,788,130	50,486,118
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 14,572,508</u>	<u>\$ 35,155,227</u>	<u>\$ 1,970,838</u>	<u>\$ 51,698,573</u>

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2021**

	Business-Type Activities Enterprise Fund			
	Water Utility Funds	Sewage Disposal Fund	Nonmajor Enterprise Funds	Total Enterprise Funds
<b>OPERATING REVENUES</b>				
User Fees	\$ 1,706,759	\$ 1,611,148	\$ 417,038	\$ 3,734,945
Service Charges	266,389	84,247	-	350,636
Franchise Fees	-	-	139,542	139,542
Total Operating Revenues	1,973,148	1,695,395	556,580	4,225,123
<b>OPERATING EXPENSES</b>				
Personnel Services	498,071	358,216	157,090	1,013,377
Water Purchases	940,120	-	-	940,120
WLSSD Charges	-	564,176	-	564,176
Maintenance and Supplies	322,059	215,996	82,964	621,019
Utilities	11,391	8,183	29,963	49,537
Professional Services	16,674	12,997	6,524	36,195
Insurance	13,233	9,566	-	22,799
Miscellaneous	299	301	-	600
Depreciation Expense	236,554	515,626	10,835	763,015
Total Operating Expenses	2,038,401	1,685,061	287,376	4,010,838
<b>NET OPERATING INCOME (LOSS)</b>	(65,253)	10,334	269,204	214,285
<b>NONOPERATING REVENUES</b>				
Hookups and Miscellaneous Income	107,310	65,617	4,815	177,742
Investment Income	(17,060)	(18,240)	19,039	(16,261)
Total Nonoperating Revenues	90,250	47,377	23,854	161,481
<b>INCOME BEFORE TRANSFERS AND CONTRIBUTIONS</b>	24,997	57,711	293,058	375,766
Capital Contributions	498,957	478,274	-	977,231
Transfer In	207,375	-	-	207,375
Transfer Out	(91,838)	(181,489)	(111,265)	(384,592)
<b>CHANGE IN NET POSITION</b>	639,491	354,496	181,793	1,175,780
Net Position - Beginning	13,336,230	34,367,771	1,606,337	49,310,338
<b>NET POSITION - ENDING</b>	\$ 13,975,721	\$ 34,722,267	\$ 1,788,130	\$ 50,486,118

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED DECEMBER 31, 2021**

	Business-Type Activities Enterprise Fund			
	Water Utility Funds	Sewage Disposal Fund	Nonmajor Enterprise Funds	Total Enterprise Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from Users	\$ 1,957,703	\$ 1,739,179	\$ 576,192	\$ 4,273,074
Payments to Employees	(385,392)	(270,858)	(129,587)	(785,837)
Payments to Suppliers	(1,303,057)	(812,546)	(127,713)	(2,243,316)
Net Cash Provided by Operating Activities	269,254	655,775	318,892	1,243,921
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers in	207,375	-	-	207,375
Transfers out	(91,838)	(181,489)	(111,265)	(384,592)
Cash Received from Hookups and Miscellaneous Income	107,310	65,617	4,815	177,742
Net Cash Provided (Used) by Noncapital Financing Activities	222,847	(115,872)	(106,450)	525
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition and Construction of Capital Assets	(279,174)	-	-	(279,174)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment Income	(17,844)	(19,259)	18,620	(18,483)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	195,083	520,644	231,062	946,789
Cash and Cash Equivalents - Beginning of Year	4,891,721	4,887,294	650,253	10,429,268
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 5,086,804</u>	<u>\$ 5,407,938</u>	<u>\$ 881,315</u>	<u>\$ 11,376,057</u>

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN  
STATEMENT OF CASH FLOWS (CONTINUED)  
PROPRIETARY FUNDS  
YEAR ENDED DECEMBER 31, 2021**

	Business-Type Activities Enterprise Fund			Total Enterprise Funds
	Water Utility Funds	Sewage Disposal Fund	Nonmajor Enterprise Funds	
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating Income (Loss)	\$ (65,253)	\$ 10,334	\$ 269,204	\$ 214,285
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation	236,554	515,626	10,835	763,015
(Increase) Decrease in Assets:				
Accounts Receivable	33,034	32,009	19,612	84,655
Prepaid Expenses	(3,350)	(2,686)	(35)	(6,071)
Inventories	(7,623)	2,007	-	(5,616)
Deferred Outflows	(94,593)	(66,682)	(32,479)	(193,754)
Increase (Decrease) in Liabilities:				
Accounts Payable	11,692	(648)	(8,227)	2,817
Wages and Related Liabilities	1,676	536	91	2,303
Due to Other Funds	(48,886)	11,775	-	(37,111)
Deposits	407	-	-	407
Compensated Absences Payable	8,330	13,392	(2,362)	19,360
Net Pension Liability	64,751	39,693	12,918	117,362
Total OPEB Liability	9,576	13,246	6,065	28,887
Deferred Inflows	122,939	87,173	43,270	253,382
Total Adjustments	<u>334,507</u>	<u>645,441</u>	<u>49,688</u>	<u>1,029,636</u>
Net Cash Provided by Operating Activities	<u>\$ 269,254</u>	<u>\$ 655,775</u>	<u>\$ 318,892</u>	<u>\$ 1,243,921</u>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>				
Capital contributions	\$ 498,957	\$ 478,274	\$ -	\$ 977,231

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Hermantown (the City) complies with accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

**A. Financial Reporting Entity**

The City of Hermantown, Minnesota, was incorporated under the laws of the state of Minnesota and operates under an elected Mayor-Council form of government. In determining the financial reporting entity, the City complies with GAAP and includes all component units of which the City appointed a voting majority of the units' board, the City is able to impose its will on the unit, or a financial benefit or burden relationship exists. As a result of applying these component unit criteria, the Hermantown Economic Development Authority is considered a component unit and is presented in the City's financial statements as a blended component unit, meaning it is reported as if it were a part of the City. The Hermantown Economic Development Authority does not issue separate financial statements.

Blended Component Unit

The Hermantown Economic Development Authority (HEDA) provides services almost entirely to the City and is governed by a board of seven commissioners, which is substantially the same as the City Council. In 1998, HEDA passed a resolution for the issuance and sale of sales tax revenue bonds to build a new public safety facility. The City was given authority to impose a local sales tax in 1996 that allowed the City to utilize the proceeds to meet the principal and interest payments of the bond. In 2006, this bond was refunded with a new bond that included the construction of the new city hall. The City is financially accountable for HEDA. The City approves the budget, levies taxes (if necessary), and must approve debt issuances. HEDA has had limited activity and has monthly meetings. For these reasons, HEDA is recognized as a blended component unit of the City.

Related Organization

The Hermantown Volunteer Fire Department is a legally separate organization from the City. Related party transactions are limited to payments by the City on a contract for service entered into with the Hermantown Volunteer Fire Department. The City made payments totaling \$521,160 during 2021.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

**B. Government-Wide Financial Statements**

The government-wide financial statements (statement of net position and statement of activities) report information on all activities of the primary government. 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 business-type activity is offset by program revenues. Direct expenses are those which are clearly identifiable with a specific function or business-type activity. 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 business-type activity, 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or business-type activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**C. Fund Financial Statements**

The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. The fund financial statements are provided for governmental funds and proprietary funds. The emphasis of fund financial statements is on the major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as other funds (nonmajor).

The funds of the financial reporting entity are described below:

Governmental Funds

**General Fund** – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those reported in another fund.

**Special Revenue Funds** – These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.



**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

**C. Fund Financial Statements (Continued)**

Governmental Funds (Continued)

**Debt Service Funds** – These funds are used to account for the accumulation of resources for and the payment of general long-term obligation principal, interest, and related costs.

**Capital Projects Funds** – These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets.

Proprietary Funds

**Enterprise Funds** – The Enterprise Funds are used to account for those operations which are financed and operated in a manner similar to private business or for which the council has decided that the determination of revenues earned, costs incurred, and/or net income is necessary for management accountability.

Major Governmental Funds

**General Fund** – Accounts for all financial resources except those reported in another fund. It is the general operating fund of the City.

**City Sales Tax Fund** – Accounts for the restricted sales tax revenues collected that are authorized by the Minnesota State Legislature to fund the construction of a public safety facility, City administrative services facility, Hermantown sewer trunk line and water infrastructure improvements, and the construction and equipping of a regional, multiuse wellness center.

**G.O. Improvement Bonds Series 2014A Fund** – Accounts for the accumulated resources to pay the interest and principal payments on the 2014A GO Bonds.

**G.O. Improvement Bonds Series 2020A Fund** – Accounts for the accumulated resources to pay the interest and principal payments on the 2020A GO Bonds.

**G.O. Improvement Bonds Series 2021A Fund** – Accounts for the accumulated resources to pay the interest and principal payments on the 2021A GO Bonds.

**Special Assessment/Road Improvement Fund** – Accounts for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets.

**Essentia Wellness Center Special Revenue Fund** – Accounts for lease revenue from the Essentia Wellness Center, which are restricted for use covering costs related to the facility costs of the Essentia Wellness Center.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

**C. Fund Financial Statements (Continued)**

Major Proprietary Funds

***Water Utility Fund*** – Accounts for the activity of providing water services to the public.

***Sewage Disposal Fund*** – Accounts for the activity of providing sewer disposal services to the public.

**D. Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund 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 generally 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 for the current period. For this purpose, the City considers all revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal year. Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when the 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, sales taxes, franchise fees, special assessments, intergovernmental revenues, charges for service, and interest associated with the current fiscal period are all considered susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

**E. Assets, Liabilities, and Equity**

Cash and Cash Equivalents

Cash balances from all funds are combined and invested to the extent available in certificates of deposit and other short-term securities. Earnings from such investments are allocated to the respective funds on the basis of average cash balance participation by each fund.

Investments are stated at fair value, based on quoted market prices, except for investments in 2a7-like external investment pools, which are stated at amortized cost. Investment income is accrued at the balance sheet date.

For purposes of the proprietary fund-type statements of cash flows, the City considers all legal investments authorized by Minnesota Statutes with an original maturity of three months or less to be cash equivalents.

Interfund Transactions

Activities between funds that are representative of lending/borrowing arrangements are reported as “due to/from other funds” and “advances to/from other funds.” Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net position.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible receivables are based on historical trends and the periodic aging of accounts.

Accounts receivable for utility receivables are shown at a gross amount, since utility receivables are assessable to the associated property and are collectible upon sale of the assessed property.

Property Taxes

Property tax levies are set by the City Council in December of each year and are certified to St. Louis County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Such taxes become a lien on January 1 and are recorded as receivables by the City on that date. Revenues are accrued and recognized in the year collectible, net of delinquencies. Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to cities and other taxing districts in January, June or July, and November or December. Delinquent taxes have been offset by a deferred inflow of resources for delinquent taxes not received within 60 days after year-end in the governmental fund financial statements.

No allowance for uncollectible taxes has been provided because such amounts are not expected to be material.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

**E. Assets, Liabilities, and Equity (Continued)**

Special Assessments

Special assessments are levied against benefited properties for the cost or a portion of the cost of special assessment improvement projects in accordance with state statutes. These assessments are collectible by the City over a term of years as approved through City Council Resolution. Collection of annual installments (including interest) is handled by the county auditor in the same manner as property taxes. Property owners are allowed to prepay future installments without interest or prepayment penalties.

Once a special assessment roll is adopted, the amount attributed to each parcel is a lien on that property until full payment is made or the amount is determined to be excessive by the City Council or court action. If special assessments are allowed to become delinquent, the property is subject to tax forfeit sale, and the first proceeds of that sale (after costs, penalties, and expenses of sale) are remitted to the City in payment of delinquent special assessments. Generally, the City will collect the full amount of its special assessments not adjusted by the City Council or court action. Pursuant to state statutes, a property shall be subject to a tax forfeit sale after three years unless it is homesteaded, agricultural, or seasonal recreational land, in which event the property is subject to such sale after five years.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2021, are recorded as prepaid items. Prepaid items are reported using the consumption method and recorded as expenditures/expenses at the time of consumption.

Inventories

All inventories are valued at cost using the first-in, first-out (FIFO) method. Inventories are recorded as expenditures when consumed rather than when purchased.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), and intangible assets such as easements, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, including infrastructure assets, are defined by the City as assets with an initial, individual cost of more than \$20,000 and an estimated useful life in excess of two years. In the case of donations, the government values these capital assets at the estimated acquisition value on the date of its 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. Major outlays for capital assets and improvements are capitalized as projects are constructed.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

**E. Assets, Liabilities, and Equity (Continued)**

Capital Assets (Continued)

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land Improvements	10 to 50
Buildings	10 to 40
Equipment	3 to 25
Infrastructure	15 to 25
Transmission System, Source of Supply, and Pumping Plant	50 to 99

**F. Unearned Revenue**

In the financial statements, certain revenue transactions have been reported as unearned revenue. Revenue cannot be recognized until it has been earned.

Unearned revenues for the City include a \$2,000,000 naming rights agreement for the Essentia Wellness Center that is to be recognized as revenue over the 20-year term of the agreement. Three years have been recognized and remaining unearned revenue is \$1,700,000 as of the end of the year.

**G. Compensated Absences**

It is the City's policy to permit employees to accumulate earned but unused vacation leave and sick pay benefits. Vested employees may receive a lump sum payment to a health care savings plan or a lump sum cash payment if they retire. The liability for these compensated absences is recorded as a long-term liability in the government-wide financial statements. In the fund financial statements, governmental funds report only the compensated absences liability payable if they have matured, for example, as a result of employee resignations and retirements. The proprietary funds report the liability as it is incurred.

**H. Long-Term Liabilities**

In the government-wide financial statements and for the 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. The recognition of bond premiums and discounts is amortized over the life of the bonds. Bonds payable are reported net of the applicable premium or discount. Bond issuance costs are reported as an expense in the period they occurred.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

**H. Long-Term Liabilities (Continued)**

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as issuance costs, during the current period. 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.

**I. Pensions**

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year 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.

**J. Other Postemployment Benefits (OPEB)**

The City provides other postemployment benefits (OPEB) to some retired employees based on eligibility established by contracts with bargaining units or other employment contracts. Retirees are required to pay 100% of their premium cost for the City-sponsored group health insurance plan in which they participate. For purposes of measuring the total OPEB liability, deferred outflows of resources, and deferred inflows of resources related to OPEB and OEPB expense have been determined using the one-year look back basis (the previous December 31 year-end). The plan holds no investments.

**K. 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, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has reported deferred outflows related to pensions for its proportionate shares of collective deferred outflows of resources related to pensions and the City's contributions to pension plans subsequent to the measurement date of the collective net pension liability.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has reported unavailable revenue from delinquent property taxes and deferred special assessments, which arises only under a modified accrual basis of accounting, in the governmental funds balance sheet. The City has also reported deferred inflows of resources for its proportionate share of the collective deferred inflows of resources related to pensions.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

**L. Fund Balance Classifications**

In the fund financial statements, governmental funds report their fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

*Nonspendable* – Consists of amounts that are not in spendable form, such as prepaid items.

*Restricted* – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors or constraints imposed by state statutory provisions.

*Committed* – Consists of internally imposed constraints. The City Council will annually, or as deemed necessary, commit specific revenue sources for specified purpose by resolution. This formal action must occur prior to the end of the reporting period; however, the amount to be subject to the constraint may be determined in the subsequent period. To remove the constraint on specified use of committed resources, the City Council shall pass a resolution.

*Assigned* – Consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the City's intended use. These constraints are established by the City Council and/or management. Pursuant to City Council resolution, the City's Finance Director is authorized to establish assignments of fund balance.

*Unassigned* – Is the residual classification for the General Fund and also reflects negative residual amounts in other funds.

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

When committed, assigned, or unassigned resources are available for use, it is the City's policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

The City Council has formally adopted a policy regarding the minimum unrestricted fund balance for the General Fund. The policy establishes a year-end targeted unrestricted fund balance of 35%-50%, no less than five months of the next year's budgeted expenditures. This will assist in maintaining an adequate level of fund balance to provide for cash flow requirements and contingency needs because major revenues, including property taxes and other governmental aids, are received in the second half of the City's fiscal year. At December 31, 2021, the unassigned fund balance for the General Fund was 74.45 % of the subsequent year's budgeted expenditures, or \$6,257,986.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

**M. 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 and proprietary 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 construct or acquire the capital assets (adjusted for unspent debt proceeds). Restricted net position consists of net position with constraints on their use by external restrictions imposed by creditors, grantors, and laws or regulations of other governments. Unrestricted net position is all other net position that does not meet the definition of *restricted* or *net investment in capital assets*.

**N. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**O. Stewardship, Compliance, and Accountability**

Budgetary Information

The City followed these procedures in establishing the budgetary data reflected in the financial statements:

1. Annual budgets are adopted for the General Fund, Special Revenue Fund, and Debt Service Funds. The budget is adopted on a basis consistent with GAAP. Budgetary comparisons presented in this report are on a budgetary basis. Budgeted expenditure appropriations lapse at year-end. Budgeted amounts are as originally adopted or as amended by the City Council.
2. The budget is legally enacted through passage of a resolution.
3. The government's department heads may make transfers of appropriations within a department. The City Council may authorize transfer of budgeted amounts between departments.
4. Formal budgetary integration is employed as a management control device during the year.

Budgetary control for capital project funds is accomplished through the use of project controls.



**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 2 DEPOSITS AND INVESTMENTS**

**Deposits**

In accordance with Minnesota Statutes, the City maintains deposits at those financial institutions authorized by the City Council. All such depositories are members of the Federal Reserve System.

Minnesota Statute requires that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the City Treasurer or in a financial institution other than that furnishing the collateral.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to it. The City requires collateral for deposits over Federal Deposit Insurance Company (FDIC) insurance amounts. At December 31, 2021, the City's bank balance was fully insured or collateralized.

**Investments**

Minnesota Statutes 118A.04 and 118A.05 generally authorize the types of investments available to the City as; securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minnesota statute 118A.04 subd. 6; mutual funds through share of registered investment companies provided the mutual fund receives certain ratings depending on its investments; general obligations of the state of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service; bankers' acceptances of United States banks; commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

The City is invested in the Minnesota Municipal Money Market Fund (4M Fund). The 4M Fund is an external investment pool not registered with the Securities and Exchange Commission (SEC). The City's investment in the 4M Fund is measured at the net asset value per share provided by the pool, which is based on amortized cost method that approximates fair value. At December 31, 2021, the City had an investment in the 4M Fund in the amount of \$5,383,936.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

**Investments (Continued)**

Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At December 31, 2021, none of the City's investments were subject to custodial credit risk.

Concentration of Credit Risk – The concentration of credit risk is the risk of loss that may be caused by the City's investment in a single issuer. The City has no policy that would limit its investment in a single issuer.

Interest Rate Risk – Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The City does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

State law limits investments as discussed above. The City has no investment policy that would further limit its investment choices.

At December 31, 2021, the City had the following investments:

<u>Investment Type</u>	<u>Total Value</u>	<u>Maturities</u>			
		<u>Less Than 1 Year</u>	<u>1-5 Years</u>	<u>Over 5 Years</u>	<u>No Maturity</u>
Federal Home Loan Mortgage Corporation	\$ 5,906	\$ -	\$ -	\$ 5,906	\$ -
U.S. Treasury Notes	4,737,970	-	4,737,970	-	-
Negotiable CDs	14,594,947	-	14,594,947	-	-
Money Market	632,478	-	-	-	632,478
External Investment Pool	5,383,936	-	-	-	5,383,936
Total Investments	<u>\$ 25,355,237</u>	<u>\$ -</u>	<u>\$ 19,332,917</u>	<u>\$ 5,906</u>	<u>\$ 6,016,414</u>

Credit Risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the City's policy to invest only in securities that meet the ratings requirements set by state statute.

The following chart summarizes the ratings for the City's investments as rated by Standard and Poor's as of December 31, 2021:

<u>Credit Rating</u>	<u>Fair Value</u>
AA	\$ 5,906
Not rated	25,349,331
Total	<u>\$ 25,355,237</u>

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

**Investments (Continued)**

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

The City has the following investments valued at recurring fair value measurements at December 31, 2021:

	Total	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by Fair Value Level</b>				
Federal Home Loan Mortgage Corporation	\$ 5,906	\$ -	\$ 5,906	\$ -
Negotiable CDs	14,594,947	-	14,594,947	-
U.S. Treasury Notes	4,737,970	4,737,970	-	-
Total	19,338,823	\$ 4,737,970	\$ 14,600,853	\$ -
Investments Measured at Amortized Cost	6,016,414			
Total Investments	\$ 25,355,237			

The following table sets forth additional disclosures about the City's investments whose value are estimated using net asset value (NAV) as of December 31, 2021:

		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
External Investment Pool - 4M	\$ 5,383,936	\$ -	None	14 Days

The City's total deposits and investments are as follows:

Cash on Hand	\$ 700
Deposits	8,458,196
Investments	25,355,237
Total Deposits and Investments	<u>\$ 33,814,133</u>

Presented in the financial statements as follows:

Primary Government:	
Cash and Investments	<u>\$ 33,814,133</u>

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 3 RECEIVABLES**

Significant receivable balances not expected to be collected within one year of December 31, 2021 are as follows:

	Governmental Activities	Business-Type Activities
Taxes Receivable	\$ 55,875	\$ -
Special Assessments	4,084,806	186,573
Contracts Receivable	-	111,099
Total	<u>\$ 4,140,681</u>	<u>\$ 297,672</u>

**NOTE 4 CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2021 was as follows:

	Balance 12/31/2020	Additions	Deletions	Balance 12/31/2021
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 2,935,012	\$ 300,000	\$ (49,000)	\$ 3,186,012
Construction in Progress	703,416	2,809,337	(1,382,790)	2,129,963
Total Capital Assets Not Being Depreciated	3,638,428	3,109,337	(1,431,790)	5,315,975
Capital Assets Being Depreciated:				
Land Improvements	2,006,348	-	-	2,006,348
Buildings	37,545,078	-	(792,561)	36,752,517
Equipment and Vehicles	4,825,370	470,236	(365,175)	4,930,431
Infrastructure	35,577,700	1,377,035	(789,265)	36,165,470
Total Capital Assets Being Depreciated	79,954,496	1,847,271	(1,947,001)	79,854,766
Less Accumulated Depreciation:				
Land Improvements	952,606	109,727	-	1,062,333
Buildings	5,757,563	934,569	(788,465)	5,903,667
Equipment and Vehicles	1,712,193	251,337	(131,696)	1,831,834
Infrastructure	25,134,029	882,828	(789,265)	25,227,592
Total Accumulated Depreciation	33,556,391	2,178,461	(1,709,426)	34,025,426
Total Capital Assets Being Depreciated, Net	46,398,105	(331,190)	(237,575)	45,829,340
Governmental Activities Capital Assets, Net	<u>\$ 50,036,533</u>	<u>\$ 2,778,147</u>	<u>\$ (1,669,365)</u>	<u>\$ 51,145,315</u>

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 4 CAPITAL ASSETS (CONTINUED)**

	Balance 12/31/2020	Additions	Deletions	Balance 12/31/2021
<b>Business-Type Activities</b>				
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ 4,032,682	\$ 478,274	\$ (4,510,956)	\$ -
Land and Permanent Easements	607,514	-	-	607,514
Total Capital Assets not Being Depreciated	4,640,196	478,274	(4,510,956)	607,514
Capital Assets Being Depreciated:				
Buildings and Infrastructure	43,782,275	4,869,914	-	48,652,189
Equipment	1,247,996	419,174	(34,978)	1,632,192
Total Capital Assets Being Depreciated	45,030,271	5,289,088	(34,978)	50,284,381
Less Accumulated Depreciation:				
Buildings and Infrastructure	10,876,346	693,971	-	11,570,317
Equipment	693,587	69,044	(34,978)	727,653
Total Accumulated Depreciation	11,569,933	763,015	(34,978)	12,297,970
Total Capital Assets Being Depreciated, Net	33,460,338	4,526,073	-	37,986,411
Business-Type Activities Capital Assets, Net	<u>\$ 38,100,534</u>	<u>\$ 5,004,347</u>	<u>\$ (4,510,956)</u>	<u>\$ 38,593,925</u>

Depreciation expense was charged to functions/programs of the City as follows at December 31, 2021:

**Governmental Activities**

General Government	\$ 163,259
Public Safety	241,337
Public Works	1,047,797
Community and Economic Development	5,295
Culture and Recreation	720,773
Total Governmental Activities Depreciation Expense	<u>\$ 2,178,461</u>

**Business-Type Activities**

Water Utility	\$ 236,554
Sewage Disposal	515,626
Street Lighting	10,835
Total Depreciation Expense - Business Type Activities	<u>\$ 763,015</u>

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 5 LONG-TERM OBLIGATIONS**

The City had the following long-term obligations at December 31, 2021:

<u>General Obligation Bonds</u>	<u>Amount</u>
General Obligation Improvement Refunding Bonds, Series 2012A were issued at a par value of \$2,500,000, have an interest rate of 0.5 - 2.4%, and mature in 2026.	\$ 885,000
General Obligation Improvement Bonds, Series 2014A were issued at a par value of \$2,170,000, have an interest rate of 2.0 - 3.0%, and mature in 2028.	850,000
General Obligation Refunding Bonds, Series 2016A were issued at a par value of \$3,285,000, have an interest rate of 2.0%, and mature in 2030.	2,195,000
General Obligation Capital Improvement Plan Bonds, Series 2016B were issued at a par value of \$5,055,000, have an interest rate of 3.0%, and mature in 2026.	2,885,000
General Obligation Capital Improvement Plan Bonds, Series 2018A were issued at a par value of \$2,035,000, have an interest rate of 3.0 - 3.375%, and mature in 2039.	1,865,000
General Obligation Tax Abatement Bonds, Series 2018B were issued at a par value of \$7,715,000, have an interest rate of 3.0 - 4.0%, and mature in 2039.	7,285,000
General Obligation Tax Abatement Bonds, Series 2019A were issued at a par value of \$8,845,000, have an interest rate of 3.0 - 5.0%, and mature in 2039.	8,260,000
General Obligation Improvement and Refunding Bonds, Series 2020A issued at a par value of \$3,585,000, have an interest rate of 3.0 - 2.0%, and mature in 2036.	3,220,000
General Obligation Sewage Disposal System Bonds, Series 2020B were issued at a par value of \$3,915,000, have an interest rate of 3.0 - 2.0%, and mature in 2037.	3,710,000
General Obligation Improvement and Refunding Bonds, Series 2021A were issued at a par value of \$3,860,000, have an interest rate of 2.0 - 1.150%, and mature in 2036.	<u>3,860,000</u>
Total General Obligation Bonds	<u><u>\$ 35,015,000</u></u>

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)**

The following is a summary of change in long-term obligations:

	Balance 12/31/2020	Additions	Reductions	Balance 12/31/2021	Amount Due Within One Year
<b>Governmental Activities</b>					
Bonds Payable:					
General Obligation Bonds	\$ 36,010,000	\$ 3,860,000	\$ 4,855,000	\$ 35,015,000	\$ 2,745,000
Capital Lease	-	343,862	60,253	283,609	54,402
Less:					
Unamortized Bond Discount	(60,189)	-	(56,941)	(3,248)	(1,481)
Unamortized Bond Premium	1,235,902	152,913	335,430	1,053,385	121,860
Subtotal	37,185,713	4,356,775	5,193,742	36,348,746	2,919,781
Compensated Absences	421,132	315,481	265,570	471,043	-
Total Long-Term Liabilities	<u>\$ 37,606,845</u>	<u>\$ 4,672,256</u>	<u>\$ 5,459,312</u>	<u>\$ 36,819,789</u>	<u>\$ 2,919,781</u>
<b>Business-Type Activities</b>					
Compensated Absences	<u>\$ 105,001</u>	<u>\$ 60,463</u>	<u>\$ 41,103</u>	<u>\$ 124,361</u>	<u>\$ -</u>
Total Long-Term Liabilities	<u>\$ 105,001</u>	<u>\$ 60,463</u>	<u>\$ 41,103</u>	<u>\$ 124,361</u>	<u>\$ -</u>

Annual requirements to amortize all outstanding obligations at December 31, 2021 are as follows:

Year Ending December 31,	General Obligation Bonds		
	Principal	Interest	Total
2022	\$ 2,745,000	\$ 997,344	\$ 3,742,344
2023	2,905,000	896,120	3,801,120
2024	2,630,000	812,614	3,442,614
2025	2,670,000	730,344	3,400,344
2026	2,535,000	647,654	3,182,654
2027-2031	8,890,000	2,355,348	11,245,348
2032-2036	8,575,000	1,226,691	9,801,691
2037-2041	4,065,000	191,105	4,256,105
Total	<u>\$ 35,015,000</u>	<u>\$ 7,857,220</u>	<u>\$ 42,872,220</u>

General Obligation bonds are paid from Debt Service Funds.

Compensated absences, total OPEB liability, and net pension liability are paid from the General Fund, Water Utility Fund, Sewage Disposal Fund and Storm Water Fund.

On May 5, 2021 the City issued \$3,860,00 General Obligation Improvement and Refunding Bonds, Series 2021A, refunding \$2,175,000 of the General Improvement Bonds Series 2012B. The bonds bear interest at a rate of 2.00% decreasing to 1.7% and have a final maturity date of February 1, 2037. Future combined debt service payments will be reduced by \$151,911 with a present value savings of \$150,134.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 6 CONDUIT DEBT OBLIGATIONS**

The Hermantown Economic Development Authority (HEDA) has issued revenue bonds for the purpose of providing capital financing to various entities. Even though the debt bears HEDA's name, HEDA is not responsible for the payment of the original debt. The debt is secured by the payments agreed to be paid by these entities under the terms of the agreement between HEDA and the entity. The general description of the transactions and the outstanding balance as of December 31, 2021 are as follows:

<u>Enterprise</u>	<u>Year of Issue</u>	<u>Outstanding Balance 12/31/21</u>
Marshall School 2004B	2004	\$ 122,160
Saints-Hilltoppers Arena Project 2010	2010	291,828
Marshall School 2011	2011	211,586
Total		<u>\$ 625,574</u>

**NOTE 7 INTERFUND TRANSACTIONS**

The composition of interfund balances as of December 31, 2021 is as follows:

Due to/from balances are caused by either timing differences or the elimination of negative cash balances within the various funds. All interfund balances are expected to be repaid within one year.

	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
City Sales Tax Fund	\$ 725,570	\$ -
Essentia Wellness Center Special Revenue Fund	-	123,078
Munger Trail Fund	-	292,050
Municipal State Aid Streets Fund		310,442
Total	<u>\$ 725,570</u>	<u>\$ 725,570</u>

Advances to/from other funds:

	<u>Advance To</u>	<u>Advance From</u>
Governmental Funds:		
Cable Television Fund	\$ -	\$ 150,000
TIF District #1 Improvements Fund	700,000	-
Total Governmental Funds	<u>700,000</u>	<u>150,000</u>
Proprietary Funds:		
Street Lighting Fund	-	550,000
Total	<u>\$ 700,000</u>	<u>\$ 700,000</u>

Advances were made to fund various projects. The advances bear interest at 4%. There is no due date for repayment.



**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 7 INTERFUND TRANSACTIONS (CONTINUED)**

**Interfund Transfers**

Transfers are indicative of funding for capital projects, lease payments or debt service, subsidies of various City operations and re-allocations of special revenues. The following schedule briefly summarizes the City's transfer activity:

In the year ended December 31, 2021, the City made the following one-time transfers, which are included in the amounts presented above:

	<u>Transfer In</u>	<u>Transfer Out</u>
Governmental Funds:		
General Fund	\$ -	\$ 345,000
City Sales Tax Fund	137,689	3,264,206
HEDA Fund	-	-
Park Dedication Fund	-	361,658
G.O. Improvement Bonds, Series 2014A Fund	231,200	-
G.O. Improvement Bonds, Series 2020A Fund	309,705	-
G.O. Improvement Bonds, Series 2021A Fund	1,665,893	-
G.O. Improvement Bonds, Series 2012A Fund	197,539	-
G.O. Improvement Bonds, Series 2012B Fund	-	1,209,321
G.O. Refunding Bonds, Series 2016A Fund	217,723	-
G.O. Refunding Bonds, Series 2016B Fund	698,807	-
G.O. Tax Abatement Bonds, Series 2018B Fund	517,611	-
G.O. Tax Abatement Bonds, Series 2019A Fund	647,200	-
G.O. Improvement Bonds, Series 2020B	294,997	-
Special Assessment Deficiency Fund	-	27,806
Munger Trail Fund	361,658	137,689
General Capital Projects Fund	243,000	100,125
Municipal Building Reserve Fund	100,000	-
Total Governmental Funds	<u>5,623,022</u>	<u>5,445,805</u>
Proprietary Funds:		
Water Utility Fund	207,375	91,838
Sewage Disposal Fund	-	181,489
Storm Water Fund	-	111,265
Total Proprietary Funds	<u>207,375</u>	<u>384,592</u>
Total	<u>\$ 5,830,397</u>	<u>\$ 5,830,397</u>

The City budgets transfers to various Debt Service Funds from the Sales Tax Fund, Special Assessment Deficiency Fund, Water Utility Fund, and Sewage Disposal in order to pay required principal and interest. Transfers to the General Capital Projects Fund from the General Fund, Water Utility Fund, Sewage Disposal Fund, and Storm Water Fund were for various capital purchases.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 8 FUND BALANCES/NET POSITION**

Fund balance was nonspendable for the following purposes at December 31, 2021:

**Advances to Other Funds**

Governmental Funds:	
Cable Television Fund	\$ 150,000

**Prepaid Items**

Governmental Funds:	
General Fund	\$ 89,481
Essentia Wellness Center Special Revenue Fund	11,349
Hermantown Economic Development Authority Fund	16
Cable Television Fund	29
Total Nonspendable	<u>\$ 250,875</u>

Governmental net position and fund balances were restricted for the following purposes at December 31, 2021:

	<u>Net Position</u>	<u>Fund Balance</u>
Debt Service Funds	\$ 7,909,637	\$ 4,468,719
City Sales Tax Fund	8,130,435	8,579,077
Essentia Wellness Center Special Revenue Fund	284,509	284,509
Police Program Fund	214,110	214,110
Soccer Association Fund	73,168	73,168
Total Restricted	<u>\$ 16,611,859</u>	<u>\$ 13,619,583</u>

Fund balances were committed for the following purposes at December 31, 2021:

Other Governmental Funds:	
Economic Development	\$ 756,145
Wetland Restoration	39,464
Cable TV	282,956
Debt Service	301,099
Total Committed	<u>\$ 1,379,664</u>

Fund balances were assigned for the following purposes at December 31, 2021:

General Capital Projects	\$ 596,337
Essentia Wellness Center Capital Projects Fund	277,871
Municipal Building Reserve	275,296
HEDA Fleet Projects	100,759
Total Assigned	<u>\$ 1,250,263</u>

The following funds had an unassigned fund balance (deficit) at December 31, 2021:

Munger Trail Fund	\$ (292,050)
Park Dedication Fund	(5,000)
TIF District 1 Improvement Fund	(630,258)
Special Assessment Road Improvement Fund	(21,852)
Municipal State Aid Streets Fund	(344,818)
Total	<u>\$ (1,293,978)</u>

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 9    DEFINED BENEFIT PENSION PLANS**

**A. Plan Description**

The City participates in the following cost-sharing multiple-employer defined benefit plans administered by the Public Employees Retirement Association of Minnesota (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.

1. General Employees Retirement Plan covers certain full time and part-time employees of the City. General Employees Plan members belong to either the Coordinated Plan. Coordinated Plan members are covered by Social Security.
2. The Police and Fire Plan, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the Police and Fire Plan also covers police officers and firefighters belonging to local relief associations that elected to merge with and transfer assets and administration to PERA.

**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.

**1. General Employees Plan Benefits**

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated 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 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 HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 9    DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**A. Plan Description (Continued)**

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

2. Police and Fire Benefits

Benefits for Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after 10 years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50% after 10 years up to 100% after 20 years of credited service. The annuity accrual rate is 3% of average salary for each year of service. For Police and Fire Plan members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. The postretirement increase will be fixed at 1%. Recipients that have been receiving the annuity or benefit for at least 36 months 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 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

**B. Contributions**

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

1. General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in calendar year 2021 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, 2021 were \$116,846. The City's contribution was equal to the contractually required contribution as set by state statute.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 9    DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**B. Contributions (Continued)**

2. Police and Fire Fund Contributions

Police and Fire member's contribution rates were 11.80% of their annual covered salary in fiscal year 2021 and the City was required to contribute 17.70% for Police and Fire Plan Members. The City's contributions to the Police and Fire Fund for the year ended December 31, 2021 were \$257,301. The City's contributions were equal to the required contributions as set by state statute.

**C. Pension Costs**

1. General Employees Fund Pension Costs

At December 31, 2021, the City reported a liability of \$909,604 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 nonemployer 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 \$27,714. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2020, through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0213% at the end of the measurement period and 0.0207% for the beginning of the period.

The City's Proportionate Share of the Net Pension Liability	\$     909,604
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the City	<u>27,714</u>
Total	<u><u>\$     937,318</u></u>

For the year ended December 31, 2021, the City recognized pension expense of \$41,918 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$2,236 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.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 9    DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**C. Pension Costs (Continued)**

1. General Employees Fund Pension Costs (Continued)

At December 31, 2021, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual		
Economic Experience	\$     5,588	\$    27,835
Effect of Changes in Assumptions	555,386	20,121
Net Difference Between Projected and Actual		
Investment Earnings on Plan Investments	-	787,757
Changes in Proportion	54,408	-
Contributions Subsequent to Measurement Period	62,618	-
Total	<u>\$   678,000</u>	<u>\$   835,713</u>

\$62,618 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, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31.</u>	Pension Expense Amount
2022	\$   (15,712)
2023	8,205
2024	2,038
2025	(214,862)
Total	<u>\$   (220,331)</u>

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 9    DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**C. Pension Costs (Continued)**

**2. Police and Fire Fund Pension Costs**

At December 31, 2021, the City reported a liability of \$909,291 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2020 through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.1178% at the end of the measurement period and 0.1169% for the beginning of the period.

The state of Minnesota contributed \$18 million to the Police and Fire Fund in the plan fiscal year ended June 30, 2021. The contribution consisted of \$9 million in direct state aid that does meet the definition of a special funding situation and \$9 million in supplemental state aid that does not meet the definition of a special funding situation. The \$9 million direct state was paid on October 1, 2020. Thereafter, by October 1 of each year, the state will pay \$9 million to the Police and Fire Fund until full funding is reached or July 1, 2048, whichever is earlier. The \$9 million in supplemental state aid will continue until the fund is 90% funded, or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90% funded, whichever occurs later. Strong asset returns for the fiscal year ended 2021 will accelerate the phasing out of these state contributions, although we do not anticipate them to be phased out during the fiscal year ending 2022.

The state of Minnesota is included as a nonemployer contributing entity in the Police and Fire Retirement Plan Schedule of Employer Allocations and Schedule of Pension Amounts by Employer, Current Reporting Period Only (pension allocation schedules) for the \$9 million in direct state aid. Police and Fire Plan employers need to recognize their proportionate share of the State of Minnesota's pension expense (and grant revenue) under GASB 68 special funding situation accounting and financial reporting requirements. For the year ended December 31, 2021, the City recognized negative pension expense of (\$78,854) for its proportionate share of the Police and Fire Plan's pension expense. The City recognized \$10,521 as grant revenue for its proportionate share of the state of Minnesota's pension expense for the contribution of \$4.5 million to the Police and Fire Fund.

The state of Minnesota is not included as a nonemployer contributing entity in the Police and Fire Pension Plan pension allocation schedules for the \$9 million in supplemental state aid. The City recognized \$7,445 for the year ended December 31, 2021 as revenue and an offsetting reduction of net pension liability for its proportionate share of the state of Minnesota's on-behalf contributions to the Police and Fire Fund.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 9    DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**C. Pension Costs (Continued)**

1. Police and Fire Fund Pension Costs (Continued)

The City's Proportionate Share of the Net Pension Liability	\$      909,291
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the City	<u>40,881</u>
Total	<u><u>\$      950,172</u></u>

At December 31, 2021, the City reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$      174,640	\$           -
Effect of Changes in Assumptions	1,336,420	499,599
Net Difference Between Projected and Actual Investment Earnings on Plan Investments	-	1,737,425
Changes in Proportion	57,451	78,519
Contributions Paid to PERA Subsequent to the Measurement Date	<u>142,629</u>	<u>-</u>
Total	<u><u>\$    1,711,140</u></u>	<u><u>\$    2,315,543</u></u>

\$142,629 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, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	Pension Expense Amount
2022	\$    (625,334)
2023	(124,106)
2024	(105,743)
2025	(186,913)
2026	<u>295,064</u>
Total	<u><u>\$    (747,032)</u></u>



**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 9    DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**C. Pension Costs (Continued)**

2. Aggregate Pension Costs

	General Employees Plan	Police and Fire Plan	Total
Net Pension Liability	\$ 909,604	\$ 909,291	\$ 1,818,895
Deferred Outflows of Resources	678,000	1,711,140	2,389,140
Deferred Inflows of Resources	835,713	2,315,543	3,151,256
Pension Expense	41,918	(78,854)	(36,936)

**D. Actuarial Assumptions**

The total pension liability in the June 30, 2021, actuarial valuation was determined using the following actuarial assumptions:

	General Employees Fund	Police and Fire Fund
Inflation	2.25% per year	2.50% per year
Active Member Payroll Growth	3.00% per year	3.25% per year
Investment Rate of Return	7.50%	7.50%

The total pension liability in the June 30, 2021, 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 6.5%. 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 6.5% 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, 2.25% for the Police and Fire Plan, and 2.25% for the Correctional Plan. Benefit increases after retirement are assumed to be 1.25% for the General Employees Plan and 2% for the Correction Plan. The Police and Fire Plan benefit increase is fixed at 1% per year and that increase was used in the valuation.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25% after one year of service to 3.0% after 29 years of service and 6.0% per year thereafter. In the Police and Fire Plan, salary growth assumptions range from 11.75% after one year of service to 3.0% after 24 years of service. In the Correctional Plan, salary growth assumptions range from 11.0% at age 20 to 3.0% at age 60.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 9    DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**D. Actuarial Assumptions (Continued)**

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. Mortality rates for the Police and Fire Plan and the Correctional Plans are based on the Pub-2010 Public Safety Employee Mortality tables. 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 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation. The most recent four-year experience studies for the Police and Fire and the Correctional Plan were completed in 2020 were adopted by the Board and became effective with the July 1, 2021 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2021:

**General Employees Fund**

Changes in Actuarial Assumptions:

- The investment return and single discount rates were changed from 7.50% to 6.50%, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions:

- There were no changes in plan provisions since the previous valuation.

**Police and Fire Fund**

Changes in Actuarial Assumptions:

- The investment return and single discount rates were changed from 7.50% to 6.50%, for financial reporting purposes.
- The inflation assumption was changed from 2.50% to 2.25%.
- The payroll growth assumption was changed from 3.25% to 3.00%.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from MP-2019 to MN-2020.
- The base mortality table for disabled annuitants was changed from the RP-2014 healthy annuitant mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety disabled annuitant mortality table (with future mortality improvement according to Scale MP-2020).
- Assumed rates of salary increase were modified as recommended in the July 14, 2020 experience study. The overall impact is a decrease in gross salary increase rates.
- Assumed rates of retirement were changed as recommended in the July 14, 2020 experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 9    DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**D. Actuarial Assumptions (Continued)**

- Assumed rates of withdrawal were changed from select and ultimate rates to service-based rates. The changes result in more assumed terminations.
- Assumed rates of disability were increased for ages 25-44 and decreased for ages over 49. Overall, proposed rates result in more projected disabilities.
- Assumed percent married for active female members was changed from 60% to 70%. Minor changes to form of payment assumptions were applied.

Changes in Plan Provisions:

- There were no changes in plan provisions since the previous valuation.

**E. Long-Term Expected Return on Investment**

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

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

**F. Discount Rate**

The discount rate used to measure the total pension liability in 2021 was 6.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund, the Police and Fire Fund, and the Correctional Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 9 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**F. 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:

Discount Rate	1% Decrease in Discount Rate 5.50%	Discount Rate 6.50%	1% Increase in Discount Rate 7.50%
City's Proportionate Share of the GERP Net Pension Liability	\$ 1,855,131	\$ 909,604	\$ 133,744
City's Proportionate Share of the PEPFF Net Pension Liability	\$ 2,886,846	\$ 909,291	\$ (711,814)

**G. Pension Plan Fiduciary Net Position**

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

**NOTE 10 PUBLIC EMPLOYEES DEFINED CONTRIBUTION PLAN**

Two City Council members are covered by the Defined Contribution Plan, a multiemployer 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 deferred until time of withdrawal. Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 10 PUBLIC EMPLOYEES DEFINED CONTRIBUTION PLAN (CONTINUED)**

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 share 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% (.0025) of the assets in each member's account annually

Total contributions made by the City during 2021 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rates
\$ 1,610	\$ 1,610	5%	5%	5%

**NOTE 11 POSTEMPLOYMENT HEALTH CARE PLAN**

**Plan Description**

The City administers a single-employer defined benefit plan OPEB plan which allows retired employees to remain on the City's health insurance plan after severing employment from the City at the retiree's expense (implicit rate subsidy). The plan does not issue a standalone financial report. There are 35 active plan members and 4 inactive plan members currently receiving benefits.

**Funding**

Employer contribution requirements are established and may be amended as set forth in the applicable employment and bargaining unit agreements. The plan is financed on a pay-as-you-go basis.

**OPEB Liability**

The City's total OPEB liability at December 31, 2021 was \$1,683,427. The total OPEB liability was measured as of December 31, 2020 and was determined by an actuarial valuation as of December 31, 2020. The total OPEB liability was determined by the use of the alternative measurement method as of that date. The total OPEB liability was determined using the following assumptions and other inputs, applied to all periods in the measurement, unless otherwise specified:

Inflation	2.25% per year
Salary Increases	3.50% average, including inflation.
Healthcare Cost Trend Rate	Beginning at 6.30% with an ultimate rate of 3.80%
Investment Rate of Return	N/A
Mortality Rate	RP-2014 White Collar Mortality Tables with MP-2019 Generational Improvement Scale.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 11 POSTEMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**OPEB Liability (Continued)**

The 2.00% discount rate used to measure the total OPEB liability was determined by the actuary using the Fidelity 20-year Municipal GO AA Index.

Changes in the total OPEB liability for the year ended December 31, 2021 are as follows:

Beginning Balance	\$ 1,627,840
Changes for the Year:	
Service Cost	64,111
Interest	45,895
Differences between Expected and Actual Experience	295,378
Changes of Assumptions	(303,730)
Benefit Payments	(46,067)
Net Changes	<u>55,587</u>
Ending Balance	<u>\$ 1,683,427</u>

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate.

Sensitivity of Total OPEB Liability at Current Single

Discount Rate:		
1% Higher	3.00%	\$ 1,467,065
Current Discount Rate	2.00%	1,683,427
1% Lower	1.00%	1,948,504

The following presents the City's total OPEB liability calculated using the current healthcare cost trend rate, as well as what the City's total OPEB liability would be if it were calculated using trend rates that are 1 percentage point lower or 1 percentage point higher than the current trend rates.

Sensitivity of Total OPEB Liability at Current Healthcare

Trend Rate:		
1% Higher	7.30%	\$ 1,958,281
Current Discount Rate	6.30%	1,683,427
1% Lower	5.30%	1,457,234

For the year ended December 31, 2021, the City recognized OPEB expense of \$44,585. The City's contributions subsequent to the measurement date of \$56,460, reported as deferred outflows of resources, will be recognized as a reduction of the total OPEB liability in the City's fiscal year ended December 31, 2021.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 12 COMPENSATED ABSENCES**

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Upon retirement, in accordance with various employment and union contracts, the value of the qualifying banked sick hours will be submitted as a Health Care Savings Plan (HCSP) contribution to the Minnesota State Retirement System (MSRS) to be used to pay the employee's health insurance premiums. The year-end accrued sick leave and accrued vacation balance increased by \$19,360 in the proprietary funds and increased by \$49,911 in the governmental funds. As of December 31, 2021, twelve employees were vested for sick leave. The current value of future benefits is recorded as compensated absences in the statement of net position at December 31, 2021, in the amount of \$594,240. Any management employee or LELS union member who is at the maximum accumulation of sick leave and who is credited for sick leave during a year in excess of the maximum sick leave shall, as of December 31 of the year in question, have 50% of such excess credit towards sick leave deposited in the State of Minnesota Health Care Savings Plan at the employees December 31 wage rate of the year in question. IOUE 49'ers shall have 25% deposited in the plan. The City paid \$7,658 to the MSRS for this employee benefit in 2021.

**NOTE 13 LEASES**

In February 1996, the City entered into a lease between HEDA and Independent School District No. 700 for land owned by the City. This lease was extended through June 30, 2025, with Independent School District No. 700 paying \$1 in rent. The Lease term shall automatically be renewed for additional one-year term(s) (Extension Term) unless either party advises the other party six months prior to the end of any term of such party's determination to terminate the term of the lease at the end of their term. This is a noncancelable lease, and the School District is using the building for its Early Childhood Education Program.

The School District left the building June 1, 2020. The building sold on March 22, 2021.

In March of 2019, the Council entered into a 10-year lease agreement with Essentia Health whereby the City is renting space to Essentia Health at the Essentia Wellness Center. The lease calls for annual rent of \$216,128, payable in monthly installments. After the first five years, rent will begin to increase annually by 2.25%. The lease provides the tenant with two 5-year renewal options. Future minimum rent payments are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2022	\$ 216,128
2023	216,128
2024	216,128
2025	220,991
2026	225,963
2027-2029	483,786
Total	<u>\$ 1,579,124</u>

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 14 TAX ABATEMENT COMMITMENTS**

The City, St. Louis County (County) and the Hermantown Economic Development Authority (HEDA), a component unit of the City, entered into a tax abatement agreement with a local business in accordance with Minnesota Statute 469.1813. The purpose of the property tax abatement agreements is to reimburse the local business for infrastructure it initially paid for.

The initial County abatement was paid off in 2019. On February 5, 2019, the County board extended the tax abatement for an additional \$860,000 for the purpose of assistance on funding the Section 24 Sewer trunk line. During 2021 the County paid \$208,728 towards the note, leaving a balance as of December 31, 2021 of \$396,875.

In HEDA's tax abatement agreement with the local business, HEDA has agreed to provide funding to the local business through the abatement of the total City taxes collected each year on the parcel of property owned by the local business. HEDA has agreed to provide tax abatement funding in the amounts of \$1,151,696 and \$400,000 plus interest at 4%. During 2021, the City paid the local business \$134,116 related to this agreement. As of December 31, 2021, the City's remaining commitment to the local business is \$751,726.

HEDA and the City have issued a tax increment revenue note (pay-as-you-go) to a local business. This note requires the City to make payments for a fixed period of time with available tax increment revenue after deducting for certain administrative costs. The note is not a debt of the City and the City is not liable on the note, except for the City's obligation to make payments from pledged tax increment from the applicable tax increment-financing district. The note shall not be payable out of any funds or properties other than the pledged increment. Under this agreement, up to \$500,000 of development costs plus interest will be reimbursed through tax increments. During the year ended December 31, 2021, the City generated tax increment revenue of \$132,872 and made payments of \$77,451, on the note. The note's balance at year-end was \$224,105.

**NOTE 15 COMMITMENTS AND CONTINGENCIES**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City has several active construction projects as of December 31, 2021. The remaining commitment on these projects totaled \$276,360.



**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 16 RISK MANAGEMENT**

The City purchases commercial insurance coverage through Travelers Insurance Company. The City pays an annual premium to Travelers Insurance Company for its insurance coverage. There were no significant reductions in insurance coverage from coverage in the prior year, and there were no insurance claims or settlements exceeding insurance coverage in the past three years.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF HERMANTOWN**  
**SCHEDULE OF CHANGES IN THE CITY'S TOTAL OPEB LIABILITY AND RELATED RATIOS**  
**LAST FOUR MEASUREMENT DATES**

Measurement Date	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017
Total OPEB Liability:				
Service Cost	\$ 64,111	\$ 51,512	\$ 84,347	\$ 74,039
Interest	45,895	51,803	27,530	27,316
Difference between Expected and Actual Experience	295,378	-	435,708	-
Changes in Assumptions	(303,730)	204,459	93,012	34,433
Benefit Payments	(46,067)	(49,434)	(36,958)	(25,701)
Total Changes	55,587	258,340	603,639	110,087
Total OPEB Liability - Beginning	1,627,840	1,369,500	765,861	655,774
Total OPEB Liability - Ending	<u>\$ 1,683,427</u>	<u>\$ 1,627,840</u>	<u>\$ 1,369,500</u>	<u>\$ 765,861</u>
Covered Employee Payroll	\$ 2,934,716	\$ 2,906,994	\$ 2,729,652	\$ 2,661,675
Districts Total Pension Liability as a Percentage of Covered Employee Payroll	57.4%	56.0%	50.2%	28.8%

**Notes to Schedule:**

Funding: There are no assets accumulated in a trust that meet the criteria of GASB No. 73, paragraph 4, to pay related benefits.

This schedule is intended to present information for the last 10 years. Additional information will be presented as it becomes available

**Assumption Changes**

Measurement Date: December 31, 2020

- The discount rate was changed from 2.75% to 2.00% based on updated 20-year municipal bond rates.
- Healthcare trend rates were reset to reflect updated cost increase expectations, including the repeal of the Affordable Care Act's Excise Tax on high-cost health insurance plans.
- Medical per capita claims costs were updated to reflect recent experience.
- Withdrawal, mortality, and salary increase rates were updated from the rates used in the 7/1/2018 PERA General Employees Plan and 7/1/2018 PERA Police & Fire Plan valuations to the rates used in the 7/1/2020 valuations.
- The expected retirement age for Police/Fire employees was updated from the latest of age 55, plan eligibility, or current age to the latest of age 54, plan eligibility, or current age.
- The expected retirement age for Non-Police/Fire employees was updated from the latest of age 62, plan eligibility, or current age to the latest of age 61, plan eligibility, or current age.
- The percent of future Police/Fire retirees assumed to elect coverage at retirement changed from 100% to 50% to reflect recent plan experience.
- The percent of future Non-Police/Fire retirees assumed to elect coverage at retirement changed from 60% to 50% to reflect recent plan experience.
- The inflation assumption was changed from 2.50% to 2.25% based on an updated historical analysis of inflation rates and forward-looking market expectations.

**CITY OF HERMANTOWN  
SCHEDULE OF CHANGES IN THE CITY'S TOTAL OPEB LIABILITY AND RELATED RATIOS  
LAST FOUR MEASUREMENT DATES**

Measurement Date: December 31, 2019

- The discount rate was changed from 3.71% to 2.75% based on updated 20-year municipal bond rates.
- The Index for 20-year, tax exempt municipal bonds (Fidelity 20-Year Municipal GO AA Index) used in the discount rate changes from 3.71% to 2.75%

Measurement Date: December 31, 2018

- The discount rate was changed from 3.31% to 3.71% based on updated 20-year municipal bond rates.
- Healthcare trend rates were reset to reflect updated cost increase expectations, including an adjustment to reflect the impact of the Affordable Care Act's Excise Tax on high-cost health insurance plans.
- Medical per capita claims costs were updated to reflect recent experience.
- Mortality rates were updated from the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale to RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale.
- Inflation assumption was changed from 2.75% to 2.50% based on an updated historical analysis of inflation rates and forward-looking market expectations.

**CITY OF HERMANTOWN  
INFORMATION ABOUT THE CITY'S NET PENSION LIABILITY  
YEAR ENDED DECEMBER 31, 2021**

**GENERAL EMPLOYEES FUND**

Schedule of Employer's Proportionate Share of the Net Pension Liability

Measurement Date	City's Proportionate Share (Percentage) of the Net Pension Liability	City's Proportionate Share (Amount) of the Net Pension Liability (a)	State's Proportionate Share (Amount) of the Net Pension Liability (b)	City's and State's Proportionate Share of the Net Pension Liability (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2021	0.0213%	\$ 909,604	\$ 27,777	\$ 937,381	\$ 1,531,373	61.2%	87.0%
June 30, 2020	0.0207%	1,241,060	38,201	\$ 1,279,261	1,475,147	86.7%	79.1%
June 30, 2019	0.0199%	1,100,226	34,165	1,134,391	1,405,853	80.7%	80.0%
June 30, 2018	0.0198%	1,098,423	36,119	1,134,542	1,331,650	85.2%	79.5%
June 30, 2017	0.0189%	1,206,564	15,199	1,221,763	1,219,758	100.2%	75.9%
June 30, 2016	0.0180%	1,461,511	19,156	1,480,667	1,119,203	132.3%	68.9%
June 30, 2015	0.0181%	938,036	-	938,036	1,062,157	88.3%	78.2%

Schedule of Employer's Contributions

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
December 31, 2021	\$ 116,846	\$ 116,846	\$ -	\$ 1,557,947	7.50%
December 31, 2020	116,340	116,340	-	1,551,200	7.50%
December 31, 2019	110,136	110,136	-	1,468,480	7.50%
December 31, 2018	101,958	101,958	-	1,359,438	7.50%
December 31, 2017	94,783	94,783	-	1,263,774	7.50%
December 31, 2016	88,405	88,405	-	1,178,729	7.50%
December 31, 2015	81,908	81,908	-	1,092,079	7.50%

**CITY OF HERMANTOWN  
INFORMATION ABOUT THE CITY'S NET PENSION LIABILITY  
YEAR ENDED DECEMBER 31, 2021**

*2021 Changes*

Changes in Actuarial Assumptions

- The investment return and single discount rates were changed from 7.50% to 6.50%, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions

- There were no changes in plan provisions since the previous valuation.

*2020 Changes*

Changes in Actuarial Assumptions:

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & 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% after. 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 million to \$21 million per year. The State's special funding contribution was changed prospectively, requiring \$16 million due per year through 2031.

**CITY OF HERMANTOWN  
INFORMATION ABOUT THE CITY'S NET PENSION LIABILITY  
YEAR ENDED DECEMBER 31, 2021**

*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 1.00% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

*2017 Changes*

Changes in Plan Provisions:

- The State's special funding contribution increased from \$6 million to \$16 million.

Changes in Actuarial Assumptions:

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and nonvested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.00% for vested deferred member liability, and 3.00% for nonvested deferred member liability.
- The assumed postretirement benefit increase rate was changed from 1.00% per year for all years to 1.00% per year through 2044 and 2.50% per year thereafter.

*2016 Changes*

Changes in Actuarial Assumptions:

- The assumed postretirement benefit increase rate was changed from 1.00% per year through 2035 and 2.50% per year thereafter to 1.00% per year for all years.
- The assumed investment return was changed from 7.90% to 7.50%. The single discount rate was changed from 7.90% to 7.50%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

*2015 Changes*

Changes in Plan Provisions:

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6 million, which meets the special funding situation definition, is due September 2015.

Changes in Actuarial Assumptions:

- The assumed postretirement benefit increase rate was changed from 1.00% per year through 2030 and 2.50% per year thereafter to 1.00% per year through 2035 and 2.50% per year thereafter.

**CITY OF HERMANTOWN  
 INFORMATION ABOUT THE CITY'S NET PENSION LIABILITY  
 YEAR ENDED DECEMBER 31, 2021**

**POLICE AND FIRE FUND**

Schedule of Employer's Proportionate Share of the Net Pension Liability

Measurement Date	City's Proportion (Percentage) of the Net Pension Liability	City's Proportionate Share (Amount) of the Net Pension Liability (a)	State's Proportionate Share (Amount) of the Net Pension Liability (b)	City's and State's Proportionate Share of the Net Pension Liability (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2021	0.1178%	\$ 909,291	\$ 40,881	\$ 950,172	\$ 1,392,373	65.3%	93.7%
June 30, 2020	0.1169%	1,540,867	36,314	1,577,181	1,320,534	116.7%	87.2%
June 30, 2019	0.1203%	1,280,715	-	1,280,715	1,298,494	98.6%	89.3%
June 30, 2018	0.1150%	1,225,782	-	1,225,782	1,211,962	101.1%	88.8%
June 30, 2017	0.1210%	1,633,644	-	1,633,644	1,243,764	131.3%	85.4%
June 30, 2016	0.1220%	4,896,072	-	4,896,072	1,151,242	425.3%	63.9%
June 30, 2015	0.1220%	1,386,205	-	1,386,205	1,111,297	124.7%	86.6%

Schedule of Employer's Contributions

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
December 31, 2021	\$ 257,301	\$ 257,301	\$ -	\$ 1,453,678	17.70%
December 31, 2020	244,165	244,165	-	1,379,463	17.70%
December 31, 2019	223,205	223,205	-	1,316,844	16.95%
December 31, 2018	202,107	202,107	-	1,247,571	16.20%
December 31, 2017	195,547	195,547	-	1,207,079	16.20%
December 31, 2016	196,959	196,959	-	1,215,798	16.20%
December 31, 2015	185,428	185,428	-	1,144,614	16.20%



**CITY OF HERMANTOWN  
INFORMATION ABOUT THE CITY'S NET PENSION LIABILITY  
YEAR ENDED DECEMBER 31, 2021**

*2021 Changes*

Changes in Actuarial Assumptions

- The investment return and single discount rates were changed from 7.50% to 6.50%, for financial reporting purposes.
- The inflation assumption was changed from 2.50% to 2.25%.
- The payroll growth assumption was changed from 3.25% to 3.00%.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from MP-2019 to MN-2020.
- The base mortality table for disabled annuitants was changed from the RP-2014 healthy annuitant mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety disabled annuitant mortality table (with future mortality improvement according to Scale MP-2020).
- Assumed rates of salary increase were modified as recommended in the July 14, 2020 experience study. The overall impact is a decrease in gross salary increase rates.
- Assumed rates of retirement were changed as recommended in the July 14, 2020 experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements.
- Assumed rates of withdrawal were changed from select and ultimate rates to service-based rates. The changes result in more assumed terminations.
- Assumed rates of disability were increased for ages 25-44 and decreased for ages over 49. Overall, proposed rates result in more projected disabilities.
- Assumed percent married for active female members was changed from 60% to 70%. Minor changes to form of payment assumptions were applied.

Changes in Plan Provisions

- There were no changes in plan provisions since the previous valuation.

*2020 Changes*

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2018 to MP-2019.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

*2019 Changes*

Changes in Actuarial Assumptions:

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

*2018 Changes*

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2016 to MP-2017.

*2017 Changes*

Changes in Actuarial Assumptions:

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34% lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30% for vested and nonvested deferred members. The CSA has been changed to 33% for vested members and 2% for nonvested members.

**CITY OF HERMANTOWN  
INFORMATION ABOUT THE CITY'S NET PENSION LIABILITY  
YEAR ENDED DECEMBER 31, 2021**

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0% for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65% to 60%.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed postretirement benefit increase rate was changed from 1.00% for all years to 1.00% per year through 2064 and 2.50% thereafter.
- The Single Discount Rate was changed from 5.60% per annum to 7.50% per annum.

***2016 Changes***

**Changes in Actuarial Assumptions:**

- The assumed postretirement benefit increase rate was changed from 1.00% per year through 2037 and 2.50% thereafter to 1.00% per year for all future years.
- The assumed investment return was changed from 7.90% to 7.50%. The single discount rate changed from 7.90% to 5.60%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

***2015 Changes***

**Changes in Plan Provisions:**

- The postretirement benefit increase to be paid after attainment of the 90% funding threshold was changed, from inflation up to 2.50%, to a fixed rate of 2.50%.

**Changes in Actuarial Assumptions:**

- The assumed postretirement benefit increase rate was changed from 1.00% per year through 2030 and 2.50% per year thereafter to 1.00% per year through 2037 and 2.50% per year thereafter.

## **SUPPLEMENTARY INFORMATION**

**CITY OF HERMANTOWN  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2021**

Special Revenue Funds							
	Hermantown Economic Development Authority Fund	Park Dedication Fund	Hermantown Wetland Mitigation Fund	American Rescue Plan Fund	Police Program Fund	Cable Television Fund	Soccer Fund
<b>ASSETS</b>							
Cash and Cash Equivalents	\$ 755,741	\$ -	\$ 39,464	\$ 524,428	\$ 213,651	\$ 262,567	\$ 73,168
Accounts Receivable	5,000	-	-	-	500	20,288	-
Interest Receivable	650	-	-	-	-	226	-
Delinquent Taxes Receivable	1,901	-	-	-	-	-	-
Prepaid Items	16	-	-	-	-	29	-
Advance to Other Funds	-	-	-	-	-	150,000	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>150,000</u>	<u>-</u>
Total Assets	<u>\$ 763,308</u>	<u>\$ -</u>	<u>\$ 39,464</u>	<u>\$ 524,428</u>	<u>\$ 214,151</u>	<u>\$ 433,110</u>	<u>\$ 73,168</u>
<b>LIABILITIES</b>							
Accrued Wages and Related Liabilities	\$ 601	\$ -	\$ -	\$ -	\$ -	\$ 125	\$ -
Accounts Payable	4,521	-	-	2,136	41	-	-
Deposits Payable	603	5,000	-	-	-	-	-
Unearned Revenue	-	-	-	522,292	-	-	-
Total Liabilities	<u>5,725</u>	<u>5,000</u>	<u>-</u>	<u>524,428</u>	<u>41</u>	<u>125</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Delinquent Property Tax	1,422	-	-	-	-	-	-
Total Deferred Inflow of Resources	<u>1,422</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCE (DEFICIT)</b>							
Nonspendable	16	-	-	-	-	150,029	-
Restricted	-	-	-	-	214,110	-	73,168
Committed	756,145	-	39,464	-	-	282,956	-
Unassigned (Deficit)	-	(5,000)	-	-	-	-	-
Total Fund Balance (Deficit)	<u>756,161</u>	<u>(5,000)</u>	<u>39,464</u>	<u>-</u>	<u>214,110</u>	<u>432,985</u>	<u>73,168</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance (Deficit)	<u>\$ 763,308</u>	<u>\$ -</u>	<u>\$ 39,464</u>	<u>\$ 524,428</u>	<u>\$ 214,151</u>	<u>\$ 433,110</u>	<u>\$ 73,168</u>

**CITY OF HERMANTOWN  
COMBINING BALANCE SHEET (CONTINUED)  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2021**

	Debt Service Funds				
	Certificate of Indebtedness Fund	G.O. Improvement Bonds Series 2012A Fund	G.O. Improvement Bonds Series 2012B Fund	G.O. Refunding Bonds Series 2016A Fund	G.O. Improvement Bonds Series 2016B Fund
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 38,425	\$ 143,675	\$ -	\$ 361,253	\$ 312,390
Interest Receivable	-	-	-	-	-
Delinquent Taxes Receivable	207	220	-	3,626	-
Special Assessments Receivable	-	278,431	-	592,127	-
Total Assets	<u>\$ 38,632</u>	<u>\$ 422,326</u>	<u>\$ -</u>	<u>\$ 957,006</u>	<u>\$ 312,390</u>
<b>LIABILITIES</b>					
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Delinquent Property Tax	\$ 207	\$ 220	\$ -	\$ 3,129	\$ -
Unavailable Special Assessments	-	278,295	-	590,355	-
Total Deferred Inflow of Resources	<u>207</u>	<u>278,515</u>	<u>-</u>	<u>593,484</u>	<u>-</u>
<b>FUND BALANCE (DEFICIT)</b>					
Restricted	38,425	143,811	-	363,522	312,390
Committed	-	-	-	-	-
Total Fund Balance (Deficit)	<u>38,425</u>	<u>143,811</u>	<u>-</u>	<u>363,522</u>	<u>312,390</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance (Deficit)	<u>\$ 38,632</u>	<u>\$ 422,326</u>	<u>\$ -</u>	<u>\$ 957,006</u>	<u>\$ 312,390</u>

**CITY OF HERMANTOWN  
COMBINING BALANCE SHEET (CONTINUED)  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2021**

Debt Service Funds				
G.O. Improvement Bonds Series 2018A Fund	G.O. Tax Abatement Bonds Series 2018B Fund	G.O. Tax Abatement Bonds Series 2019A Fund	G.O. Improvement Bonds Series 2020B Fund	Special Assessment Deficiency Fund
\$ 198,863	\$ 468,928	\$ 75,540	\$ 61,636	\$ 300,501
-	-	-	-	259
1,943	693	-	-	-
-	-	-	-	412,601
<u>\$ 200,806</u>	<u>\$ 469,621</u>	<u>\$ 75,540</u>	<u>\$ 61,636</u>	<u>\$ 713,361</u>
\$ 1,068	\$ 393	\$ -	\$ -	\$ -
-	-	-	-	412,262
<u>1,068</u>	<u>393</u>	<u>-</u>	<u>-</u>	<u>412,262</u>
199,738	469,228	75,540	61,636	-
-	-	-	-	301,099
<u>199,738</u>	<u>469,228</u>	<u>75,540</u>	<u>61,636</u>	<u>301,099</u>
<u>\$ 200,806</u>	<u>\$ 469,621</u>	<u>\$ 75,540</u>	<u>\$ 61,636</u>	<u>\$ 713,361</u>

**CITY OF HERMANTOWN  
COMBINING BALANCE SHEET (CONTINUED)  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2021**

	Capital Project Funds							
	General Capital Projects Fund	Municipal Building Reserve Fund	Essentia Wellness Center Capital Projects Fund	Munger Trail Fund	TIF District 1 Improvement Fund	HEDA Fleet Projects Fund	Municipal State Aid Streets Fund	Total Nonmajor Governmental Funds
<b>ASSETS</b>								
Cash and Cash Equivalents	\$ 596,337	\$ 275,296	\$ 277,871	\$ -	\$ 69,742	\$ 100,759	\$ -	\$ 5,150,235
Accounts Receivable	-	-	-	179,998	-	-	156,236	362,022
Interest Receivable	-	-	-	-	-	-	-	1,135
Delinquent Taxes Receivable	-	-	-	-	-	-	-	8,590
Special Assessments Receivable	-	-	-	-	-	-	-	1,283,159
Prepaid Items	-	-	-	-	-	-	-	45
Advance to Other Funds	-	-	-	-	-	-	-	150,000
Total Assets	<u>\$ 596,337</u>	<u>\$ 275,296</u>	<u>\$ 277,871</u>	<u>\$ 179,998</u>	<u>\$ 69,742</u>	<u>\$ 100,759</u>	<u>\$ 156,236</u>	<u>\$ 6,955,186</u>
<b>LIABILITIES</b>								
Accrued Wages and Related Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 726
Accounts Payable	-	-	-	-	-	-	34,376	41,074
Due to Other Funds	-	-	-	292,050	-	-	310,442	602,492
Deposits Payable	-	-	-	-	-	-	-	5,603
Advance from Other Funds	-	-	-	-	700,000	-	-	700,000
Unearned Revenue	-	-	-	-	-	-	-	522,292
Total Liabilities	-	-	-	292,050	700,000	-	344,818	1,872,187
<b>DEFERRED INFLOWS OF RESOURCES</b>								
Delinquent Property Tax	-	-	-	-	-	-	-	6,439
Unavailable Special Assessments	-	-	-	179,998	-	-	-	1,460,910
Deferred Inflows - Other	-	-	-	-	-	-	156,236	156,236
Total Deferred Inflow of Resources	-	-	-	179,998	-	-	156,236	1,623,585
<b>FUND BALANCE (DEFICIT)</b>								
Nonspendable	-	-	-	-	-	-	-	150,045
Restricted	-	-	-	-	-	-	-	1,951,568
Committed	-	-	-	-	-	-	-	1,379,664
Assigned	596,337	275,296	277,871	-	-	100,759	-	1,250,263
Unassigned (Deficit)	-	-	-	(292,050)	(630,258)	-	(344,818)	(1,272,126)
Total Fund Balance (Deficit)	<u>596,337</u>	<u>275,296</u>	<u>277,871</u>	<u>(292,050)</u>	<u>(630,258)</u>	<u>100,759</u>	<u>(344,818)</u>	<u>3,459,414</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance (Deficit)	<u>\$ 596,337</u>	<u>\$ 275,296</u>	<u>\$ 277,871</u>	<u>\$ 179,998</u>	<u>\$ 69,742</u>	<u>\$ 100,759</u>	<u>\$ 156,236</u>	<u>\$ 6,955,186</u>

**CITY OF HERMANTOWN  
COMBINING STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND BALANCES (DEFICITS)  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2021**

	Special Revenue Funds						
	Hermantown Economic Development Authority Fund	Park Dedication Fund	Hermantown Wetland Mitigation Fund	American Rescue Plan Fund	Police Program Fund	Cable Television Fund	Soccer Fund
<b>REVENUES</b>							
Taxes	\$ 77,201	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Franchise Fees	-	-	-	-	-	40,807	-
Special Assessments	-	-	-	-	-	-	-
Licenses and Permits	-	155,250	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for Services	-	-	-	-	-	-	-
Fines and Forfeitures	-	-	-	-	6,121	-	-
Investment Income	(2,004)	(157)	-	-	-	5,123	-
Miscellaneous	7,774	-	-	4,285	10,815	1	-
Total Revenues	82,971	155,093	-	4,285	16,936	45,931	-
<b>EXPENDITURES</b>							
Current:							
General Government	-	-	-	4,285	-	-	-
Public Safety	-	-	-	-	7,484	-	-
Community and Economic Development	145,437	-	18,826	-	-	-	-
Culture and Recreation	-	6,564	-	-	-	27,863	-
Capital Outlay	-	779	-	-	-	-	-
Debt Service:							
Principal	-	-	-	-	-	-	-
Interest and Fiscal Charges	-	-	-	-	-	-	-
Total Expenditures	145,437	7,343	18,826	4,285	7,484	27,863	-
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(62,466)	147,750	(18,826)	-	9,452	18,068	-
<b>OTHER FINANCING SOURCES (USES)</b>							
Bonds Issued	-	-	-	-	-	-	-
Premium on Issuance of Bonds	-	-	-	-	-	-	-
Bond Principal Refunded	-	-	-	-	-	-	-
Transfer In	-	-	-	-	-	-	-
Transfer Out	-	(361,658)	-	-	-	-	-
Sales of Capital Assets	515,000	-	-	-	-	-	-
Net Other Financing Sources (Uses)	515,000	(361,658)	-	-	-	-	-
<b>NET CHANGE IN FUND BALANCE</b>	452,534	(213,908)	(18,826)	-	9,452	18,068	-
Fund Balance (Deficit) - Beginning	303,627	208,908	58,290	-	204,658	414,917	73,168
<b>FUND BALANCE (DEFICIT) - ENDING</b>	<u>\$ 756,161</u>	<u>\$ (5,000)</u>	<u>\$ 39,464</u>	<u>\$ -</u>	<u>\$ 214,110</u>	<u>\$ 432,985</u>	<u>\$ 73,168</u>



**CITY OF HERMANTOWN**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND BALANCES (DEFICITS) (CONTINUED)**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2021**

	Debt Service Funds				
	Certificate of Indebtedness Fund	G.O. Improvement Bonds Series 2012A Fund	G.O. Improvement Bonds Series 2012B Fund	G.O. Refunding Bonds Series 2016A Fund	G.O. Improvement Bonds Series 2016B Fund
<b>REVENUES</b>					
Taxes	\$ 53	\$ -	\$ -	\$ 79,259	\$ -
Franchise Fees	-	-	-	-	-
Special Assessments	-	43,750	52,378	121,727	-
Licenses and Permits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Fines and Forfeitures	-	-	-	-	-
Investment Income	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Revenues	53	43,750	52,378	200,986	-
<b>EXPENDITURES</b>					
Current:					
General Government	-	-	-	-	-
Public Safety	-	-	-	-	-
Community and Economic Development	-	-	-	-	-
Culture and Recreation	-	-	-	-	-
Capital Outlay	-	-	-	-	-
Debt Service:					
Principal	-	165,000	145,000	375,000	530,000
Interest and Fiscal Charges	-	22,059	91,795	50,505	96,355
Total Expenditures	-	187,059	236,795	425,505	626,355
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	53	(143,309)	(184,417)	(224,519)	(626,355)
<b>OTHER FINANCING SOURCES (USES)</b>					
Bonds Issued	-	-	2,145,000	-	-
Premium on Issuance of Bonds	-	-	93,540	-	-
Bond Principal Refunded	-	-	(2,175,000)	-	-
Transfer In	-	197,539	-	217,723	698,807
Transfer Out	-	-	(1,209,321)	-	-
Sales of Capital Assets	-	-	-	-	-
Net Other Financing Sources (Uses)	-	197,539	(1,145,781)	217,723	698,807
<b>NET CHANGE IN FUND BALANCE</b>	53	54,230	(1,330,198)	(6,796)	72,452
Fund Balance (Deficit) - Beginning	38,372	89,581	1,330,198	370,318	239,938
<b>FUND BALANCE (DEFICIT) - ENDING</b>	\$ 38,425	\$ 143,811	\$ -	\$ 363,522	\$ 312,390

**CITY OF HERMANTOWN  
COMBINING STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND BALANCES (DEFICITS) (CONTINUED)  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2021**

Debt Service Funds				
G.O. Improvement Bonds Series 2018A Fund	G.O. Tax Abatement Bonds Series 2018B Fund	G.O. Tax Abatement Bonds Series 2019A Fund	G.O. Improvement Bonds Series 2020B Fund	Special Assessment Deficiency Fund
\$ 144,527	\$ 49,500	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	18,346
-	-	-	-	-
-	-	-	-	-
-	-	-	-	(1,064)
-	-	-	-	-
144,527	49,500	-	-	17,282
-	-	-	-	3,505
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
75,000	280,000	305,000	205,000	-
60,105	256,729	304,862	94,880	-
135,105	536,729	609,862	299,880	3,505
9,422	(487,229)	(609,862)	(299,880)	13,777
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	517,611	647,200	294,997	-
-	-	-	-	(27,806)
-	-	-	-	-
-	517,611	647,200	294,997	(27,806)
9,422	30,382	37,338	(4,883)	(14,029)
190,316	438,846	38,202	66,519	315,128
\$ 199,738	\$ 469,228	\$ 75,540	\$ 61,636	\$ 301,099

**CITY OF HERMANTOWN**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND BALANCES (DEFICITS) (CONTINUED)**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2021**

	Capital Project Funds							
	General Capital Projects Fund	Municipal Building Reserve Fund	Essentia Wellness Center Capital Projects Fund	Munger Trail Fund	TIF District 1 Improvement Fund	HEDA Fleet Projects Fund	Municipal State Aid Streets Fund	Total Nonmajor Governmental Funds
<b>REVENUES</b>								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 132,394	\$ 134,116	\$ -	\$ 617,050
Franchise Fees	-	-	-	-	-	-	-	40,807
Special Assessments	-	-	-	-	-	-	-	236,201
Licenses and Permits	-	-	-	-	-	-	-	155,250
Intergovernmental	-	-	-	223,510	-	-	560,458	783,968
Charges for Services	-	-	-	-	-	-	-	-
Fines and Forfeitures	-	-	-	-	-	-	-	6,121
Investment Income	-	-	-	-	-	-	-	1,898
Miscellaneous	-	-	-	-	-	-	-	22,875
Total Revenues	-	-	-	223,510	132,394	134,116	560,458	1,864,170
<b>EXPENDITURES</b>								
Current:								
General Government	-	-	-	-	-	-	-	7,790
Public Safety	-	-	-	-	-	-	-	7,484
Community and Economic Development	-	-	-	493	78,530	134,454	500	378,240
Culture and Recreation	-	-	-	1,913	-	-	-	36,340
Capital Outlay	343,862	-	5,580	608,868	-	-	718,234	1,677,323
Debt Service:								
Principal	60,253	-	-	-	-	-	-	2,140,253
Interest and Fiscal Charges	716	-	-	-	28,000	-	-	1,006,006
Total Expenditures	404,831	-	5,580	611,274	106,530	134,454	718,734	5,253,436
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(404,831)	-	(5,580)	(387,764)	25,864	(338)	(158,276)	(3,389,266)
<b>OTHER FINANCING SOURCES (USES)</b>								
Bonds Issued	-	-	-	-	-	-	-	2,145,000
Premium on Issuance of Bonds	-	-	-	-	-	-	-	93,540
Bond Principal Refunded	-	-	-	-	-	-	-	(2,175,000)
Capital Lease Issued	343,862	-	-	-	-	-	-	343,862
Transfer In	243,000	100,000	-	361,658	-	-	-	3,278,535
Transfer Out	(100,125)	-	-	(137,689)	-	-	-	(1,836,599)
Sales of Capital Assets	-	-	-	-	-	-	-	515,000
Net Other Financing Sources (Uses)	486,737	100,000	-	223,969	-	-	-	2,364,338
<b>NET CHANGE IN FUND BALANCE</b>	81,906	100,000	(5,580)	(163,795)	25,864	(338)	(158,276)	(1,024,928)
Fund Balance (Deficit) - Beginning	514,431	175,296	283,451	(128,255)	(656,122)	101,097	(186,542)	4,484,342
<b>FUND BALANCE (DEFICIT) - ENDING</b>	<u>\$ 596,337</u>	<u>\$ 275,296</u>	<u>\$ 277,871</u>	<u>\$ (292,050)</u>	<u>\$ (630,258)</u>	<u>\$ 100,759</u>	<u>\$ (344,818)</u>	<u>\$ 3,459,414</u>

**CITY OF HERMANTOWN  
COMBINING STATEMENT OF NET POSITION  
NONMAJOR ENTERPRISE FUNDS  
YEAR ENDED DECEMBER 31, 2021**

	Storm Water Funds	Street Lighting Fund	Total Nonmajor Enterprise Funds
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 229,759	\$ 651,556	\$ 881,315
Interest Receivable	268	561	829
Accounts Receivable, Net of Allowance	55,977	35,471	91,448
Advance to Other Funds	-	550,000	550,000
Prepaid Items	831	-	831
Total Current Assets	<u>286,835</u>	<u>1,237,588</u>	<u>1,524,423</u>
Noncurrent Assets:			
Capital Assets, Net of Depreciation:			
Assets Being Depreciated, Net	408,218	-	408,218
Total Capital Assets, Net of Depreciation	<u>408,218</u>	<u>-</u>	<u>408,218</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Other Postemployment Benefits	1,908	-	1,908
Pensions	36,289	-	36,289
Total Deferred Outflows of Resources	<u>38,197</u>	<u>-</u>	<u>38,197</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 733,250</u>	<u>\$ 1,237,588</u>	<u>\$ 1,970,838</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	\$ 2,084	\$ 5,282	\$ 7,366
Accrued Wages and Related Liabilities	2,741	-	2,741
Total Current Liabilities	<u>4,825</u>	<u>5,282</u>	<u>10,107</u>
Noncurrent Liabilities:			
Compensated Absences	22,295	-	22,295
Net Pension Liability	48,686	-	48,686
Total OPEB Liability	56,889	-	56,889
Total Noncurrent Liabilities	<u>127,870</u>	<u>-</u>	<u>127,870</u>
Total Liabilities	132,695	5,282	137,977
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Other Postemployment Benefits	43,270	-	43,270
Pensions	1,461	-	1,461
Total Deferred Inflows of Resources	<u>44,731</u>	<u>-</u>	<u>44,731</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	408,218	-	408,218
Unrestricted	147,606	1,232,306	1,379,912
Total Net Position	<u>555,824</u>	<u>1,232,306</u>	<u>1,788,130</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 733,250</u>	<u>\$ 1,237,588</u>	<u>\$ 1,970,838</u>

**CITY OF HERMANTOWN**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**NONMAJOR ENTERPRISE FUNDS**  
**YEAR ENDED DECEMBER 31, 2021**

	Storm Water Funds	Street Lighting Fund	Total Nonmajor Enterprise Funds
<b>OPERATING REVENUES</b>			
User Fees	\$ 417,038	\$ -	\$ 417,038
Franchise Fees	-	139,542	139,542
Total Operating Revenues	<u>417,038</u>	<u>139,542</u>	<u>556,580</u>
<b>OPERATING EXPENSES</b>			
Personnel Services	157,090	-	157,090
Maintenance and Supplies	77,682	5,282	82,964
Utilities	-	29,963	29,963
Professional Services	6,524	-	6,524
Depreciation Expense	10,835	-	10,835
Total Operating Expenses	<u>252,131</u>	<u>35,245</u>	<u>287,376</u>
<b>NET OPERATING INCOME</b>	164,907	104,297	269,204
<b>NONOPERATING REVENUES</b>			
Hookups and Miscellaneous Income	4,815	-	4,815
Investment Income	(824)	19,863	19,039
Total Nonoperating Revenues	<u>3,991</u>	<u>19,863</u>	<u>23,854</u>
<b>INCOME BEFORE TRANSFERS</b>	168,898	124,160	293,058
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer Out	<u>(111,265)</u>	<u>-</u>	<u>(111,265)</u>
<b>CHANGE IN NET POSITION</b>	57,633	124,160	181,793
Net Position - Beginning	<u>498,191</u>	<u>1,108,146</u>	<u>1,606,337</u>
<b>NET POSITION - ENDING</b>	<u><u>\$ 555,824</u></u>	<u><u>\$ 1,232,306</u></u>	<u><u>\$ 1,788,130</u></u>

**CITY OF HERMANTOWN  
COMBINING STATEMENT OF CASH FLOWS  
NONMAJOR ENTERPRISE FUNDS  
YEAR ENDED DECEMBER 31, 2021**

	Nonmajor Enterprise Fund		Total Nonmajor Enterprise Funds
	Storm Water Funds	Street Lighting Fund	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from Users	\$ 437,729	\$ 138,463	\$ 576,192
Payments to Employees	(129,587)	-	(129,587)
Payments to Suppliers	(84,607)	(43,106)	(127,713)
Net Cash Provided by Operating Activities	223,535	95,357	318,892
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers Out	(111,265)	-	(111,265)
Cash Received from Hookups and Miscellaneous Income	4,815	-	4,815
Net Cash Used by Noncapital Financing Activities	(106,450)	-	(106,450)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and Construction of Capital Assets	-	-	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment Income	(1,092)	19,712	18,620
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	115,993	115,069	231,062
Cash and Cash Equivalents - Beginning of Year	113,766	536,487	650,253
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 229,759</u>	<u>\$ 651,556</u>	<u>\$ 881,315</u>

**CITY OF HERMANTOWN  
COMBINING STATEMENT OF CASH FLOWS  
NONMAJOR ENTERPRISE FUNDS  
YEAR ENDED DECEMBER 31, 2021**

	Nonmajor Enterprise Funds		Total Nonmajor Enterprise Funds
	Storm Water Funds	Street Lighting Fund	
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating Income	\$ 164,907	\$ 104,297	\$ 269,204
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	10,835	-	10,835
(Increase) Decrease in Assets:			
Accounts Receivable	20,691	(1,079)	19,612
Prepaid Expenses	(35)	-	(35)
Deferred Outflows	(32,479)	-	(32,479)
Increase (Decrease) in Liabilities:			
Accounts Payable	(366)	(7,861)	(8,227)
Wages and Related Liabilities	91	-	91
Compensated Absences Payable	(2,362)	-	(2,362)
Net Pension Liability	12,918	-	12,918
Total OPEB Liability	6,065	-	6,065
Deferred Inflows	43,270	-	43,270
Total Adjustments	<u>58,628</u>	<u>(8,940)</u>	<u>49,688</u>
Net Cash Provided by Operating	<u>\$ 223,535</u>	<u>\$ 95,357</u>	<u>\$ 318,892</u>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>			
Capital contributions	\$ -	\$ -	\$ -

## OTHER REPORTS





**INDEPENDENT AUDITORS' 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**

Honorable City Council  
City of Hermantown  
Hermantown, 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 Hermantown, Minnesota (the City), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 16, 2022.

**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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
May 16, 2022



## INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable City Council  
City of Hermantown  
Hermantown, 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 Hermantown, Minnesota (the City), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated, May 16, 2022.

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 and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 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 relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Cities* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
May 16, 2022

