

**CITY OF HERMANTOWN
HERMANTOWN, MINNESOTA**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2022



CPAs | CONSULTANTS | WEALTH ADVISORS

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INTRODUCTORY SECTION

**CITY OF HERMANTOWN
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2022**

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 Audit of 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, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City of Hermantown'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, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary comparisons for the general fund, City Sales Tax Fund, and the Essential Wellness Center Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the 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.

Emphasis of Matters

As discussed in Note 1 to the financial statements, effective January 1, 2022, the City adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-to-use lease asset and corresponding lease liability and lessors to recognize a lease receivable and corresponding deferred inflow of resources for all leases with lease terms greater than twelve months. Our opinions are not modified with respect to this matter.

Also, during the fiscal year ended December 31, 2022, the City restated the beginning fund balance for the City Sales Tax Fund to reflect additional revenue and receivables for 2021 sales taxes. See Note 17 for additional information on this restatement. Our auditors' opinion was not modified with respect to this restatement.

Responsibilities of Management for the Financial Statements

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

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

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 of America require that management's discussion and analysis, schedule of changes in the City's total OPEB liability and related ratios, and the information about the City's net pension liability, which includes the PERA schedule of the City's proportionate share of the net pension liability, and the PERA schedule of City contributions, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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 GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hermantown's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other 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 June 12, 2023, on our consideration of the City of Hermantown'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 of Hermantown'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 City of Hermantown's internal control over financial reporting and compliance.

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

CliftonLarsonAllen LLP

Minneapolis, Minnesota
June 12, 2023

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF HERMANTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2022**

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, 2022. Please read it in conjunction with the City's financial statements, which begin on page 12.

FINANCIAL HIGHLIGHTS

- The City's net position increased \$3,721,385 or 4.36% as a result of this year's operations. The net position of the governmental activities increased \$2,930,505, or 8.42%. The net position of the business-type activities increased \$790,880, or 1.57%.
- The General Fund unassigned fund balance was \$4,726,275 or 66.11% of the total General Fund expenditures and other financing uses for 2022.

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, 2022**

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, Municipal State Aid Streets, G.O. Improvement Series 2021A Fund, Special Assessment/Road Improvement Fund and Essentia 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, 2022**

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:

	2022			2021		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Assets:						
Current and Other Assets	\$ 32,382,436	\$ 13,976,980	\$ 46,359,416	\$ 28,092,677	\$ 12,882,607	\$ 40,975,284
Capital Assets	49,285,443	38,454,820	87,740,263	51,145,315	38,593,925	89,739,240
Total Assets	81,667,879	52,431,800	134,099,679	79,237,992	51,476,532	130,714,524
Deferred Outflows of Resources	4,147,120	170,660	4,317,780	2,223,557	222,041	2,445,598
Liabilities:						
Long-Term Liabilities	41,689,015	995,280	42,684,295	39,711,501	734,971	40,446,472
Other Liabilities	4,929,396	261,525	5,190,921	4,379,014	217,328	4,596,342
Total Liabilities	46,618,411	1,256,805	47,875,216	44,090,515	952,299	45,042,814
Deferred Inflows of Resources	1,467,676	68,657	1,536,333	2,891,100	260,156	3,151,256
Net Position:						
Net Investment in Capital Assets	15,895,698	38,454,820	54,350,518	14,796,569	38,593,925	53,390,494
Restricted	18,175,790	-	18,175,790	16,611,859	-	16,611,859
Unrestricted	3,657,424	12,822,178	16,479,602	3,071,506	11,892,193	14,963,699
Total Net Position	\$ 37,728,912	\$ 51,276,998	\$ 89,005,910	\$ 34,479,934	\$ 50,486,118	\$ 84,966,052

**CITY OF HERMANTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2022**

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:

	2022			2021		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
REVENUES						
Program Revenues:						
Charges for Service	\$ 929,369	\$ 4,167,113	\$ 5,096,482	\$ 957,515	\$ 4,225,123	\$ 5,182,638
Operating Grants and Contributions	437,545	-	437,545	727,586	-	727,586
Capital Grants and Contributions	1,105,380	-	1,105,380	215,644	-	215,644
General Revenues:						
Property Taxes	7,241,818	-	7,241,818	6,653,682	-	6,653,682
Sales Tax	4,152,273	-	4,152,273	3,882,209	-	3,882,209
State Aids	352,433	-	352,433	4,285	-	4,285
Interest	(282,090)	(246,586)	(528,676)	(29,109)	(16,261)	(45,370)
Other	427,172	263,147	690,319	189,873	177,742	367,615
Gain on Sale of Capital Assets	(684)	-	(684)	374,425	-	374,425
Transfers	(294,466)	391,669	97,203	(800,014)	800,014	-
Total Revenues	14,068,750	4,575,343	18,644,093	12,176,096	5,186,618	17,362,714
EXPENSES						
General Government	908,394	-	908,394	999,823	-	999,823
Public Safety	4,793,810	-	4,793,810	3,445,590	-	3,445,590
Streets and Highways	3,137,058	-	3,137,058	2,088,937	-	2,088,937
Community and Economic Development	771,981	-	771,981	423,637	-	423,637
Culture and Recreation	724,377	-	724,377	1,346,246	-	1,346,246
Interest and Fiscal Charges	802,625	-	802,625	893,491	-	893,491
Water Utility	-	1,728,971	1,728,971	-	2,038,401	2,038,401
Sewage Disposal	-	1,783,555	1,783,555	-	1,685,061	1,685,061
Street Lighting	-	45,981	45,981	-	35,245	35,245
Storm Water Utility	-	225,956	225,956	-	252,131	252,131
Total Expenses	11,138,245	3,784,463	14,922,708	9,197,724	4,010,838	13,208,562
Change in Net Position	2,930,505	790,880	3,721,385	2,978,372	1,175,780	4,154,152
Net Position - Beginning of Year	34,479,934	50,486,118	84,966,052	31,501,562	49,310,338	80,811,900
Change in Accounting Principal - See Note 17	8,519	-	8,519	-	-	-
Prior Period Restatement - See Note 17	309,954	-	309,954	-	-	-
Net Position - Beginning of Year, as Restated	34,798,407	50,486,118	85,284,525	31,501,562	49,310,338	80,811,900
Net Position - End of Year	\$ 37,728,912	\$ 51,276,998	\$ 89,005,910	\$ 34,479,934	\$ 50,486,118	\$ 84,966,052

**CITY OF HERMANTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2022**

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, 2022, the City's governmental funds reported a combined fund balance of \$21,843,349, an increase of \$1,729,961 from the 2021 balance of \$20,113,388.

The General Fund is the main operating fund of the City of Hermantown. At December 31, 2022, fund balance of the General Fund was \$4,823,535 with 97.98% 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 66.11% of total General Fund expenditures and other financing uses. During 2022, the fund balance of the General Fund increased by \$75,073.

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 \$790,880 in 2022. Net operating income for 2022 was \$382,650.

General Fund Budgetary Highlights

The City adopted an original General Fund revenue and other financing sources budget of \$6,732,986 which was not revised during the year. The City adopted an original General Fund expenditure and other financing uses budget of \$6,732,986 which was revised during the year to \$6,957,986.

The City's final budget for the General Fund anticipated that expenditures and other financing uses would be greater revenues and other financing sources by \$225,000. The actual results for the year showed revenues and other financing sources exceeding expenditures and other financing uses by \$75,073. Actual revenues and other financing sources were \$484,301 more than anticipated.

Actual expenditures and other financing uses were \$190,774 more than anticipated.

Capital Assets

The City of Hermantown's investment in capital assets as of December 31, 2022 was \$87,740,263, net of accumulated depreciation and amortization. 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, 2022**

Debt

The City had \$32,270,000 in general obligation bonds outstanding at the end of 2022.

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 6 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 2023 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 2022-2023 the City has engaged Ehlers Inc. to refresh the Financial Management Plan.
- 2023 General Fund budgeted expenditures increased 7.9% or \$533,233. Some of the increase was due to normal personnel increases, a substantial insurance increase, funding for a communications department, increased funding for parks, increased funding for capital purchases, and inflationary pressures.
- The City increased the total tax levy by 6.9% while net tax capacity increased 11%. At the December 2022 Truth and Taxation meeting, the City Council approved a local tax rate decrease from 46.66% in 2022 to 45.44% in 2023.

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.

BASIC FINANCIAL STATEMENTS

**CITY OF HERMANTOWN
STATEMENT OF NET POSITION
DECEMBER 31, 2022**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 24,805,577	\$ 12,418,075	\$ 37,223,652
Accounts Receivable	1,723,080	555,404	2,278,484
Interest Receivable	27,349	21,639	48,988
Delinquent Taxes Receivable	91,133	15,015	106,148
Special Assessments Receivable	4,773,152	186,573	4,959,725
Lease Receivable	1,403,510	64,062	1,467,572
Contracts Receivable	-	60,150	60,150
Internal Balances	(550,000)	550,000	-
Inventories	-	82,183	82,183
Prepaid Items	108,635	23,879	132,514
Capital and Right to Use Assets, Net of Depreciation/Amortization:			
Assets Not Being Depreciated/Amortized	4,135,239	644,868	4,780,107
Assets Being Depreciated/Amortized, Net	45,150,204	37,809,952	82,960,156
Total Assets	<u>81,667,879</u>	<u>52,431,800</u>	<u>134,099,679</u>
DEFERRED OUTFLOWS OF RESOURCES			
Other Postemployment Benefits Related	52,649	14,718	67,367
Pension Related	4,094,471	155,942	4,250,413
Total Deferred Outflows of Resources	<u>4,147,120</u>	<u>170,660</u>	<u>4,317,780</u>
 Total Assets and Deferred Outflows of Resources	 <u>\$ 85,814,999</u>	 <u>\$ 52,602,460</u>	 <u>\$ 138,417,459</u>
LIABILITIES			
Accounts Payable	\$ 726,720	\$ 217,480	\$ 944,200
Accrued Wages and Related Liabilities	102,176	14,875	117,051
Accrued Interest	391,261	-	391,261
Customer Deposits	240,960	29,170	270,130
Unearned Revenue	3,468,279	-	3,468,279
Long-Term Liabilities:			
Total Other Postemployment Benefits Liability	1,372,300	383,673	1,755,973
Net Pension Liability	6,460,521	494,672	6,955,193
Amount Due within One Year	3,106,374	-	3,106,374
Amounts Due in More than One Year	30,749,820	116,935	30,866,755
Total Liabilities	<u>46,618,411</u>	<u>1,256,805</u>	<u>47,875,216</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows - Lease Receivable	1,371,014	61,362	1,432,376
Pension Related	96,662	7,295	103,957
Total Deferred Inflows of Resources	<u>1,467,676</u>	<u>68,657</u>	<u>1,536,333</u>
NET POSITION			
Net Investment in Capital Assets	15,895,698	38,454,820	54,350,518
Restricted	18,175,790	-	18,175,790
Unrestricted	3,657,424	12,822,178	16,479,602
Total Net Position	<u>37,728,912</u>	<u>51,276,998</u>	<u>89,005,910</u>
 Total Liabilities, Deferred Inflows of Resources and Net Position	 <u>\$ 85,814,999</u>	 <u>\$ 52,602,460</u>	 <u>\$ 138,417,459</u>

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2022**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
GOVERNMENTAL ACTIVITIES							
General Government	\$ 908,394	\$ 123,052	\$ -	\$ -	\$ (785,342)	\$ -	\$ (785,342)
Public Safety	4,793,810	369,273	337,545	-	(4,086,992)	-	(4,086,992)
Streets and Highways	3,137,058	-	-	1,105,380	(2,031,678)	-	(2,031,678)
Community and Economic Development	771,981	227,337	-	-	(544,644)	-	(544,644)
Culture and Recreation	724,377	209,707	100,000	-	(414,670)	-	(414,670)
Interest and Fiscal Charges	802,625	-	-	-	(802,625)	-	(802,625)
Total Governmental Activities	\$ 11,138,245	\$ 929,369	\$ 437,545	\$ 1,105,380	(8,665,951)	-	(8,665,951)
BUSINESS-TYPE ACTIVITIES							
Water Utility	\$ 1,728,971	\$ 1,878,550	\$ -	\$ -	-	149,579	149,579
Sewage Disposal	1,783,555	1,737,533	-	-	-	(46,022)	(46,022)
Street Lighting	45,981	142,916	-	-	-	96,935	96,935
Storm Water Utility	225,956	408,114	-	-	-	182,158	182,158
Total Business-Type Activities	\$ 3,784,463	\$ 4,167,113	\$ -	\$ -	-	382,650	382,650
GENERAL REVENUES							
Property Taxes					7,241,818	-	7,241,818
Sales Tax					4,152,273	-	4,152,273
Unrestricted Federal Aid					352,433	-	352,433
Investment Income					(282,090)	(246,586)	(528,676)
Other					427,172	263,147	690,319
Loss on Sale of Capital Assets					(684)	-	(684)
TRANSFERS					(294,466)	391,669	97,203
Total General Revenues and Transfers					11,596,456	408,230	12,004,686
CHANGE IN NET POSITION					2,930,505	790,880	3,721,385
Net Position - Beginning of Year					34,479,934	50,486,118	84,966,052
Change in Accounting Principal - See Note 17					8,519	-	8,519
Prior Period Restatement - See Note 17					309,954	-	309,954
Net Position - Beginning of Year, as Restated					34,798,407	50,486,118	85,284,525
NET POSITION - END OF YEAR					\$ 37,728,912	\$ 51,276,998	\$ 89,005,910

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2022**

	General	City Sales Tax Fund	G.O. Improvement Bonds Series 2021A Fund	Essentia Wellness Center Special Revenue Fund	Municipal Streets Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS							
Cash and Investments	\$ 4,868,884	\$ 8,615,805	\$ 1,920,060	\$ 1,949,190	\$ -	\$ 7,451,638	\$ 24,805,577
Accounts Receivable	19,369	730,599	-	110,231	850,039	21,076	1,731,314
Interest Receivable	9,923	15,097	-	-	-	2,329	27,349
Delinquent Taxes Receivable	82,746	-	1,252	-	-	7,135	91,133
Special Assessments Receivable	-	-	1,421,947	-	-	3,351,205	4,773,152
Lease Receivable	55,235	-	-	1,348,275	-	-	1,403,510
Prepaid Items	97,260	-	-	11,349	-	26	108,635
Due from Other Funds	502,864	-	-	-	-	-	502,864
Advance to Other Funds	-	-	-	-	-	50,000	50,000
Total Assets	\$ 5,636,281	\$ 9,361,501	\$ 3,343,259	\$ 3,419,045	\$ 850,039	\$ 10,883,409	\$ 33,493,534
LIABILITIES							
Accounts Payable	\$ 348,046	\$ 28,549	\$ -	\$ 32,519	\$ 960	\$ 316,646	\$ 726,720
Accrued Wages Payable	101,040	-	-	-	-	1,136	102,176
Due to Other Funds	-	-	-	-	380,009	122,855	502,864
Deposits Payable	244,194	-	-	-	-	5,000	249,194
Advance from Other Funds	-	-	-	-	-	600,000	600,000
Unearned Revenue	-	-	1,120,919	1,619,138	-	728,222	3,468,279
Total Liabilities	693,280	28,549	1,120,919	1,651,657	380,969	1,773,859	5,649,233
DEFERRED INFLOWS OF RESOURCES							
Delinquent Property Taxes	59,013	-	-	-	-	3,606	62,619
Deferred Special Assessments	-	-	300,753	-	-	3,345,963	3,646,716
Deferred Inflows - Lease Receivable	54,816	-	-	1,316,198	-	-	1,371,014
Deferred Inflows - Other	5,637	66,732	-	-	848,234	-	920,603
Total Deferred Inflows of Resources	119,466	66,732	300,753	1,316,198	848,234	3,349,569	6,000,952
FUND BALANCES							
Nonspendable	97,260	-	-	11,349	-	50,026	158,635
Restricted	-	9,266,220	1,921,587	439,841	-	3,127,063	14,754,711
Committed	-	-	-	-	-	1,357,915	1,357,915
Assigned	-	-	-	-	-	1,960,258	1,960,258
Unassigned	4,726,275	-	-	-	(379,164)	(735,281)	3,611,830
Total Fund Balances	4,823,535	9,266,220	1,921,587	451,190	(379,164)	5,759,981	21,843,349
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 5,636,281	\$ 9,361,501	\$ 3,343,259	\$ 3,419,045	\$ 850,039	\$ 10,883,409	\$ 33,493,534

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN
RECONCILIATION OF THE BALANCE SHEET TO THE
STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
DECEMBER 31, 2022**

Total Fund Balances - Governmental Funds	\$ 21,843,349
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Capital and Right to Use assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of Capital and Right to Use Assets	85,342,085
Less Accumulated Depreciation and Amortization	(36,056,642)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
	(33,856,194)
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	(6,460,521)
Total OPEB Liability	(1,372,300)
Deferred Outflows of Resources - Pension Related	4,094,471
Deferred Outflows of Resources - OPEB	52,649
Deferred Inflows of Resources - Pension Related	(96,662)
Long-term assets that are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
	4,629,938
Governmental funds do not report a liability for accrued interest until due and payable	<u>(391,261)</u>
Total Net Position - Governmental Activities	<u><u>\$ 37,728,912</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, 2022

	General	City Sales Tax Fund	G.O. Improvement Bonds Series 2021A	Essentia Wellness Center Special Revenue	Municipal State Aid Streets Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES							
Taxes	\$ 6,389,367	\$ 4,147,495	\$ 83,052	\$ -	\$ -	\$ 757,018	\$ 11,376,932
Franchise Fees	16,500	-	-	-	-	41,882	58,382
Special Assessments	-	55,070	134,343	-	-	415,256	604,669
Licenses and Permits	299,838	-	-	-	-	123,250	423,088
Intergovernmental	364,597	-	-	-	1,805	179,998	546,400
Charges for Services	115,359	-	-	324,567	-	-	439,926
Fines and Forfeitures	51,721	-	-	-	-	9,827	61,548
Investment Income	(118,597)	(189,455)	-	53,213	-	(27,251)	(282,090)
Miscellaneous	98,502	-	-	117,435	-	624,422	840,359
Total Revenues	7,217,287	4,013,110	217,395	495,215	1,805	2,124,402	14,069,214
EXPENDITURES							
Current:							
General Government	1,208,225	-	-	-	-	19,058	1,227,283
Public Safety	4,055,217	-	-	-	-	122,603	4,177,820
Streets and Highways	891,881	-	-	-	-	-	891,881
Community and Economic Development	198,165	12,271	-	-	6,210	380,020	596,666
Culture and Recreation	126,339	-	-	339,883	-	99,457	565,679
Capital Outlay	180,302	608,025	-	-	37,572	485,245	1,311,144
Debt Service:							
Principal	-	-	150,000	-	-	2,595,000	2,745,000
Interest and Fiscal Charges	-	217	82,872	-	-	947,215	1,030,304
Total Expenditures	6,660,129	620,513	232,872	339,883	43,782	4,648,598	12,545,777
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	557,158	3,392,597	(15,477)	155,332	(41,977)	(2,524,196)	1,523,437
OTHER FINANCING SOURCES (USES)							
Bonds Issued	-	-	-	-	-	(59,373)	(59,373)
Premium on Issuance of Bonds	-	-	-	-	-	59,373	59,373
Bond Principal Refunded	-	-	-	-	-	-	-
Lease Proceeds	6,546	-	-	-	-	-	6,546
Transfer In	-	-	43,230	-	7,631	3,711,308	3,762,169
Transfer Out	(488,631)	(2,953,454)	-	-	-	(120,106)	(3,562,191)
Net Other Financing Sources (Uses)	(482,085)	(2,953,454)	43,230	-	7,631	3,591,202	206,524
NET CHANGE IN FUND BALANCE	75,073	439,143	27,753	155,332	(34,346)	1,067,006	1,729,961
Fund Balance - Beginning	4,748,462	8,579,077	1,893,834	295,858	(344,818)	4,692,975	19,865,388
Prior Period Restatement - See Note 17	-	248,000	-	-	-	-	248,000
Fund Balance - Beginning, as Restated	4,748,462	8,827,077	1,893,834	295,858	(344,818)	4,692,975	20,113,388
FUND BALANCE - ENDING	\$ 4,823,535	\$ 9,266,220	\$ 1,921,587	\$ 451,190	\$ (379,164)	\$ 5,759,981	\$ 21,843,349

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, 2022**

Total Net Changes in Fund Balances - Governmental Funds	\$ 1,729,961
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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	296,199
Loss on Disposal of Capital Assets	(10,684)
Depreciation and Amortization Expense	(2,158,350)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	271,067
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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.	163,492
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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.	2,799,953
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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.	57,381
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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.	(213,954)
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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.	(9,154)
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Compensated absences are an expense in the governmental funds, but increase long-term liabilities in the statement of net position.	4,594
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Change in Net Position - Governmental Activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; padding: 2px 0;">\$ 2,930,505</div>
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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, 2022

	Budget			Variance Over (Under)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 6,092,756	\$ 6,092,756	\$ 6,389,367	\$ 296,611
Franchise Fees	16,500	16,500	16,500	-
Licenses and Permits	183,050	183,050	299,838	116,788
Intergovernmental	249,150	249,150	364,597	115,447
Charges for Services	101,132	101,132	115,359	14,227
Fines and Forfeitures	42,600	42,600	51,721	9,121
Investment Income	6,000	6,000	(118,597)	(124,597)
Miscellaneous	41,298	41,298	98,502	57,204
Total Revenues	6,732,486	6,732,486	7,217,287	484,801
EXPENDITURES				
Current:				
General Government	1,125,961	1,215,961	1,208,225	(7,736)
Public Safety	3,735,005	3,775,005	4,055,217	280,212
Streets and Highways	782,847	841,847	891,881	50,034
Community and Economic Development	279,664	279,664	198,165	(81,499)
Culture and Recreation	160,509	160,509	126,339	(34,170)
Capital Outlay	172,000	204,000	180,302	(23,698)
Total Expenditures	6,255,986	6,476,986	6,660,129	183,143
EXCESS OF REVENUES OVER EXPENDITURES	476,500	255,500	557,158	301,658
OTHER FINANCING SOURCES (USES)				
Lease Proceeds	-	-	6,546	6,546
Transfer Out	(477,000)	(481,000)	(488,631)	(7,631)
Sales of Capital Assets	500	500	-	(500)
Net Other Financing Uses	(476,500)	(480,500)	(482,085)	(1,585)
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ (225,000)</u>	75,073	<u>\$ 300,073</u>
Fund Balance - Beginning			<u>4,748,462</u>	
FUND BALANCE - ENDING			<u>\$ 4,823,535</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, 2022

	Budget			Variance Over (Under)
	Original	Final	Actual	
REVENUES				
Taxes:				
Sales Taxes	\$ 3,000,000	\$ 3,000,000	\$ 4,147,495	\$ 1,147,495
Special Assessments	-	-	55,070	55,070
Investment Income	10,000	10,000	(189,455)	(199,455)
Total Revenues	3,010,000	3,010,000	4,013,110	1,003,110
EXPENDITURES				
Current:				
Economic Development	-	-	12,271	12,271
Capital Outlay	830,425	830,425	608,025	(222,400)
Debt Service:				
Interest and Fiscal Charges	-	-	217	217
Total Expenditures	830,425	830,425	620,513	(209,912)
EXCESS OF REVENUES OVER EXPENDITURES	2,179,575	2,179,575	3,392,597	1,213,022
OTHER FINANCING USES				
Transfer Out	(2,953,454)	(2,953,454)	(2,953,454)	-
NET CHANGE IN FUND BALANCE	<u>\$ (773,879)</u>	<u>\$ (773,879)</u>	439,143	<u>\$ 1,213,022</u>
Fund Balance - Beginning			8,579,077	
Prior Period Restatement - See Note 17			248,000	
Fund Balance - Beginning, as Restated			8,827,077	
FUND BALANCE - ENDING			<u>\$ 9,266,220</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, 2022

	Budget			Variance Over (Under)
	Original	Final	Actual	
REVENUES				
Charges for Services	\$ 359,998	\$ 359,998	\$ 324,567	\$ (35,431)
Miscellaneous	-	-	117,435	117,435
Total Revenues	359,998	359,998	495,215	135,217
EXPENDITURES				
Current:				
Culture and Recreation	259,998	324,998	339,883	14,885
Total Expenditures	259,998	324,998	339,883	14,885
EXCESS OF REVENUES OVER EXPENDITURES	100,000	35,000	155,332	120,332
NET CHANGE IN FUND BALANCE	<u>\$ 100,000</u>	<u>\$ 35,000</u>	155,332	<u>\$ 120,332</u>
Fund Balance - Beginning			295,858	
FUND BALANCE - ENDING			<u>\$ 451,190</u>	

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2022**

	Business-Type Activities Enterprise Fund			
	Water Utility Funds	Sewage Disposal Fund	Nonmajor Enterprise Funds	Total Enterprise Funds
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 5,404,736	\$ 5,908,560	\$ 1,104,779	\$ 12,418,075
Interest Receivable	9,628	10,082	1,929	21,639
Accounts Receivable	209,354	255,935	111,978	577,267
Lease Receivable	64,062	-	-	64,062
Advance to Other Funds	-	-	550,000	550,000
Inventories	79,358	2,825	-	82,183
Prepaid Items	12,550	10,465	864	23,879
Total Current Assets	5,779,688	6,187,867	1,769,550	13,737,105
Noncurrent Assets:				
Capital Assets, Net of Depreciation:				
Assets Not Being Depreciated	221,869	395,513	27,486	644,868
Assets Being Depreciated, Net	9,108,435	28,304,133	397,384	37,809,952
Total Capital Assets, Net of Depreciation	9,330,304	28,699,646	424,870	38,454,820
Long-Term Portion of Contracts Receivable	30,897	22,405	-	53,302
Special Assessments Receivable	4,813	181,760	-	186,573
Total Noncurrent Assets	9,366,014	28,903,811	424,870	38,694,695
DEFERRED OUTFLOWS OF RESOURCES				
Other Postemployment Benefits Related	5,784	5,748	1,643	13,175
Pension Related	72,561	62,882	22,042	157,485
Total Deferred Outflows of Resources	78,345	68,630	23,685	170,660
Total Assets and Deferred Outflows of Resources	<u>\$ 15,224,047</u>	<u>\$ 35,160,308</u>	<u>\$ 2,218,105</u>	<u>\$ 52,602,460</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	\$ 101,514	\$ 93,462	\$ 22,504	\$ 217,480
Accrued Wages and Related Liabilities	6,949	5,226	2,700	14,875
Customer Deposits	29,170	-	-	29,170
Total Current Liabilities	137,633	98,688	25,204	261,525
Noncurrent Liabilities:				
Compensated Absences	52,311	43,790	20,834	116,935
Net Pension Liability	230,834	193,917	69,921	494,672
Total OPEB Liability	145,376	195,462	42,835	383,673
Total Noncurrent Liabilities	428,521	433,169	133,590	995,280
Total Liabilities	566,154	531,857	158,794	1,256,805
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows - Lease Receivable	61,362	-	-	61,362
Pension Related	3,404	2,860	1,031	7,295
Total Deferred Inflows of Resources	64,766	2,860	1,031	68,657
NET POSITION				
Net Investment in Capital Assets	9,330,304	28,699,646	424,870	38,454,820
Unrestricted	5,262,823	5,925,945	1,633,410	12,822,178
Total Net Position	14,593,127	34,625,591	2,058,280	51,276,998
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 15,224,047</u>	<u>\$ 35,160,308</u>	<u>\$ 2,218,105</u>	<u>\$ 52,602,460</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, 2022

	Business-Type Activities Enterprise Fund			
	Water Utility Funds	Sewage Disposal Fund	Nonmajor Enterprise Funds	Total Enterprise Funds
OPERATING REVENUES				
User Fees	\$ 1,595,069	\$ 1,648,963	\$ 408,114	\$ 3,652,146
Service Charges	283,481	88,570	-	372,051
Franchise Fees	-	-	142,916	142,916
Total Operating Revenues	1,878,550	1,737,533	551,030	4,167,113
OPERATING EXPENSES				
Personnel Services	371,769	417,579	92,828	882,176
Water Purchases	893,851	-	-	893,851
WLSSD Charges	-	644,235	-	644,235
Maintenance and Supplies	150,167	143,626	103,241	397,034
Utilities	13,045	13,253	42,101	68,399
Professional Services	37,811	6,347	22,932	67,090
Insurance	16,481	13,353	-	29,834
Miscellaneous	197	162	-	359
Depreciation Expense	245,650	545,000	10,835	801,485
Total Operating Expenses	1,728,971	1,783,555	271,937	3,784,463
NET OPERATING INCOME (LOSS)	149,579	(46,022)	279,093	382,650
NONOPERATING REVENUES				
Hookups and Miscellaneous Income	107,310	139,695	16,142	263,147
Investment Income	(118,013)	(126,457)	(2,116)	(246,586)
Total Nonoperating Revenues	(10,703)	13,238	14,026	16,561
INCOME BEFORE TRANSFERS AND CONTRIBUTIONS	138,876	(32,784)	293,119	399,211
Capital Contributions	581,779	9,868	-	591,647
Transfer In	6,000	-	-	6,000
Transfer Out	(109,249)	(73,760)	(22,969)	(205,978)
CHANGE IN NET POSITION	617,406	(96,676)	270,150	790,880
Net Position - Beginning	13,975,721	34,722,267	1,788,130	50,486,118
NET POSITION - ENDING	<u>\$ 14,593,127</u>	<u>\$ 34,625,591</u>	<u>\$ 2,058,280</u>	<u>\$ 51,276,998</u>

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2022**

	Business-Type Activities Enterprise Fund			
	Water Utility Funds	Sewage Disposal Fund	Nonmajor Enterprise Funds	Total Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Users	\$ 1,946,265	\$ 1,735,504	\$ 530,500	\$ 4,212,269
Payments to Employees	(390,295)	(317,256)	(116,337)	(823,888)
Payments to Suppliers	(1,116,130)	(808,494)	(153,169)	(2,077,793)
Net Cash Provided by Operating Activities	439,840	609,754	260,994	1,310,588
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	6,000	-	-	6,000
Transfers out	(109,249)	(73,760)	(22,969)	(205,978)
Cash Received from Hookups and Miscellaneous Income	53,641	139,695	16,142	209,478
Net Cash Provided (Used) by Noncapital Financing Activities	(49,608)	65,935	(6,827)	9,500
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and Construction of Capital Assets	-	(43,246)	(27,487)	(70,733)
Payments from Lease Receivable	50,969	-	-	50,969
Net Cash Provided (Used) by Capital and Related Financing Activities	50,969	(43,246)	(27,487)	(19,764)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment Income	(123,269)	(131,821)	(3,216)	(258,306)
NET INCREASE IN CASH AND CASH EQUIVALENTS	317,932	500,622	223,464	1,042,018
Cash and Cash Equivalents - Beginning of Year	5,086,804	5,407,938	881,315	11,376,057
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 5,404,736</u>	<u>\$ 5,908,560</u>	<u>\$ 1,104,779</u>	<u>\$ 12,418,075</u>

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2022**

	Business-Type Activities Enterprise Fund			Total Enterprise Funds
	Water Utility Funds	Sewage Disposal Fund	Nonmajor Enterprise Funds	
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ 149,579	\$ (46,022)	\$ 279,093	\$ 382,650
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation	245,650	545,000	10,835	801,485
(Increase) Decrease in Assets:				
Accounts Receivable	(2,164)	(4,778)	(20,530)	(27,472)
Special Assessments Receivable	6	6	-	12
Prepaid Expenses	(1,118)	(1,942)	(33)	(3,093)
Inventories	(4,952)	5,265	-	313
Deferred Outflows	29,144	7,725	14,512	51,381
Increase (Decrease) in Liabilities:				
Accounts Payable	1,492	9,159	15,138	25,789
Wages and Related Liabilities	(246)	(254)	(41)	(541)
Due to Other Funds	50,924	2,743	-	53,667
Deposits	18,949	-	-	18,949
Compensated Absences Payable	(4,414)	(1,551)	(1,461)	(7,426)
Net Pension Liability	93,812	96,467	21,235	211,514
Total OPEB Liability	(14,334)	84,609	(14,054)	56,221
Deferred Inflows	(122,488)	(86,673)	(43,700)	(252,861)
Total Adjustments	<u>290,261</u>	<u>655,776</u>	<u>(18,099)</u>	<u>927,938</u>
Net Cash Provided by Operating Activities	<u>\$ 439,840</u>	<u>\$ 609,754</u>	<u>\$ 260,994</u>	<u>\$ 1,310,588</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Capital contributions	\$ 581,779	\$ 9,868	\$ -	\$ 591,647

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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. 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 \$536,795 during 2022.

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.

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide Financial Statements (Continued)

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.

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.

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Fund Financial Statements (Continued)

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 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 road construction and reconstruction.

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.

Municipal State Aid Streets Fund – Accounts for projects related to the construction and maintenance of community-interest streets on the state aid system. These projects are funded through aid received from the state of Minnesota through the Municipal State Aid Street program.

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.

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Adoption of New Accounting Standards

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*. This standard requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this standard, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The City has adopted the requirements of the guidance effective January 1, 2022 and has applied the provisions of this standard to the beginning of the period of adoption. The implementation of this standard resulted in the City reporting a lease receivable and deferred inflow of resources and a right-to-use lease asset and lease liability.

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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, 2022**

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, 2022, 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, 2022**

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. Four years have been recognized and remaining unearned revenue is \$1,600,000 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, 2022**

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 OPEB 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. The City has reported deferred outflows related to OPEB resulting from differences between expected and actual experience, changes in proportion, and contributions to the plan subsequent to the measurement date and before the end of the reporting period.

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

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Deferred Outflows/Inflows of Resources (Continued)

property taxes, deferred special assessments, intergovernmental, and other revenue, 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. The City has reported deferred inflows related to OPEB resulting from differences between expected and actual experience, changes in proportion, and contributions to the plan subsequent to the measurement date and before the end of the reporting period.

L. Leases

The City determines if an arrangement is a lease at inception. Lessee leases are included in right-to-use lease assets (lease assets) and lease liabilities in the statement of net position. Lessor leases are included in lease receivables and deferred inflow of resources in the statement of net position and fund financial statements.

Lease receivables represent the City's claim to receive lease payments over the lease term, as specified in the contract, in an exchange or exchange-like transaction. Lease receivables are recognized at commencement date based on the present value of expected lease payments over the lease term, reduced by any provision for estimated uncollectible amounts. Interest revenue is recognized ratably over the contract term.

Deferred inflows of resources related to leases are recognized at the commencement date based on the initial measurement of the lease receivable, plus any payments received from the lessee at or before the commencement of the lease term that relate to future periods, less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term. The deferred inflows related to leases are recognized as lease revenue in a systematic and rational manner over the lease term.

Lease assets represent the City's control of the right to use an underlying asset for the lease term, as specified in the contract, in an exchange or exchange-like transaction. Lease assets are recognized at the commencement date based on the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. Lease assets are amortized in a systematic and rational matter over the shorter of the lease term or the useful life of the underlying asset.

Lease liabilities represent the City's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the commencement date based on the net present value of expected lease payments over the lease term, less any lease incentives. Interest expense is recognized ratably over the contract term.

The lease term may include options to extend or terminate the lease when it is reasonably certain that the City will exercise that option. The City recognizes payments for short-term leases with a lease term of 12 month or less as expenses as incurred, and these leases are not included as lease liabilities or right-to-use lease assets on the statement of net position.

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Leases (Continued)

The individual lease contracts do not always provide information about the discount rate implicit in the lease. Therefore, the City has elected to use their incremental borrowing rate to calculate the present value of expected lease payments when it is not explicitly stated in the contract.

The City accounts for contracts containing both lease and non-lease components as separate contracts when possible. In cases where the contract does not provide separate price information for lease and non-lease components, and it is impractical to estimate the price of such components, the City treats the components as a single lease unit.

M. 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.

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Fund Balance Classifications (Continued)

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, 2022, the unassigned fund balance for the General Fund was 76.05% of the subsequent year's budgeted expenditures, or \$6,476,986.

N. 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) and lease liabilities related to leased assets. 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*.

O. 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.

P. 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, Debt Service Funds, and enterprise 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.

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Fund Balance Classifications (Continued)

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

Expenditures exceed budgeted amounts in the following funds at December 31, 2022:

	Final Budget	Expenditures	Excess
Essentia Wellness Center Special Revenue Fund	\$ 324,998	\$ 339,883	\$ 14,885

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, 2022, 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.

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

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, 2022, the City had an investment in the 4M Fund in the amount of \$3,759,722.

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, 2022, 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, 2022, 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>
U.S. Treasury Notes	\$ 6,606,592	\$ 1,715,420	\$ 4,891,172	\$ -	\$ -
Negotiable CDs	19,953,998	7,022,657	12,931,341	-	-
External Investment Pool	3,759,722	-	-	-	3,759,722
Total Investments	<u>\$ 30,320,312</u>	<u>\$ 8,738,077</u>	<u>\$ 17,822,513</u>	<u>\$ -</u>	<u>\$ 3,759,722</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, 2022:

<u>Credit Rating</u>	<u>Fair Value</u>
Not rated	<u>\$ 30,320,312</u>

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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, 2022:

	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)
Investments by Fair Value Level				
Negotiable CDs	12,931,341	\$ -	12,931,341	\$ -
U.S. Treasury Notes	6,606,592	6,606,592	-	-
Total	19,537,933	<u>\$ 6,606,592</u>	<u>\$ 12,931,341</u>	<u>\$ -</u>
Investments Measured at Amortized Cost	10,782,379			
Total Investments	<u>\$ 30,320,312</u>			

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, 2022:

		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
External Investment Pool - 4M	\$ 3,759,722	\$ -	None	14 Days

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

Cash on Hand	\$ 700
Deposits	6,902,640
Investments	30,320,312
Total Deposits and Investments	<u>\$ 37,223,652</u>

Presented in the financial statements as follows:

Primary Government:	
Cash and Investments	<u>\$ 37,223,652</u>

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 3 RECEIVABLES

Significant receivable balances not expected to be collected within one year of December 31, 2022 are as follows:

	Governmental Activities	Business-Type Activities
Taxes Receivable	\$ 62,619	\$ -
Special Assessments	3,646,716	186,573
Lease Receivables	1,403,510	64,062
Contracts Receivable	-	53,302
Total	<u>\$ 5,112,845</u>	<u>\$ 303,937</u>

NOTE 4 CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2022 was as follows:

	Balance 12/31/2021*	Additions	Deletions	Transfer	Balance 12/31/2022
Governmental Activities					
Capital Assets Not Being Depreciated:					
Land	\$ 3,186,012	\$ -	\$ -	\$ -	\$ 3,186,012
Construction in Progress	2,129,963	636,911	(494,444)	(1,323,203)	949,227
Total Capital Assets Not Being Depreciated	5,315,975	636,911	(494,444)	(1,323,203)	4,135,239
Capital Assets Being Depreciated:					
Land Improvements	2,006,348	1,323,203	-		3,329,551
Buildings	36,752,517	-	-		36,752,517
Equipment and Vehicles	4,586,569	147,186	(69,046)	(1,669,498)	2,995,211
Infrastructure	36,165,470	-	-	1,669,498	37,834,968
Total Capital Assets Being Depreciated	79,510,904	1,470,389	(69,046)	-	80,912,247
Leased Assets Being Amortized:					
Leased Equipment	288,053	6,546	-	-	294,599
Total Leased Assets Being Amortized	288,053	6,546	-	-	294,599
Less Accumulated Depreciation:					
Land Improvements	1,062,333	86,747	-		1,149,080
Buildings	5,903,667	930,403	-		6,834,070
Equipment and Vehicles	1,763,062	159,945	(58,362)		1,864,645
Infrastructure	25,227,592	922,004	-		26,149,596
Less Accumulated Amortization:					
Leased Equipment	-	59,251	-	-	59,251
Total Accumulated Depreciation/Amortization	33,956,654	2,158,350	(58,362)	-	36,056,642
Total Capital Assets Being Depreciated/Amortized, Net	45,554,250	(687,961)	(10,684)	-	45,150,204
Governmental Activities Capital Assets, Net	<u>\$ 50,870,225</u>	<u>\$ (51,050)</u>	<u>\$ (505,128)</u>	<u>\$ (1,323,203)</u>	<u>\$ 49,285,443</u>

*Certain beginning balances were revised due to the implementation of GASB 87.

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 4 CAPITAL ASSETS (CONTINUED)

	Balance 12/31/2021	Additions	Deletions	Balance 12/31/2022
Business-Type Activities				
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ -	\$ 37,354	\$ -	\$ 37,354
Land and Permanent Easements	607,514	-	-	607,514
Total Capital Assets not Being Depreciated	607,514	37,354	-	644,868
Capital Assets Being Depreciated:				
Buildings and Infrastructure	48,652,189	537,690	-	49,189,879
Equipment	1,632,192	87,335	-	1,719,527
Total Capital Assets Being Depreciated	50,284,381	625,025	-	50,909,406
Less Accumulated Depreciation:				
Buildings and Infrastructure	11,570,317	730,488	-	12,300,805
Equipment	727,653	70,996	-	798,649
Total Accumulated Depreciation	12,297,970	801,484	-	13,099,454
Total Capital Assets Being Depreciated, Net	37,986,411	(176,459)	-	37,809,952
Business-Type Activities Capital Assets, Net	<u>\$ 38,593,925</u>	<u>\$ (139,105)</u>	<u>\$ -</u>	<u>\$ 38,454,820</u>

Depreciation expense and amortization expense was charged to functions/programs of the City as follows at December 31, 2022:

Governmental Activities	
General Government	\$ 209,559
Public Safety	233,728
Public Works	999,770
Community and Economic Development	5,295
Culture and Recreation	709,998
Total Governmental Activities	
Depreciation Expense	<u>\$ 2,158,350</u>
Business-Type Activities	
Water Utility	\$ 245,650
Sewage Disposal	545,000
Storm Water	10,835
Total Depreciation Expense - Business Type Activities	<u>\$ 801,485</u>

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 5 LEASE RECEIVABLES

The City, acting as lessor, leases certain real property to several communications companies on which to install cell towers under long-term, non-cancelable lease agreements. These leases expire in fiscal year 2026 and 2028. During the year ended December 31, 2022, the City recognized \$15,254 and \$9,036 in lease revenue and interest revenue, respectively, pursuant to these contracts.

The City, acting as a lessor, leases certain real property on which billboards are installed under long-term, non-cancelable lease agreements. These leases expire in fiscal year 2024 and 2029. During the year ended December 31, 2022, the City recognized \$795 and \$1,751 in lease revenue and interest revenue, respectively, pursuant to these contracts.

The City, acting as a lessor, leases certain building space under a long-term, non-cancelable lease agreement. This lease expires in fiscal year 2029. During the year ended December 31, 2022, the City recognized \$162,915 and \$53,213 in lease revenue and interest revenue, pursuant to these contracts.

Total future minimum lease payments to be received under lease agreements are as follows:

<u>Year Ending December 31,</u>	<u>Long-Term Leases Receivable</u>	
	<u>Principal</u>	<u>Interest</u>
2023	\$ 192,928	\$ 51,122
2024	200,598	43,756
2025	214,399	35,983
2026	228,889	27,681
2027	224,235	19,221
2028-2032	406,523	12,865
Total	<u>\$ 1,467,572</u>	<u>\$ 190,628</u>

Changes in the lease receivables for the year are as follows:

	<u>Balance 12/31/2021</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/2022</u>	<u>Principal Due Within One Year</u>
Long-Term Lease Receivables					
Billboards	\$ 12,925	\$ -	\$ 2,094	\$ 10,831	\$ 2,225
Cell Tower	128,233	-	19,797	108,436	21,573
Building	1,511,190	-	162,915	1,348,275	169,130
Total	<u>\$ 1,652,348</u>	<u>\$ -</u>	<u>\$ 184,806</u>	<u>\$ 1,467,542</u>	<u>\$ 192,928</u>

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 6 LONG-TERM OBLIGATIONS

The City had the following long-term obligations at December 31, 2022:

<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.	\$ 715,000
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.	730,000
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.	1,815,000
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.	2,340,000
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.	1,785,000
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.	6,995,000
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.	7,940,000
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.	2,720,000
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.	3,520,000
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>3,710,000</u>
Total General Obligation Bonds	<u><u>\$ 32,270,000</u></u>

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 6 LONG-TERM OBLIGATIONS (CONTINUED)

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

	Balance 12/31/2021*	Additions	Reductions	Balance 12/31/2022	Due Within One Year
Governmental Activities					
Bonds Payable:					
General Obligation Bonds	\$ 35,015,000	\$ -	\$ 2,745,000	\$ 32,270,000	\$ 2,905,000
Long-Term Lease Payable	288,053	6,546	54,953	239,646	57,116
Less:					
Unamortized Bond Discount	(3,248)	-	(1,131)	(2,117)	(903)
Unamortized Bond Premium	1,053,385	-	171,169	882,216	145,161
Subtotal	36,353,190	6,546	2,969,991	33,389,745	3,106,374
Compensated Absences	471,043	186,959	191,553	466,449	-
Total Long-Term Liabilities	<u>\$ 36,824,233</u>	<u>\$ 193,505</u>	<u>\$ 3,161,544</u>	<u>\$ 33,856,194</u>	<u>\$ 3,106,374</u>
Business-Type Activities					
Compensated Absences	\$ 124,361	\$ 37,769	\$ 45,195	\$ 116,935	\$ -
Total Long-Term Liabilities	<u>\$ 124,361</u>	<u>\$ 37,769</u>	<u>\$ 45,195</u>	<u>\$ 116,935</u>	<u>\$ -</u>

*Certain beginning balances were revised due to the implementation of GASB 87.

Annual requirements to amortize all outstanding obligations at December 31, 2022 are as follows:

Year Ending December 31,	General Obligation Bonds		Long-Term Leases		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2023	\$ 2,905,000	\$ 896,120	\$ 57,116	\$ 7,011	\$ 2,962,116	\$ 903,131
2024	2,630,000	812,614	58,699	4,837	2,688,699	817,451
2025	2,670,000	730,344	60,567	2,585	2,730,567	732,929
2026	2,535,000	647,654	62,106	278	2,597,106	647,932
2027	1,780,000	576,159	1,158	22	1,781,158	576,181
2027-2031	8,815,000	2,113,405	-	-	8,815,000	2,113,405
2032-2036	8,455,000	999,204	-	-	8,455,000	999,204
2037-2041	2,480,000	84,375	-	-	2,480,000	84,375
Total	<u>\$ 32,270,000</u>	<u>\$ 6,859,875</u>	<u>\$ 239,646</u>	<u>\$ 14,733</u>	<u>\$ 32,509,646</u>	<u>\$ 6,874,608</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.

Long-Term Leases

The City leases equipment for various terms under long-term, non-cancelable lease agreements. The equipment leases expire at various dates between fiscal year 2023 and fiscal year 2027. Right-to-use assets acquired through outstanding leases are shown below, by underlying asset class.

	Governmental Activities
Equipment	\$ 288,053
Less: Accumulated Amortization	(59,249)
	<u>\$ 228,804</u>

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 7 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, 2022 are as follows:

<u>Enterprise</u>	<u>Year of Issue</u>	<u>Outstanding Balance 12/31/22</u>
Marshall School 2004B	2004	\$ 56,517
Saints-Hilltoppers Arena Project 2010	2010	261,576
Marshall School 2011	2011	192,485
Total		<u>\$ 510,578</u>

NOTE 8 INTERFUND TRANSACTIONS

The composition of interfund balances as of December 31, 2022 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:		
General Fund	\$ 502,864	\$ -
Munger Trail Fund	-	20,996
Hockey Arena	-	26,020
Fichtner Field	-	15,885
Municipal State Aid Streets Fund	-	380,008
Special Assessment/Road Improvement Fund	-	59,955
Total	<u>\$ 502,864</u>	<u>\$ 502,864</u>

Advances to/from other funds:

	<u>Advance To</u>	<u>Advance From</u>
Governmental Funds:		
Cable Television Fund	\$ 50,000	\$ -
TIF District #1 Improvements Fund	-	600,000
Total Governmental Funds	50,000	600,000
Proprietary Funds:		
Street Lighting Fund	550,000	-
Total	<u>\$ 600,000</u>	<u>\$ 600,000</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, 2022**

NOTE 8 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, 2022, the City made the following one-time transfers, which are included in the amounts presented below:

	<u>Transfer In</u>	<u>Transfer Out</u>
Governmental Funds:		
General Fund	\$ -	\$ 488,631
City Sales Tax Fund	-	2,953,454
Park Dedication Fund	-	92,300
G.O. Improvement Bonds, Series 2014A Fund	230,900	-
G.O. Improvement Bonds, Series 2020A Fund	297,945	-
G.O. Improvement Bonds, Series 2021A Fund	43,230	-
G.O. Improvement Bonds, Series 2012A Fund	197,539	-
G.O. Refunding Bonds, Series 2016A Fund	215,923	-
G.O. Refunding Bonds, Series 2016B Fund	698,807	-
G.O. Tax Abatement Bonds, Series 2018B Fund	522,231	-
G.O. Tax Abatement Bonds, Series 2019A Fund	651,400	-
G.O. Improvement Bonds, Series 2020B	294,263	-
Special Assessment Deficiency Fund	-	27,806
Munger Trail Fund	92,300	-
General Capital Projects Fund	410,000	-
Municipal Building Reserve Fund	100,000	-
Municipal State Aid Streets Fund	7,631	-
Total Governmental Funds	<u>3,762,169</u>	<u>3,562,191</u>
Proprietary Funds:		
Water Utility Fund	6,000	109,249
Sewage Disposal Fund	-	73,760
Storm Water Fund	-	22,969
Total Proprietary Funds	<u>6,000</u>	<u>205,978</u>
Total	<u>\$ 3,768,169</u>	<u>\$ 3,768,169</u>

The City budgets transfers to various Debt Service Funds from the Sales Tax Fund, Special Assessment Deficiency Fund, Water Utility Fund, Sewage Disposal, and the Storm Water Fund 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, 2022**

NOTE 9 FUND BALANCES/NET POSITION

Fund balance was nonspendable for the following purposes at December 31, 2022:

Advances to Other Funds

Governmental Funds:	
Cable Television Fund	\$ 50,000

Prepaid Items

Governmental Funds:	
General Fund	97,260
Essentia Wellness Center Special Revenue Fund	11,349
Hermantown Economic Development Authority Fund	17
Cable Television Fund	9
Total Nonspendable	<u>\$ 158,635</u>

Governmental net position and fund balances were restricted for the following purposes at December 31, 2022:

	<u>Net Position</u>	<u>Fund Balance</u>
Debt Service Funds	\$ 8,200,277	\$ 4,779,198
City Sales Tax Fund	9,266,220	9,266,220
Essentia Wellness Center Special Revenue Fund	439,841	439,841
Police Program Fund	196,284	196,284
Soccer Association Fund	73,168	73,168
Total Restricted	<u>\$ 18,175,790</u>	<u>\$ 14,754,711</u>

Fund balances were committed for the following purposes at December 31, 2022:

Other Governmental Funds:	
Economic Development	\$ 678,724
Wetland Restoration	15,998
Cable TV	369,897
Debt Service	293,296
Total Committed	<u>\$ 1,357,915</u>

Fund balances were assigned for the following purposes at December 31, 2022:

General Capital Projects	\$ 945,367
Essentia Wellness Center Capital Projects Fund	277,871
Municipal Building Reserve	636,536
HEDA Fleet Projects	100,484
Total Assigned	<u>\$ 1,960,258</u>

The following funds had an unassigned fund balance (deficit) at December 31, 2022:

Munger Trail Fund	\$ (21,505)
Hockey Arena	(27,621)
Fichtner Field	(21,349)
Park Dedication Fund	(5,000)
TIF District 1 Improvement Fund	(601,272)
Special Assessment Road Improvement Fund	-
Municipal State Aid Streets Fund	-
Total	<u>\$ (676,747)</u>

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 10 DEFINED BENEFIT PENSION PLANS

A. Plan Description

The City participates in the following cost-sharing multiple-employer defined benefit pension 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

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

2. Public Employees Police and Fire Plan

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.

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service

1. General Employees Retirement 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 percent for each of the first 10 years of service and 1.7 percent for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent 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, 2022**

NOTE 10 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

1. General Employees Retirement Plan Benefits (Continued)

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. 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 Plan 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 percent after five years up to 100 percent after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent 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 is fixed at 1 percent. 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.

C. 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 6.50% of their annual covered salary in fiscal year 2022 and the City was required to contribute 7.50% for Coordinated Plan members. The City contributions to the General Employees Fund for the year ended December 31, 2022, were \$126,528. The City's contributions were equal to the required contributions as set by state statute.

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 10 DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Contributions (Continued)

2. Police and Fire Fund Contributions

Police and Fire Plan members were required to contribute 11.80% of their annual covered salary in fiscal year 2022 and the City was required to contribute 17.70% for Police and Fire Plan members. The City contributions to the Police and Fire Fund for the year ended December 31, 2022, were \$272,944. The City's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2022, the City reported a liability of \$1,702,806 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$49,853.

The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021 through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0215% at the end of the measurement period and 0.0213% for the beginning of the period.

The City's Proportionate Share of the Net Pension Liability	\$ 1,702,806
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the City	<u>49,853</u>
Total	<u><u>\$ 1,752,659</u></u>

For the year ended December 31, 2022, the City recognized pension expense of \$250,415 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$7,431 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, 2022**

NOTE 10 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. General Employees Fund Pension Costs (Continued)

At December 31, 2022, 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	\$ 14,223	\$ 18,190
Effect of Changes in Assumptions	385,377	6,924
Net Difference Between Projected and Actual		
Investment Earnings on Plan Investments	29,536	-
Changes in Proportion	39,328	-
Contributions Subsequent to Measurement Period	68,332	-
Total	<u>\$ 536,796</u>	<u>\$ 25,114</u>

A total of \$68,332 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 ending December 31, 2023. 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
2023	\$ 173,472
2024	167,367
2025	(51,485)
2026	153,996
Total	<u>\$ 443,350</u>

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 10 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs

At December 31, 2022, the City reported a liability of \$5,252,387 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021 through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.1207% at the end of the measurement period and 0.1178% 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, 2022. 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, 2021. 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 percent funded, or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later.

The State of Minnesota is included as a non-employer 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 June 30, 2022, the City recognized pension expense of \$390,365 for its proportionate share of the Police and Fire Plan's pension expense. The City recognized \$44,482 as grant revenue for its proportionate share of the State of Minnesota's pension expense for the contribution of \$9 million to the Police and Fire Fund.

The State of Minnesota is not included as a non-employer contributing entity in the Police and Fire Pension Plan pension allocation schedules for the \$9 million in supplemental state aid. The City recognized \$10,863 for the year ended December 31, 2022 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, 2022**

NOTE 10 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs (Continued)

The City's Proportionate Share of the Net Pension Liability	\$ 5,252,387
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the City	<u>229,321</u>
Total	<u><u>\$ 5,481,708</u></u>

At December 31, 2022, 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	\$ 320,807	\$ -
Effect of Changes in Assumptions	3,091,838	31,575
Net Difference Between Projected and Actual Investment Earnings on Plan Investments	70,399	-
Changes in Proportion	74,471	47,268
Contributions Paid to PERA Subsequent to the Measurement Date	<u>156,102</u>	<u>-</u>
Total	<u><u>\$ 3,713,617</u></u>	<u><u>\$ 78,843</u></u>

A total of \$156,102 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 ending December 31, 2023.

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
2023	\$ 663,390
2024	681,507
2025	598,228
2026	1,091,829
2027	<u>443,718</u>
Total	<u><u>\$ 3,478,672</u></u>

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 10 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

3. Pension Totals

For the year ended December 31, 2022, the City had the following recorded in relation to all of the plans in which it participates:

	General Employees Plan	Police and Fire Plan	Total
Net Pension Liability	\$ 1,702,806	\$ 5,252,387	\$ 6,955,193
Deferred Outflows of Resources	536,796	3,713,617	4,250,413
Deferred Inflows of Resources	25,114	78,843	103,957
Pension Expense	265,849	1,026,863	1,292,712

E. Long-Term Expected Return on Investment

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

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

F. Actuarial Assumptions

The total pension liability in the June 30, 2022, 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 percent. 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 percent was deemed to be within that range of reasonableness for financial reporting purposes.

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 10 DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. Actuarial Assumptions (Continued)

Inflation is assumed to be 2.25% for the General Employees Plan and 2.25% for the Police and Fire Plan. Benefit increases after retirement are assumed to be 1.25% for the General Employees 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 27 years of service. 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.

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 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 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 2022:

General Employees Fund

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

Police and Fire Fund

Changes in Actuarial Assumptions:

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.
- The single discount rate changed from 6.50% to 5.40%.

Changes in Plan Provisions:

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

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 10 DEFINED BENEFIT PENSION PLANS (CONTINUED)

G. Discount Rate

The discount rate for the General Employees Plan used to measure the total pension liability in 2022 was 6.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In the Police and Fire Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2060 and June 30, 2061 respectively. Beginning in fiscal year ended June 30, 2061 for the Police and Fire Fund, projected benefit payments exceed the funds' projected fiduciary net position. Benefit payments projected after were discounted at the municipal bond rate of 3.69 percent (based on the weekly rate closest to but not later than the measurement date of the Fidelity "20-Year Municipal GO AA Index"). The resulting equivalent single discount rate of 5.40 percent for the Police and Fire Fund was determined to give approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 6.5 percent applied to all years of projected benefits through the point of asset depletion and 3.69 percent thereafter.

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 10 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:

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
Discount Rate	5.50%	6.50%	7.50%
City's Proportionate Share of the GERP Net Pension Liability	\$ 2,689,673	\$ 1,702,806	\$ 893,425
	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
Discount Rate	4.40%	5.40%	6.40%
City's Proportionate Share of the PEPFF Net Pension Liability	\$ 7,948,814	\$ 5,252,387	\$ 3,072,487

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.

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 11 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.

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 2022 were:

Contribution Amount		Percentage of Covered Payroll		Required Rates
Employee	Employer	Employee	Employer	
\$ 1,405	\$ 1,405	5%	5%	5%

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 12 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, 2022 was \$1,755,973. 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 6.70% 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, 2022**

NOTE 12 POSTEMPLOYMENT HEALTH CARE PLAN (CONTINUED)

OPEB Liability (Continued)

The 1.84% 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, 2022 are as follows:

Beginning Balance	\$ 1,683,427
Changes for the Year:	
Service Cost	53,440
Interest	34,185
Differences between Expected and Actual Experience	1,807
Changes of Assumptions	38,322
Benefit Payments	(55,208)
Net Changes	<u>72,546</u>
Ending Balance	<u>\$ 1,755,973</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	2.84%	\$ 1,534,790
Current Discount Rate	1.84%	1,755,973
1% Lower	0.84%	2,025,211

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	7.70%	\$ 2,057,719
Current Discount Rate	6.70%	1,755,973
1% Lower	5.70%	1,508,264

For the year ended December 31, 2022, the City recognized OPEB expense of \$117,225. The City's contributions subsequent to the measurement date of \$67,369, 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, 2022.

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 13 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 \$4,965 in the proprietary funds and increased by \$12,282 in the governmental funds. As of December 31, 2022, eight 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, 2022, in the amount of \$583,385. 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 \$10,416 to the MSRS for this employee benefit in 2022.

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 2022 the County paid \$211,836 towards the note, leaving a balance as of December 31, 2022 of \$185,040.

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 2022, the City paid the local business \$144,710 related to this agreement. As of December 31, 2022, the City's remaining commitment to the local business is \$641,816.

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, 2022, 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 \$160,207.

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 15 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.

NOTE 16 SUBSEQUENT EVENTS

In May 2023, the City approve a resolution providing for the sale of General Obligation Improvement Bonds, Series 2023A in the amount of \$1,600,000.

NOTE 17 PRIOR PERIOD RESTATEMENT AND CHANGE IN ACCOUNTING PRINCIPAL

The city restated its beginning fund balance in the City Sales Tax Fund to recognize additional sales tax revenue and adjust the year end receivable and deferred inflow in fiscal year 2021. The effects of the prior period restatement are below:

	City Sales Tax Fund
Beginning Fund Balance	\$ 8,579,077
Prior Period Restatement	248,000
Beginning Fund Balance, as Restated	<u>\$ 8,827,077</u>

In addition, the City restated its beginning net position in the governmental activities to reflect the changes in the City Sales Tax Fund. The city also restated beginning net position in the governmental activities due to implementation of GASB 87. The effects of the prior period restatement and change in accounting principal are below:

	Governmental Activities
Beginning Net Position	\$ 34,479,934
Change in Account Principal	8,519
Prior Period Restatement	309,954
Beginning Net Position, as Restated	<u>\$ 34,798,407</u>

REQUIRED SUPPLEMENTARY INFORMATION

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

Measurement Date	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017
Total OPEB Liability:					
Service Cost	\$ 53,440	\$ 64,111	\$ 51,512	\$ 84,347	\$ 74,039
Interest	34,185	45,895	51,803	27,530	27,316
Difference between Expected and Actual Experience	1,807	295,378	-	435,708	-
Changes in Assumptions	38,322	(303,730)	204,459	93,012	34,433
Benefit Payments	(55,208)	(46,067)	(49,434)	(36,958)	(25,701)
Total Changes	72,546	55,587	258,340	603,639	110,087
Total OPEB Liability - Beginning	1,683,427	1,627,840	1,369,500	765,861	655,774
Total OPEB Liability - Ending	<u>\$ 1,755,973</u>	<u>\$ 1,683,427</u>	<u>\$ 1,627,840</u>	<u>\$ 1,369,500</u>	<u>\$ 765,861</u>
Covered Employee Payroll	\$ 3,136,054	\$ 2,934,716	\$ 2,906,994	\$ 2,729,652	\$ 2,661,675
Districts Total Pension Liability as a Percentage of Covered Employee Payroll	56.0%	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 FIVE 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, 2022**

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, 2022	0.0215%	\$ 1,702,806	\$ 49,853	\$ 1,752,659	\$ 1,610,853	108.8%	76.7%
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	0.1810%	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, 2022	\$ 126,528	\$ 126,528	\$ -	\$ 1,687,040	7.50%
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, 2022**

2022 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

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.

**CITY OF HERMANTOWN
INFORMATION ABOUT THE CITY'S NET PENSION LIABILITY
YEAR ENDED DECEMBER 31, 2022**

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.

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, 2022**

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, 2022	0.1207%	\$ 5,252,387	\$ 229,321	\$ 5,481,708	\$ 1,465,942	373.9%	70.5%
June 30, 2021	0.1178%	909,291	40,881	950,172	\$ 1,392,373	68.2%	93.7%
June 30, 2020	0.1169%	1,540,867	36,314	1,577,181	1,320,534	119.4%	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, 2022	\$ 272,944	\$ 272,944	\$ -	\$ 1,542,056	17.70%
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, 2022**

2022 Changes

Changes in Actuarial Assumptions:

- The morality projection scale was changed from MP-2020 to MP-2021.
- The single discount rate changed from 6.5% to 5.4%.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2021 Changes

Changes in Actuarial Assumptions

- The investment return and single discount rates were changed from 7.50% 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 morality 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.

**CITY OF HERMANTOWN
INFORMATION ABOUT THE CITY'S NET PENSION LIABILITY
YEAR ENDED DECEMBER 31, 2022**

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.
- 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, 2022**

	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
ASSETS							
Cash and Cash Equivalents	\$ 717,876	\$ -	\$ 15,998	\$ 837,056	\$ 195,888	\$ 397,591	\$ 73,168
Accounts Receivable	8,234	-	-	-	3,080	9,762	-
Interest Receivable	1,280	-	-	-	-	527	-
Delinquent Taxes Receivable	2,150	-	-	-	-	-	-
Special Assessments Receivable	-	-	-	-	-	-	-
Prepaid Items	17	-	-	-	-	9	-
Advance to Other Funds	-	-	-	-	-	50,000	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>-</u>
Total Assets	<u>\$ 729,557</u>	<u>\$ -</u>	<u>\$ 15,998</u>	<u>\$ 837,056</u>	<u>\$ 198,968</u>	<u>\$ 457,889</u>	<u>\$ 73,168</u>
LIABILITIES							
Accrued Wages and Related Liabilities	\$ 943	\$ -	\$ -	\$ -	\$ -	\$ 193	\$ -
Accounts Payable	48,683	-	-	108,834	2,684	37,790	-
Due to Other Funds	-	-	-	-	-	-	-
Deposits Payable	-	5,000	-	-	-	-	-
Advance from Other Funds	-	-	-	-	-	-	-
Unearned Revenue	-	-	-	728,222	-	-	-
Total Liabilities	<u>49,626</u>	<u>5,000</u>	<u>-</u>	<u>837,056</u>	<u>2,684</u>	<u>37,983</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES							
Delinquent Property Tax	1,190	-	-	-	-	-	-
Unavailable Special Assessments	-	-	-	-	-	-	-
Unavailable Revenue - Other	-	-	-	-	-	-	-
Total Deferred Inflow of Resources	<u>1,190</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE (DEFICIT)							
Nonspendable	17	-	-	-	-	50,009	-
Restricted	-	-	-	-	196,284	-	73,168
Committed	678,724	-	15,998	-	-	369,897	-
Unassigned (Deficit)	-	(5,000)	-	-	-	-	-
Total Fund Balance (Deficit)	<u>678,741</u>	<u>(5,000)</u>	<u>15,998</u>	<u>-</u>	<u>196,284</u>	<u>419,906</u>	<u>73,168</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance (Deficit)	<u>\$ 729,557</u>	<u>\$ -</u>	<u>\$ 15,998</u>	<u>\$ 837,056</u>	<u>\$ 198,968</u>	<u>\$ 457,889</u>	<u>\$ 73,168</u>

**CITY OF HERMANTOWN
COMBINING BALANCE SHEET (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2022**

	Debt Service Funds				
	Certificate of Indebtedness Fund	G.O. Improvement Bonds Series 2012A Fund	G.O. Improvement Bonds Series 2014A Fund	G.O. Refunding Bonds Series 2016A Fund	G.O. Improvement Bonds Series 2016B Fund
ASSETS					
Cash and Cash Equivalents	\$ 38,442	\$ 195,612	\$ 371,637	\$ 355,444	\$ 386,952
Accounts Receivable	-	-	-	-	-
Interest Receivable	-	-	-	-	-
Delinquent Taxes Receivable	84	220	-	1,127	-
Special Assessments Receivable	-	243,532	1,018,896	494,987	-
Prepaid Items	-	-	-	-	-
Advance to Other Funds	-	-	-	-	-
Total Assets	<u>\$ 38,526</u>	<u>\$ 439,364</u>	<u>\$ 1,390,533</u>	<u>\$ 851,558</u>	<u>\$ 386,952</u>
LIABILITIES					
Accrued Wages and Related Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Payable	-	-	-	-	-
Due to Other Funds	-	-	-	-	-
Deposits Payable	-	-	-	-	-
Advance from Other Funds	-	-	-	-	-
Unearned Revenue	-	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES					
Delinquent Property Tax	\$ 75	\$ 220	\$ -	\$ 620	\$ -
Unavailable Special Assessments	-	243,532	1,018,897	492,050	-
Unavailable Revenue - Other	-	-	-	-	-
Total Deferred Inflow of Resources	<u>75</u>	<u>243,752</u>	<u>1,018,897</u>	<u>492,670</u>	<u>-</u>
FUND BALANCE (DEFICIT)					
Restricted	38,451	195,612	371,636	358,888	386,952
Committed	-	-	-	-	-
Total Fund Balance (Deficit)	<u>38,451</u>	<u>195,612</u>	<u>371,636</u>	<u>358,888</u>	<u>386,952</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance (Deficit)	<u>\$ 38,526</u>	<u>\$ 439,364</u>	<u>\$ 1,390,533</u>	<u>\$ 851,558</u>	<u>\$ 386,952</u>

**CITY OF HERMANTOWN
COMBINING BALANCE SHEET (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2022**

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 2020A Fund	G.O. Improvement Bonds Series 2020B Fund	Special Assessment Deficiency Fund
\$ 203,053	\$ 504,262	\$ 117,689	\$ 601,202	\$ 76,929	\$ 292,773
-	-	-	-	-	-
-	-	-	-	-	522
1,992	679	-	883	-	-
-	-	-	974,326	-	389,990
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 205,045</u>	<u>\$ 504,941</u>	<u>\$ 117,689</u>	<u>\$ 1,576,411</u>	<u>\$ 76,929</u>	<u>\$ 683,285</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
\$ 1,119	\$ 382	\$ -	\$ -	\$ -	\$ -
-	-	-	973,442	-	389,989
-	-	-	-	-	-
<u>1,119</u>	<u>382</u>	<u>-</u>	<u>973,442</u>	<u>-</u>	<u>389,989</u>
203,926	504,559	117,689	602,969	76,929	-
-	-	-	-	-	293,296
<u>203,926</u>	<u>504,559</u>	<u>117,689</u>	<u>602,969</u>	<u>76,929</u>	<u>293,296</u>
<u>\$ 205,045</u>	<u>\$ 504,941</u>	<u>\$ 117,689</u>	<u>\$ 1,576,411</u>	<u>\$ 76,929</u>	<u>\$ 683,285</u>

**CITY OF HERMANTOWN
COMBINING BALANCE SHEET (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2022**

	Capital Project Funds									
	General Capital Projects Fund	Municipal Building Reserve Fund	Essentia Wellness Center Capital Projects Fund	Munger Trail Fund	Hockey Arena	Fichtner Field	TIF District 1 Improvement Fund	HEDA Fleet Projects Fund	Special Assessment Projects Fund	Total Nonmajor Governmental Funds
ASSETS										
Cash and Cash Equivalents	\$ 945,367	\$ 636,536	\$ 277,871	\$ -	\$ -	\$ -	\$ 37,453	\$ 172,839	\$ -	\$ 7,451,638
Accounts Receivable	-	-	-	-	-	-	-	-	-	21,076
Interest Receivable	-	-	-	-	-	-	-	-	-	2,329
Delinquent Taxes Receivable	-	-	-	-	-	-	-	-	-	7,135
Special Assessments Receivable	-	-	-	-	-	-	-	-	229,474	3,351,205
Prepaid Items	-	-	-	-	-	-	-	-	-	26
Advance to Other Funds	-	-	-	-	-	-	-	-	-	50,000
Total Assets	\$ 945,367	\$ 636,536	\$ 277,871	\$ -	\$ -	\$ -	\$ 37,453	\$ 172,839	\$ 229,474	\$ 10,883,409
LIABILITIES										
Accrued Wages and Related Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,136
Accounts Payable	-	-	-	509	1,601	5,465	38,725	72,355	-	316,646
Due to Other Funds	-	-	-	20,996	26,020	15,884	-	-	59,955	122,855
Deposits Payable	-	-	-	-	-	-	-	-	-	5,000
Advance from Other Funds	-	-	-	-	-	-	600,000	-	-	600,000
Unearned Revenue	-	-	-	-	-	-	-	-	-	728,222
Total Liabilities	-	-	-	21,505	27,621	21,349	638,725	72,355	59,955	1,773,859
DEFERRED INFLOWS OF RESOURCES										
Delinquent Property Tax	-	-	-	-	-	-	-	-	-	3,606
Unavailable Special Assessments	-	-	-	-	-	-	-	-	-	3,117,910
Deferred Inflows - Other	-	-	-	-	-	-	-	-	228,053	228,053
Total Deferred Inflow of Resources	-	-	-	-	-	-	-	-	228,053	3,349,569
FUND BALANCE (DEFICIT)										
Nonspendable	-	-	-	-	-	-	-	-	-	50,026
Restricted	-	-	-	-	-	-	-	-	-	3,127,063
Committed	-	-	-	-	-	-	-	-	-	1,357,915
Assigned	945,367	636,536	277,871	-	-	-	-	100,484	-	1,960,258
Unassigned (Deficit)	-	-	-	(21,505)	(27,621)	(21,349)	(601,272)	-	(58,534)	(735,281)
Total Fund Balance (Deficit)	945,367	636,536	277,871	(21,505)	(27,621)	(21,349)	(601,272)	100,484	(58,534)	5,759,981
Total Liabilities, Deferred Inflows of Resources, and Fund Balance (Deficit)	\$ 945,367	\$ 636,536	\$ 277,871	\$ -	\$ -	\$ -	\$ 37,453	\$ 172,839	\$ 229,474	\$ 10,883,409

**CITY OF HERMANTOWN
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND BALANCES (DEFICITS)
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2022**

	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
REVENUES							
Taxes	\$ 149,276	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Franchise Fees	-	-	-	-	-	41,882	-
Special Assessments	-	-	-	-	-	-	-
Licenses and Permits	-	123,250	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Fines and Forfeitures	-	-	-	-	9,827	-	-
Investment Income	(16,100)	-	-	-	-	(4,589)	-
Miscellaneous	34,560	-	-	320,646	7,975	1	-
Total Revenues	167,736	123,250	-	320,646	17,802	37,294	-
EXPENDITURES							
Current:							
General Government	-	-	-	16,968	-	-	-
Public Safety	-	-	-	99,400	23,203	-	-
Community and Economic Development	243,396	-	23,466	33,543	-	-	-
Culture and Recreation	-	30,950	-	17,789	-	50,373	-
Capital Outlay	1,760	-	-	152,946	12,425	-	-
Debt Service:							
Principal	-	-	-	-	-	-	-
Interest and Fiscal Charges	-	-	-	-	-	-	-
Total Expenditures	245,156	30,950	23,466	320,646	35,628	50,373	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(77,420)	92,300	(23,466)	-	(17,826)	(13,079)	-
OTHER FINANCING SOURCES (USES)							
Transfer In	-	-	-	-	-	-	-
Transfer Out	-	(92,300)	-	-	-	-	-
Net Other Financing Sources (Uses)	-	(92,300)	-	-	-	-	-
NET CHANGE IN FUND BALANCE	(77,420)	-	(23,466)	-	(17,826)	(13,079)	-
Fund Balance (Deficit) - Beginning	756,161	(5,000)	39,464	-	214,110	432,985	73,168
FUND BALANCE (DEFICIT) - ENDING	\$ 678,741	\$ (5,000)	\$ 15,998	\$ -	\$ 196,284	\$ 419,906	\$ 73,168

CITY OF HERMANTOWN
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND BALANCES (DEFICITS) (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2022

	Debt Service Funds				
	Certificate of Indebtedness Fund	G.O. Improvement Bonds Series 2012A Fund	G.O. Improvement Bonds Series 2014A Fund	G.O. Refunding Bonds Series 2016A Fund	G.O. Improvement Bonds Series 2016B Fund
REVENUES					
Taxes	\$ 26	\$ -	\$ -	\$ 78,769	\$ -
Franchise Fees	-	-	-	-	-
Special Assessments	-	43,066	60,163	121,645	-
Licenses and Permits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Fines and Forfeitures	-	-	-	-	-
Investment Income	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Revenues	26	43,066	60,163	200,414	-
EXPENDITURES					
Current:					
General Government	-	-	-	-	-
Public Safety	-	-	-	-	-
Community and Economic Development	-	-	-	-	-
Culture and Recreation	-	-	-	-	-
Capital Outlay	-	-	-	-	-
Debt Service:					
Principal	-	170,000	120,000	380,000	545,000
Interest and Fiscal Charges	-	18,804	24,570	40,971	79,245
Total Expenditures	-	188,804	144,570	420,971	624,245
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	26	(145,738)	(84,407)	(220,557)	(624,245)
OTHER FINANCING SOURCES (USES)					
Transfer In	-	197,539	230,900	215,923	698,807
Transfer Out	-	-	-	-	-
Net Other Financing Sources (Uses)	-	197,539	230,900	215,923	698,807
NET CHANGE IN FUND BALANCE	26	51,801	146,493	(4,634)	74,562
Fund Balance (Deficit) - Beginning	38,425	143,811	225,143	363,522	312,390
FUND BALANCE (DEFICIT) - ENDING	<u>\$ 38,451</u>	<u>\$ 195,612</u>	<u>\$ 371,636</u>	<u>\$ 358,888</u>	<u>\$ 386,952</u>

CITY OF HERMANTOWN
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND BALANCES (DEFICITS) (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2022

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 2020A Fund	G.O. Improvement Bonds Series 2020B Fund	Special Assessment Deficiency Fund
\$ 141,983	\$ 48,446	\$ -	\$ 61,414	\$ -	\$ -
-	-	-	-	-	-
-	-	-	136,378	-	26,957
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	(6,563)
-	-	-	-	-	-
141,983	48,446	-	197,792	-	20,394
-	-	-	-	-	391
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
80,000	290,000	320,000	500,000	190,000	-
57,795	245,346	289,251	78,220	88,970	-
137,795	535,346	609,251	578,220	278,970	391
4,188	(486,900)	(609,251)	(380,428)	(278,970)	20,003
-	522,231	651,400	297,945	294,263	-
-	-	-	-	-	(27,806)
-	522,231	651,400	297,945	294,263	(27,806)
4,188	35,331	42,149	(82,483)	15,293	(7,803)
199,738	469,228	75,540	685,452	61,636	301,099
\$ 203,926	\$ 504,559	\$ 117,689	\$ 602,969	\$ 76,929	\$ 293,296

CITY OF HERMANTOWN
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND BALANCES (DEFICITS) (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2022

	Capital Project Funds									
	General Capital Projects Fund	Municipal Building Reserve Fund	Essentia Wellness Center Capital Projects Fund	Munger Trail Fund	Hockey Arena	Fichtner Field	TIF District 1 Improvement Fund	HEDA Fleet Projects Fund	Special Assessment Projects Fund	Total Nonmajor Governmental Funds
REVENUES										
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 132,394	\$ 144,710	\$ -	\$ 757,018
Franchise Fees	-	-	-	-	-	-	-	-	-	41,882
Special Assessments	-	-	-	-	-	-	-	-	27,047	415,256
Licenses and Permits	-	-	-	-	-	-	-	-	-	123,250
Intergovernmental	-	-	-	179,998	-	-	-	-	-	179,998
Fines and Forfeitures	-	-	-	-	-	-	-	-	-	9,827
Investment Income	-	-	-	-	-	-	-	-	1	(27,251)
Miscellaneous	-	261,240	-	-	-	-	-	-	-	624,422
Total Revenues	-	261,240	-	179,998	-	-	132,394	144,710	27,048	2,124,402
EXPENDITURES										
Current:										
General Government	-	-	-	-	-	1,699	-	-	-	19,058
Public Safety	-	-	-	-	-	-	-	-	-	122,603
Community and Economic Development	-	-	-	1,408	27,621	-	15,511	35,075	-	380,020
Culture and Recreation	-	-	-	345	-	-	-	-	-	99,457
Capital Outlay	60,970	-	-	-	-	19,650	63,897	109,910	63,687	485,245
Debt Service:										
Principal	-	-	-	-	-	-	-	-	-	2,595,000
Interest and Fiscal Charges	-	-	-	-	-	-	24,000	-	43	947,215
Total Expenditures	60,970	-	-	1,753	27,621	21,349	103,408	144,985	63,730	4,648,598
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(60,970)	261,240	-	178,245	(27,621)	(21,349)	28,986	(275)	(36,682)	(2,524,196)
OTHER FINANCING SOURCES (USES)										
Bonds Issued	-	-	-	-	-	-	-	-	(59,373)	(59,373)
Premium on Issuance of Bonds	-	-	-	-	-	-	-	-	59,373	59,373
Bond Principal Refunded	-	-	-	-	-	-	-	-	-	-
Capital Lease Issued	0	-	-	-	-	-	-	-	-	-
Transfer In	410,000	100,000	-	92,300	-	-	-	-	-	3,711,308
Transfer Out	-	-	-	-	-	-	-	-	-	(120,106)
Net Other Financing Sources (Uses)	410,000	100,000	-	92,300	-	-	-	-	-	3,591,202
NET CHANGE IN FUND BALANCE	349,030	361,240	-	270,545	(27,621)	(21,349)	28,986	(275)	(36,682)	1,067,006
Fund Balance (Deficit) - Beginning	596,337	275,296	277,871	(292,050)	-	-	(630,258)	100,759	(21,852)	4,692,975
FUND BALANCE (DEFICIT) - ENDING	<u>\$ 945,367</u>	<u>\$ 636,536</u>	<u>\$ 277,871</u>	<u>\$ (21,505)</u>	<u>\$ (27,621)</u>	<u>\$ (21,349)</u>	<u>\$ (601,272)</u>	<u>\$ 100,484</u>	<u>\$ (58,534)</u>	<u>\$ 5,759,981</u>

**CITY OF HERMANTOWN
COMBINING STATEMENT OF NET POSITION
NONMAJOR ENTERPRISE FUNDS
YEAR ENDED DECEMBER 31, 2022**

	Storm Water Funds	Street Lighting Fund	Total Nonmajor Enterprise Funds
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 350,577	\$ 754,202	\$ 1,104,779
Interest Receivable	623	1,306	1,929
Accounts Receivable, Net of Allowance	76,215	35,763	111,978
Advance to Other Funds	-	550,000	550,000
Prepaid Items	864	-	864
Total Current Assets	<u>428,279</u>	<u>1,341,271</u>	<u>1,769,550</u>
Noncurrent Assets:			
Capital Assets, Net of Depreciation:			
Assets Not Being Depreciated	27,486	-	27,486
Assets Being Depreciated, Net	397,384	-	397,384
Total Capital Assets, Net of Depreciation	<u>424,870</u>	<u>-</u>	<u>424,870</u>
DEFERRED OUTFLOWS OF RESOURCES			
Other Postemployment Benefits	1,643	-	1,643
Pensions	22,042	-	22,042
Total Deferred Outflows of Resources	<u>23,685</u>	<u>-</u>	<u>23,685</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 876,834</u>	<u>\$ 1,341,271</u>	<u>\$ 2,218,105</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 16,147	\$ 6,357	\$ 22,504
Accrued Wages and Related Liabilities	2,700	-	2,700
Total Current Liabilities	<u>18,847</u>	<u>6,357</u>	<u>25,204</u>
Noncurrent Liabilities:			
Compensated Absences	20,834	-	20,834
Net Pension Liability	69,921	-	69,921
Total OPEB Liability	42,835	-	42,835
Total Noncurrent Liabilities	<u>133,590</u>	<u>-</u>	<u>133,590</u>
Total Liabilities	152,437	6,357	158,794
DEFERRED INFLOWS OF RESOURCES			
Pensions	1,031	-	1,031
Total Deferred Inflows of Resources	<u>1,031</u>	<u>-</u>	<u>1,031</u>
NET POSITION			
Net Investment in Capital Assets	424,870	-	424,870
Unrestricted	298,496	1,334,914	1,633,410
Total Net Position	<u>723,366</u>	<u>1,334,914</u>	<u>2,058,280</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 876,834</u>	<u>\$ 1,341,271</u>	<u>\$ 2,218,105</u>

CITY OF HERMANTOWN
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
NONMAJOR ENTERPRISE FUNDS
YEAR ENDED DECEMBER 31, 2022

	Storm Water Funds	Street Lighting Fund	Total Nonmajor Enterprise Funds
OPERATING REVENUES			
User Fees	\$ 408,114	\$ -	\$ 408,114
Franchise Fees	-	142,916	142,916
Total Operating Revenues	408,114	142,916	551,030
OPERATING EXPENSES			
Personnel Services	92,306	522	92,828
Maintenance and Supplies	99,883	3,358	103,241
Utilities	-	42,101	42,101
Professional Services	22,932	-	22,932
Depreciation Expense	10,835	-	10,835
Total Operating Expenses	225,956	45,981	271,937
NET OPERATING INCOME	182,158	96,935	279,093
NONOPERATING REVENUES			
Hookups and Miscellaneous Income	16,142	-	16,142
Investment Income	(7,789)	5,673	(2,116)
Total Nonoperating Revenues	8,353	5,673	14,026
INCOME BEFORE TRANSFERS	190,511	102,608	293,119
OTHER FINANCING SOURCES (USES)			
Transfer Out	(22,969)	-	(22,969)
CHANGE IN NET POSITION	167,542	102,608	270,150
Net Position - Beginning	555,824	1,232,306	1,788,130
NET POSITION - ENDING	<u>\$ 723,366</u>	<u>\$ 1,334,914</u>	<u>\$ 2,058,280</u>

**CITY OF HERMANTOWN
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
YEAR ENDED DECEMBER 31, 2022**

	Nonmajor Enterprise Fund		Total Nonmajor Enterprise Funds
	Storm Water Funds	Street Lighting Fund	
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Users	\$ 387,876	\$ 142,624	\$ 530,500
Payments to Employees	(115,815)	(522)	(116,337)
Payments to Suppliers	(108,785)	(44,384)	(153,169)
Net Cash Provided by Operating Activities	163,276	97,718	260,994
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers Out	(22,969)	-	(22,969)
Cash Received from Hookups and Miscellaneous Income	16,142	-	16,142
Net Cash Used by Noncapital Financing Activities	(6,827)	-	(6,827)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and Construction of Capital Assets	(27,487)	-	(27,487)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Income	(8,144)	4,928	(3,216)
NET INCREASE IN CASH AND CASH EQUIVALENTS	120,818	102,646	223,464
Cash and Cash Equivalents - Beginning of Year	229,759	651,556	881,315
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 350,577</u>	<u>\$ 754,202</u>	<u>\$ 1,104,779</u>

**CITY OF HERMANTOWN
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
YEAR ENDED DECEMBER 31, 2022**

	Nonmajor Enterprise Funds		Total Nonmajor Enterprise Funds
	Storm Water Funds	Street Lighting Fund	
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income	\$ 182,158	\$ 96,935	\$ 279,093
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	10,835	-	10,835
(Increase) Decrease in Assets:			
Accounts Receivable	(20,238)	(292)	(20,530)
Prepaid Expenses	(33)	-	(33)
Deferred Outflows	14,512	-	14,512
Increase (Decrease) in Liabilities:			
Accounts Payable	14,063	1,075	15,138
Wages and Related Liabilities	(41)	-	(41)
Compensated Absences Payable	(1,461)	-	(1,461)
Net Pension Liability	21,235	-	21,235
Total OPEB Liability	(14,054)	-	(14,054)
Deferred Inflows	(43,700)	-	(43,700)
Total Adjustments	(18,882)	783	(18,099)
Net Cash Provided by Operating	<u>\$ 163,276</u>	<u>\$ 97,718</u>	<u>\$ 260,994</u>