

**CITY OF HERMANTOWN  
HERMANTOWN, MINNESOTA**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2020**



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**WEALTH ADVISORY  
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CONSULTING**

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## **INTRODUCTORY SECTION**

**CITY OF HERMANTOWN  
ELECTED AND APPOINTED OFFICIALS  
DECEMBER 31, 2020**

**ELECTED**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Wayne Boucher	Mayor	December 31, 2020
John Geissler	Councilor	December 31, 2020
Grant Hauschild	Councilor	December 31, 2020
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
Bonnie Engseth	City Clerk	Appointed
Paul Senst	Public Works Director	Appointed



## INDEPENDENT AUDITORS' REPORT

Honorable City Council  
City of Hermantown  
Hermantown, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hermantown, Minnesota (the City) as of and for the year ended December 31, 2020, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

### ***Auditors' Responsibility***

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

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

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

***Opinion***

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, 2020, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and City Sales Tax Fund for the year then ended, in accordance with accounting principles generally accepted in the United States.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 5 through 10, information about the City's other postemployment benefits plan, pages 54 through 55, and information about the City's net pension liability, pages 44 through 53, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining nonmajor governmental fund financial statements, pages 67 through 74, and combining nonmajor enterprise fund financial statements, pages 75 through 78, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor governmental fund financial statements and combining nonmajor enterprise fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Honorable City Council  
City of Hermantown

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2021 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
May 11, 2021



**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF HERMANTOWN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2020**

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, 2020. Please read it in conjunction with the City's financial statements, which begin on page 11.

**FINANCIAL HIGHLIGHTS**

- The City's net position increased \$13,961,485 or 20.88% as a result of this year's operations. The net position of the governmental activities increased \$9,184,600, or 41.16%. The net position of the business-type activities increased \$4,776,885, or 10.73%.
- The General Fund unassigned fund balance was \$4,018,261 or 70.09% of the total General Fund expenditures for 2020.

**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, 2020**

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

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

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

### **FUND FINANCIAL STATEMENTS**

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

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

The City maintains a number of individual governmental funds. Information is presented separately in the governmental fund financial statements for the General, City Sales Tax, G.O. Improvement Bonds Series 2012B Fund, G.O. Improvement Bonds Series 2014A Fund, G.O. Improvement Series 2020A Fund, Essentia Wellness Capital Projects, Special Assessment/Road Improvement Fund and Essentia Wellness 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, 2020**

**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:

	2020			2019		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
<b>Assets:</b>						
Current and Other Assets	\$ 26,500,122	\$ 11,969,454	\$ 38,469,576	\$ 15,199,780	\$ 11,066,141	\$ 26,265,921
Capital Assets	50,036,533	38,100,534	88,137,067	48,104,710	34,311,717	82,416,427
Total Assets	<u>76,536,655</u>	<u>50,069,988</u>	<u>126,606,643</u>	<u>63,304,490</u>	<u>45,377,858</u>	<u>108,682,348</u>
Deferred Outflows of Resources	991,208	28,287	1,019,495	1,440,035	68,618	1,508,653
<b>Liabilities:</b>						
Long-Term Liabilities	41,552,251	569,362	42,121,613	36,635,200	649,636	37,284,836
Other Liabilities	3,287,519	211,801	3,499,320	3,685,422	192,079	3,877,501
Total Liabilities	<u>44,839,770</u>	<u>781,163</u>	<u>45,620,933</u>	<u>40,320,622</u>	<u>841,715</u>	<u>41,162,337</u>
Deferred Inflows of Resources	1,186,531	6,774	1,193,305	2,106,941	71,308	2,178,249
<b>Net Position:</b>						
Net Investment in Capital Assets	12,737,938	38,100,534	50,838,472	14,097,610	34,311,717	48,409,327
Restricted	16,958,145	2,849,354	19,807,499	14,188,650	2,432,877	16,621,527
Unrestricted	1,805,479	8,360,450	10,165,929	(5,969,298)	7,788,859	1,819,561
Total Net Position	<u>\$ 31,501,562</u>	<u>\$ 49,310,338</u>	<u>\$ 80,811,900</u>	<u>\$ 22,316,962</u>	<u>\$ 44,533,453</u>	<u>\$ 66,850,415</u>

**CITY OF HERMANTOWN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2020**

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:

	2020			2019		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
<b>REVENUES</b>						
Program Revenues:						
Charges for Service	\$ 681,337	\$ 3,755,693	\$ 4,437,030	\$ 547,377	\$ 3,529,165	\$ 4,076,542
Operating Grants and Contributions	9,268,834	-	9,268,834	750,622	-	750,622
Capital Grants and Contributions	2,084,906	-	2,084,906	179,876	1,683,807	1,863,683
General Revenues:						
Property Taxes	6,427,203	-	6,427,203	6,054,613	-	6,054,613
Sales Tax	3,573,577	-	3,573,577	3,125,755	-	3,125,755
Interest	137,371	135,440	272,811	402,300	269,316	671,616
Other	114,961	241,320	356,281	24,720	173,215	197,935
Transfers	(3,691,235)	3,691,235	-	239,472	(239,472)	-
Total Revenues	<u>18,596,954</u>	<u>7,823,688</u>	<u>26,420,642</u>	<u>11,324,735</u>	<u>5,416,031</u>	<u>16,740,766</u>
<b>EXPENSES</b>						
General Government	1,216,723	-	1,216,723	1,081,450	-	1,081,450
Public Safety	3,728,153	-	3,728,153	3,780,029	-	3,780,029
Streets and Highways	1,998,839	-	1,998,839	2,027,881	-	2,027,881
Community and Economic Development	381,012	-	381,012	2,317,163	-	2,317,163
Culture and Recreation	943,541	-	943,541	1,046,882	-	1,046,882
Interest and Fiscal Charges	1,144,086	-	1,144,086	1,073,799	-	1,073,799
Water Utility	-	1,325,920	1,325,920	-	1,351,374	1,351,374
Sewage Disposal	-	1,427,914	1,427,914	-	1,482,649	1,482,649
Street Lighting	-	74,462	74,462	-	99,281	99,281
Storm Water Utility	-	218,507	218,507	-	245,800	245,800
Total Expenses	<u>9,412,354</u>	<u>3,046,803</u>	<u>12,459,157</u>	<u>11,327,204</u>	<u>3,179,104</u>	<u>14,506,308</u>
Change in Net Position	9,184,600	4,776,885	13,961,485	(2,469)	2,236,927	2,234,458
Net Position - Beginning of Year	<u>22,316,962</u>	<u>44,533,453</u>	<u>66,850,415</u>	<u>22,319,431</u>	<u>42,296,526</u>	<u>64,615,957</u>
Net Position - End of Year	<u>\$ 31,501,562</u>	<u>\$ 49,310,338</u>	<u>\$ 80,811,900</u>	<u>\$ 22,316,962</u>	<u>\$ 44,533,453</u>	<u>\$ 66,850,415</u>

**CITY OF HERMANTOWN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2020**

**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, 2020, the City's governmental funds reported a combined fund balance of \$18,365,290, an increase of \$11,400,034 from the 2019 balance of \$6,965,256.

The General Fund is the main operating fund of the City of Hermantown. At December 31, 2020, fund balance of the General Fund was \$4,018,261 with 98.11% 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 70.09% of total General Fund expenditures. During 2020, the fund balance of the General Fund increased by \$570,006.

**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 \$4,776,885 in 2020. Net operating income for 2020 was \$706,986.

**General Fund Budgetary Highlights**

The City adopted an original General Fund revenue and other financing sources budget of \$6,133,120 which was not revised during the year. The City adopted an original General Fund expenditure and other financing uses budget of \$6,133,120 which was revised to \$6,515,746.

The City's final budget for the General Fund anticipated that expenditures and other financing uses would exceed revenues and other financing sources by \$382,626. The actual results for the year showed revenues and other financing sources exceeding expenditures and other financing uses by \$570,006. Actual revenues and other financing sources were \$798,659 more than anticipated.

Actual expenditures were \$153,973 less than anticipated.

**Capital Assets**

The City of Hermantown's investment in capital assets as of December 31, 2020 was \$88,137,067, net of accumulated depreciation. This investment includes land, permanent easements, buildings, infrastructure, equipment, and construction in progress. Additional information related to the City's capital assets can be found in Note 4 of the notes to the financial statements.

**CITY OF HERMANTOWN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2020**

**Debt**

The City had \$36,010,000 in general obligation bonds outstanding at the end of 2020.

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

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

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

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

- A comprehensive Finance Management Plan study was conducted by Ehlers Inc. and the City. Based on that study, that plan was implemented in 2019 and is continuing in 2021 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.
- The City continues to monitor the financial and other issues surrounding the COVID-19 Pandemic and has and will continue to pivot depending on economic changes.
- 2021 General Fund budgeted expenditures increased 2.53% or \$155.081. Some of the increase was due to normal personnel increases, a workman's comp rate increase, an additional police officer, and capital funding needs.
- The City increased the total tax levy by 4.56% while net tax capacity increased 2.4%. At the December 2020 Truth and Taxation meeting, the City Council approved a local tax rate increase from 42.89% in 2020 to 43.54% in 2021.

**REQUESTS FOR INFORMATION**

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

## **BASIC FINANCIAL STATEMENTS**



**CITY OF HERMANTOWN  
STATEMENT OF NET POSITION  
DECEMBER 31, 2020**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and Investments	\$ 20,475,040	\$ 10,429,268	\$ 30,904,308
Accounts Receivable, Net of Allowance	1,174,845	618,318	1,793,163
Interest Receivable	9,560	7,698	17,258
Delinquent Taxes Receivable	157,412	9,296	166,708
Special Assessments Receivable	5,144,512	186,573	5,331,085
Contracts Receivable	-	76,706	76,706
Internal Balances	(550,000)	550,000	-
Inventories	-	76,880	76,880
Prepaid Items	88,753	14,715	103,468
Capital Assets, Net of Depreciation:			
Assets Not Being Depreciated	3,638,428	4,640,196	8,278,624
Assets Being Depreciated, Net	46,398,105	33,460,338	79,858,443
Total Assets	<u>76,536,655</u>	<u>50,069,988</u>	<u>126,606,643</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Other Postemployment Benefits	37,618	8,450	46,068
Pensions	953,590	19,837	973,427
Total Deferred Outflows of Resources	<u>991,208</u>	<u>28,287</u>	<u>1,019,495</u>
 Total Assets and Deferred Outflows of Resources	 <u>\$ 77,527,863</u>	 <u>\$ 50,098,275</u>	 <u>\$ 127,626,138</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 782,832	\$ 188,874	\$ 971,706
Accrued Wages and Related Liabilities	56,829	13,113	69,942
Accrued Interest	474,999	-	474,999
Customer Deposits	148,341	9,814	158,155
Unearned Revenue	1,824,518	-	1,824,518
Long-Term Liabilities:			
Total Other Postemployment Benefits Liability	1,329,275	298,565	1,627,840
Net Pension Liability	2,616,131	165,796	2,781,927
Amount Due within One Year	2,791,262	-	2,791,262
Amounts Due in More than One Year	34,815,583	105,001	34,920,584
Total Liabilities	<u>44,839,770</u>	<u>781,163</u>	<u>45,620,933</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pensions	<u>1,186,531</u>	<u>6,774</u>	<u>1,193,305</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	12,737,938	38,100,534	50,838,472
Restricted	16,958,145	2,849,354	19,807,499
Unrestricted	1,805,479	8,360,450	10,165,929
Total Net Position	<u>31,501,562</u>	<u>49,310,338</u>	<u>80,811,900</u>
 Total Liabilities, Deferred Inflows of Resources and Net Position	 <u>\$ 77,527,863</u>	 <u>\$ 50,098,275</u>	 <u>\$ 127,626,138</u>

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2020**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
<b>GOVERNMENTAL ACTIVITIES</b>							
General Government	\$ 1,216,723	\$ 92,976	\$ -	\$ -	\$ (1,123,747)	\$ -	\$ (1,123,747)
Public Safety	3,728,153	232,171	752,342	-	(2,743,640)	-	(2,743,640)
Streets and Highways	1,998,839	-	-	2,084,906	86,067	-	86,067
Community and Economic Development	381,012	232,423	8,000,000	-	7,851,411	-	7,851,411
Culture and Recreation	943,541	123,767	516,492	-	(303,282)	-	(303,282)
Interest and Fiscal Charges	1,144,086	-	-	-	(1,144,086)	-	(1,144,086)
Total Governmental Activities	<u>\$ 9,412,354</u>	<u>\$ 681,337</u>	<u>\$ 9,268,834</u>	<u>\$ 2,084,906</u>	2,622,723	-	2,622,723
<b>BUSINESS-TYPE ACTIVITIES</b>							
Water Utility	\$ 1,325,920	\$ 1,665,497	\$ -	\$ -	-	339,577	339,577
Sewage Disposal	1,427,914	1,562,103	-	-	-	134,189	134,189
Street Lighting	74,462	137,343	-	-	-	62,881	62,881
Storm Water Utility	218,507	390,750	-	-	-	172,243	172,243
Total Business-Type Activities	<u>\$ 3,046,803</u>	<u>\$ 3,755,693</u>	<u>\$ -</u>	<u>\$ -</u>	-	708,890	708,890
<b>GENERAL REVENUES</b>							
Property Taxes					6,427,203	-	6,427,203
Sales Tax					3,573,577	-	3,573,577
Investment Income					137,371	135,440	272,811
Other					114,961	241,320	356,281
<b>TRANSFERS</b>					(3,691,235)	3,691,235	-
Total General Revenues and Transfers					<u>6,561,877</u>	<u>4,067,995</u>	<u>10,629,872</u>
<b>CHANGE IN NET POSITION</b>					9,184,600	4,776,885	13,961,485
Net Position - Beginning of Year					<u>22,316,962</u>	<u>44,533,453</u>	<u>66,850,415</u>
<b>NET POSITION - END OF YEAR</b>					<u>\$ 31,501,562</u>	<u>\$ 49,310,338</u>	<u>\$ 80,811,900</u>

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2020**

	General	City Sales Tax Fund	G.O. Improvement Bonds Series 2012B Fund	G.O. Improvement Bonds Series 2014A Fund	G.O. Improvement Bonds Series 2020A Fund	Essentia Wellness Capital Projects Fund	Special Assessment/ Road Improvement Fund	Essentia Wellness Special Revenue Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>										
Cash and Investments	\$ 4,154,226	\$ 8,016,216	\$ 1,322,636	\$ 183,623	\$ 602,710	\$ 285,331	\$ 129,492	\$ 1,989,098	\$ 3,791,708	\$ 20,475,040
Accounts Receivable	57,230	566,492	-	-	-	-	-	24,518	526,605	1,174,845
Interest Receivable	2,052	6,903	-	-	-	-	-	-	605	9,560
Delinquent Taxes Receivable	144,699	-	7,563	4,116	469	-	-	-	16,239	173,086
Special Assessments Receivable	-	-	1,322,781	1,035,749	1,217,692	-	126,750	-	1,425,866	5,128,838
Prepaid Items	77,364	-	-	-	-	-	-	11,349	40	88,753
Due from Other Funds	-	646,268	-	-	-	-	-	-	-	646,268
Advance to Other Funds	-	-	-	-	-	-	-	-	150,000	150,000
<b>Total Assets</b>	<b>\$ 4,435,571</b>	<b>\$ 9,235,879</b>	<b>\$ 2,652,980</b>	<b>\$ 1,223,488</b>	<b>\$ 1,820,871</b>	<b>\$ 285,331</b>	<b>\$ 256,242</b>	<b>\$ 2,024,965</b>	<b>\$ 5,911,063</b>	<b>\$ 27,846,390</b>
<b>LIABILITIES</b>										
Accounts Payable	\$ 58,039	\$ 532,289	\$ -	\$ -	\$ -	\$ 1,880	\$ 32,446	\$ 6,677	\$ 151,501	\$ 782,832
Accrued Wages Payable	55,950	-	-	-	-	-	-	-	879	56,829
Due to Other Funds	-	-	-	-	-	-	-	-	646,268	646,268
Deposits Payable	142,738	-	-	-	-	-	-	-	5,603	148,341
Advance from Other Funds	-	-	-	-	-	-	-	-	700,000	700,000
Unearned Revenue	-	-	-	-	-	-	-	1,824,518	-	1,824,518
<b>Total Liabilities</b>	<b>256,727</b>	<b>532,289</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,880</b>	<b>32,446</b>	<b>1,831,195</b>	<b>1,504,251</b>	<b>4,158,788</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>										
Delinquent Property Taxes	83,219	-	-	-	-	-	-	-	1,671	84,890
Deferred Special Assessments	-	-	1,322,782	1,035,750	1,217,692	-	126,750	-	1,534,448	5,237,422
<b>Total Deferred Inflows of Resources</b>	<b>83,219</b>	<b>-</b>	<b>1,322,782</b>	<b>1,035,750</b>	<b>1,217,692</b>	<b>-</b>	<b>126,750</b>	<b>-</b>	<b>1,536,119</b>	<b>5,322,312</b>
<b>FUND BALANCES</b>										
Nonspendable	77,364	-	-	-	-	-	-	11,349	150,040	238,753
Restricted	-	8,703,590	1,330,198	187,738	603,179	-	-	182,421	1,850,370	12,857,496
Committed	-	-	-	-	-	-	-	-	1,050,378	1,050,378
Assigned	-	-	-	-	-	283,451	97,046	-	790,824	1,171,321
Unassigned	4,018,261	-	-	-	-	-	-	-	(970,919)	3,047,342
<b>Total Fund Balances</b>	<b>4,095,625</b>	<b>8,703,590</b>	<b>1,330,198</b>	<b>187,738</b>	<b>603,179</b>	<b>283,451</b>	<b>97,046</b>	<b>193,770</b>	<b>2,870,693</b>	<b>18,365,290</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 4,435,571</b>	<b>\$ 9,235,879</b>	<b>\$ 2,652,980</b>	<b>\$ 1,223,488</b>	<b>\$ 1,820,871</b>	<b>\$ 285,331</b>	<b>\$ 256,242</b>	<b>\$ 2,024,965</b>	<b>\$ 5,911,063</b>	<b>\$ 27,846,390</b>

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN  
RECONCILIATION OF THE BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2020**

Total Fund Balances - Governmental Funds	\$ 18,365,290
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of Capital Assets	83,592,924
Less Accumulated Depreciation	(33,556,391)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
	(37,606,845)
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	(2,616,131)
Total OPEB Liability	(1,329,275)
Deferred Outflows of Resources - Pension Related	953,590
Deferred Outflows of Resources - OPEB	37,618
Deferred Inflows of Resources - Pension Related	(1,186,531)
Long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
	5,322,312
Governmental funds do not report a liability for accrued interest until due and payable	
	<u>(474,999)</u>
Total Net Position - Governmental Activities	<u><u>\$ 31,501,562</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, 2020**

	General	City Sales Tax Fund	G.O. Improvement Bonds Series 2012B Fund	G.O. Improvement Bonds Series 2014A Fund	G.O. Improvement Bonds Series 2020A Fund	Essentia Wellness Capital Projects Fund	Special Assessment/ Road Improvement Fund	Essentia Wellness Special Revenue Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>										
Taxes	\$ 5,664,430	\$ 3,573,577	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 713,497	\$ 9,951,504
Franchise Fees	16,500	-	-	-	-	-	-	-	37,970	54,470
Special Assessments	-	-	192,932	109,072	331,075	-	68,250	-	265,311	966,640
Licenses and Permits	174,496	-	-	-	-	-	-	-	42,440	216,936
Intergovernmental	813,911	-	-	-	-	8,000,000	-	-	964,381	9,778,292
Charges for Services	99,656	-	-	-	-	-	-	329,652	-	429,308
Fines and Forfeitures	41,388	-	-	-	-	-	-	-	11,013	52,401
Investment Income	30,760	100,255	-	-	-	-	1,293	-	16,036	148,344
Miscellaneous	67,953	7,150	-	-	-	67,444	-	-	21,605	164,152
Total Revenues	6,909,094	3,680,982	192,932	109,072	331,075	8,067,444	69,543	329,652	2,072,253	21,762,047
<b>EXPENDITURES</b>										
Current:										
General Government	897,996	-	-	-	-	-	-	-	71,315	969,311
Public Safety	3,265,193	-	-	-	-	-	-	-	3,315	3,268,508
Streets and Highways	776,862	-	-	-	-	-	-	-	-	776,862
Community and Economic Development	192,548	237,312	-	-	-	-	-	-	298,093	727,953
Culture and Recreation	536,162	-	-	-	-	-	-	235,882	13,153	785,197
Capital Outlay	63,891	3,087,105	-	-	-	275,559	2,164,986	-	1,501,378	7,092,919
Debt Service:										
Principal	-	-	145,000	240,000	-	-	-	-	1,880,000	2,265,000
Interest and Fiscal Charges	-	82,303	54,499	38,455	380	-	43,200	-	974,298	1,193,135
Total Expenditures	5,732,652	3,406,720	199,499	278,455	380	275,559	2,208,186	235,882	4,741,552	17,078,885
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	1,176,442	274,262	(6,567)	(169,383)	330,695	7,791,885	(2,138,643)	93,770	(2,669,299)	4,683,162
<b>OTHER FINANCING SOURCES (USES)</b>										
Bonds Issued	-	3,915,000	-	-	-	-	2,165,000	-	1,420,000	7,500,000
Premium on Issuance of Bonds	-	177,438	-	-	-	-	107,805	-	63,005	348,248
Bond Principal Refunded	-	-	-	-	-	-	-	-	(1,435,000)	(1,435,000)
Contributed Capital	-	66,190	-	-	-	-	-	-	-	66,190
Transfer In	14,175	-	40,119	231,500	272,484	-	70,000	-	3,264,707	3,892,985
Transfer Out	(629,121)	(2,741,143)	-	-	-	-	(34,385)	-	(259,412)	(3,664,061)
Sales of Capital Assets	8,510	-	-	-	-	-	-	-	-	8,510
Net Other Financing Sources (Uses)	(606,436)	1,417,485	40,119	231,500	272,484	-	2,308,420	-	3,053,300	6,716,872
<b>NET CHANGE IN FUND BALANCE</b>	570,006	1,691,747	33,552	62,117	603,179	7,791,885	169,777	93,770	384,001	11,400,034
Fund Balance (Deficit) - Beginning	3,525,619	7,011,843	1,296,646	125,621	-	(7,508,434)	(72,731)	100,000	2,486,692	6,965,256
<b>FUND BALANCE - ENDING</b>	\$ 4,095,625	\$ 8,703,590	\$ 1,330,198	\$ 187,738	\$ 603,179	\$ 283,451	\$ 97,046	\$ 193,770	\$ 2,870,693	\$ 18,365,290

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, 2020**

Total Net Changes in Fund Balances - Governmental Funds \$ 11,400,034

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However in the statement of activities, the costs of those assets is allocated over the estimated useful lives as depreciated expense.

Capital Outlays	3,469,102
Loss on Disposal of Capital Assets	(1,341)
Depreciation Expense	(1,517,796)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 337,752

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. (7,759,867)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 3,700,000

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due. However, in the statement of activities, interest expense is recognized as it accrues, regardless of when due. (57,683)

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. (89,892)

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. (195,923)

Compensated absences are an expense in the governmental funds, but increase long-term liabilities in the statement of net position. (99,786)

Change in Net Position - Governmental Activities \$ 9,184,600

**CITY OF HERMANTOWN**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2020**

	Budget		Actual	Variance
	Original	Final		Over (Under)
<b>REVENUES</b>				
Taxes	\$ 5,486,428	\$ 5,486,428	\$ 5,664,430	\$ 178,002
Franchise Fees	16,500	16,500	16,500	-
Licenses and Permits	177,150	177,150	174,496	(2,654)
Intergovernmental	233,650	233,650	813,911	580,261
Charges for Services	104,903	104,903	99,656	(5,247)
Fines and Forfeitures	54,100	54,100	41,388	(12,712)
Investment Income	20,200	20,200	30,760	10,560
Miscellaneous	39,189	39,189	67,953	28,764
Total Revenues	<u>6,132,120</u>	<u>6,132,120</u>	<u>6,909,094</u>	<u>776,974</u>
<b>EXPENDITURES</b>				
Current:				
General Government	960,911	947,421	897,996	(49,425)
Public Safety	3,408,581	3,276,558	3,265,193	(11,365)
Streets and Highways	808,619	790,308	776,862	(13,446)
Community and Economic Development	304,388	210,088	192,548	(17,540)
Culture and Recreation	161,850	606,850	536,162	(70,688)
Capital Outlay	109,650	55,400	63,891	8,491
Total Expenditures	<u>5,753,999</u>	<u>5,886,625</u>	<u>5,732,652</u>	<u>(153,973)</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	378,121	245,495	1,176,442	930,947
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer In	-	-	14,175	14,175
Transfer Out	(379,121)	(629,121)	(629,121)	-
Sales of Capital Assets	1,000	1,000	8,510	7,510
Net Other Financing Sources (Uses)	<u>(378,121)</u>	<u>(628,121)</u>	<u>(606,436)</u>	<u>21,685</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ -</u>	<u>\$ (382,626)</u>	570,006	<u>\$ 952,632</u>
Fund Balance - Beginning			<u>3,525,619</u>	
<b>FUND BALANCE - ENDING</b>			<u>\$ 4,095,625</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, 2020**

	Budget		Actual	Variance Over (Under)
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Sales Taxes	\$ 2,980,000	\$ 2,980,000	\$ 3,573,577	\$ 593,577
Investment Income	20,000	20,000	100,255	80,255
Miscellaneous	-	-	7,150	7,150
Total Revenues	<u>3,000,000</u>	<u>3,000,000</u>	<u>3,680,982</u>	<u>680,982</u>
<b>EXPENDITURES</b>				
Current:				
Economic Development	100,000	100,000	237,312	137,312
Capital Outlay	4,900,000	4,900,000	3,087,105	(1,812,895)
Debt Service:				
Interest and Fiscal Charges	-	-	82,303	82,303
Total Expenditures	<u>5,000,000</u>	<u>5,000,000</u>	<u>3,406,720</u>	<u>(1,593,280)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(2,000,000)	(2,000,000)	274,262	2,274,262
<b>OTHER FINANCING SOURCES (USES)</b>				
Bonds Issued	3,000,000	3,000,000	3,915,000	915,000
Premium on Issuance of Bonds	-	-	177,438	177,438
Contributed Capital	-	-	66,190	66,190
Transfer Out	(2,650,843)	(2,741,143)	(2,741,143)	-
Net Other Financing Sources	<u>349,157</u>	<u>258,857</u>	<u>1,417,485</u>	<u>1,158,628</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (4,650,843)</u>	<u>\$ (4,741,143)</u>	1,691,747	<u>\$ 2,274,262</u>
Fund Balance - Beginning			<u>7,011,843</u>	
<b>FUND BALANCE - ENDING</b>			<u>\$ 8,703,590</u>	

See accompanying Notes to Financial Statements.



**CITY OF HERMANTOWN  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
ESSENTIA WELLNESS SPECIAL REVENUE FUND  
DECEMBER 31, 2020**

	Budget		Actual	Variance
	Original	Final		Over (Under)
<b>REVENUES</b>				
Charges for Services	\$ 216,128	\$ 216,128	\$ 329,652	\$ 113,524
<b>EXPENDITURES</b>				
Current:				
Culture and Recreation	216,128	216,128	235,882	19,754
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	-	-	93,770	93,770
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ -</u>	<u>\$ -</u>	93,770	<u>\$ 93,770</u>
Fund Balance - Beginning			<u>100,000</u>	
<b>FUND BALANCE - ENDING</b>			<u>\$ 193,770</u>	

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2020**

	Business-Type Activities Enterprise Fund			Total Enterprise Funds
	Water Utility Funds	Sewage Disposal Fund	Nonmajor Enterprise Funds	
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 4,891,721	\$ 4,887,294	\$ 650,253	\$ 10,429,268
Interest Receivable	3,588	3,700	410	7,698
Accounts Receivable, Net of Allowance	244,788	287,730	111,060	643,578
Advance to Other Funds	-	-	550,000	550,000
Inventories	66,783	10,097	-	76,880
Prepaid Items	8,082	5,837	796	14,715
Total Current Assets	<u>5,214,962</u>	<u>5,194,658</u>	<u>1,312,519</u>	<u>11,722,139</u>
Noncurrent Assets:				
Capital Assets, Net of Depreciation:				
Assets Not Being Depreciated	221,869	4,418,327	-	4,640,196
Assets Being Depreciated, Net	<u>8,230,729</u>	<u>24,810,556</u>	<u>419,053</u>	<u>33,460,338</u>
Total Capital Assets, Net of Depreciation	8,452,598	29,228,883	419,053	38,100,534
Long-Term Portion of Contracts Receivable	28,377	32,365	-	60,742
Special Assessments Receivable	<u>4,813</u>	<u>181,760</u>	<u>-</u>	<u>186,573</u>
Total Noncurrent Assets	8,485,788	29,443,008	419,053	38,347,849
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Other Postemployment Benefits	4,249	2,762	1,438	8,449
Pensions	<u>8,647</u>	<u>6,911</u>	<u>4,280</u>	<u>19,838</u>
Total Deferred Outflows of Resources	<u>12,896</u>	<u>9,673</u>	<u>5,718</u>	<u>28,287</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 13,713,646</u>	<u>\$ 34,647,339</u>	<u>\$ 1,737,290</u>	<u>\$ 50,098,275</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts Payable	\$ 88,330	\$ 84,951	\$ 15,593	\$ 188,874
Accrued Wages and Related Liabilities	5,519	4,944	2,650	13,113
Deposits	<u>9,814</u>	<u>-</u>	<u>-</u>	<u>9,814</u>
Total Current Liabilities	103,663	89,895	18,243	211,801
Noncurrent Liabilities:				
Compensated Absences	48,395	31,949	24,657	105,001
Net Pension Liability	72,271	57,757	35,768	165,796
Total OPEB Liability	<u>150,134</u>	<u>97,607</u>	<u>50,824</u>	<u>298,565</u>
Total Noncurrent Liabilities	270,800	187,313	111,249	569,362
Total Liabilities	374,463	277,208	129,492	781,163
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pensions	<u>2,953</u>	<u>2,360</u>	<u>1,461</u>	<u>6,774</u>
<b>NET POSITION</b>				
Net Investment in Capital Assets	8,452,598	29,228,883	419,053	38,100,534
Restricted for Replacement, Depreciation, and Development	1,391,408	1,457,946	-	2,849,354
Unrestricted	<u>3,492,224</u>	<u>3,680,942</u>	<u>1,187,284</u>	<u>8,360,450</u>
Total Net Position	<u>13,336,230</u>	<u>34,367,771</u>	<u>1,606,337</u>	<u>49,310,338</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 13,713,646</u>	<u>\$ 34,647,339</u>	<u>\$ 1,737,290</u>	<u>\$ 50,098,275</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, 2020**

	Business-Type Activities Enterprise Fund			Total Enterprise Funds
	Water Utility Funds	Sewage Disposal Fund	Nonmajor Enterprise Funds	
<b>OPERATING REVENUES</b>				
User Fees	\$ 1,421,117	\$ 1,483,601	\$ 526,189	\$ 3,430,907
Service Charges	244,380	78,502	-	322,882
Total Operating Revenues	<u>1,665,497</u>	<u>1,562,103</u>	<u>526,189</u>	<u>3,753,789</u>
<b>OPERATING EXPENSES</b>				
Personal Services	237,774	173,460	166,428	577,662
Water Purchases	728,548	-	-	728,548
WLSSD Charges	-	573,130	-	573,130
Maintenance and Supplies	118,152	156,662	80,093	354,907
Utilities	9,554	9,577	29,207	48,338
Professional Services	5,252	5,359	11,991	22,602
Insurance	9,213	5,902	5,250	20,365
Miscellaneous	112	174	-	286
Depreciation Expense	217,315	503,650	-	720,965
Total Operating Expenses	<u>1,325,920</u>	<u>1,427,914</u>	<u>292,969</u>	<u>3,046,803</u>
<b>NET OPERATING INCOME</b>	339,577	134,189	233,220	706,986
<b>NONOPERATING REVENUES</b>				
Hookups and Miscellaneous Income	117,115	114,954	11,155	243,224
Capital Contributions	285,858	3,390,796	243,505	3,920,159
Investment Income	52,908	54,236	28,296	135,440
Total Nonoperating Revenues	<u>455,881</u>	<u>3,559,986</u>	<u>282,956</u>	<u>4,298,823</u>
<b>INCOME BEFORE TRANSFERS</b>	795,458	3,694,175	516,176	5,005,809
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer In	148,158	-	-	148,158
Transfer Out	(123,702)	(245,011)	(8,369)	(377,082)
<b>CHANGE IN NET POSITION</b>	819,914	3,449,164	507,807	4,776,885
Net Position - Beginning	<u>12,516,316</u>	<u>30,918,607</u>	<u>1,098,530</u>	<u>44,533,453</u>
<b>NET POSITION - ENDING</b>	<u>\$ 13,336,230</u>	<u>\$ 34,367,771</u>	<u>\$ 1,606,337</u>	<u>\$ 49,310,338</u>

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED DECEMBER 31, 2020**

	Business-Type Activities Enterprise Fund			Total Enterprise Funds
	Water Utility Funds	Sewage Disposal Fund	Nonmajor Enterprise Funds	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from Users	\$ 1,658,430	\$ 1,553,673	\$ 543,341	\$ 3,755,444
Payments to Employees	(330,879)	(247,524)	(118,405)	(696,808)
Payments to Suppliers	(845,691)	(735,353)	(123,351)	(1,704,395)
Net Cash Provided by Operating Activities	481,860	570,796	301,585	1,354,241
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers in	148,158	-	-	148,158
Transfers out	(123,702)	(245,011)	(8,369)	(377,082)
Cash Received from Hookups and Miscellaneous Income	117,115	114,954	11,155	243,224
Net Cash Provided (Used) by Noncapital Financing Activities	141,571	(130,057)	2,786	14,300
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition and Construction of Capital Assets	(188,106)	(271,165)	(130,352)	(589,623)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment Income	53,575	55,076	28,284	136,935
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	488,900	224,650	202,303	915,853
Cash and Cash Equivalents - Beginning of Year	4,402,821	4,662,644	447,950	9,513,415
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 4,891,721</u>	<u>\$ 4,887,294</u>	<u>\$ 650,253</u>	<u>\$ 10,429,268</u>

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN  
STATEMENT OF CASH FLOWS (CONTINUED)  
PROPRIETARY FUNDS  
YEAR ENDED DECEMBER 31, 2020**

	Business-Type Activities Enterprise Fund			Total Enterprise Funds
	Water Utility Funds	Sewage Disposal Fund	Nonmajor Enterprise Funds	
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating Income	\$ 339,577	\$ 134,189	\$ 233,220	\$ 706,986
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation	217,315	503,650	-	720,965
(Increase) Decrease in Assets:				
Accounts Receivable	(917)	720	17,152	16,955
Prepaid Expenses	(541)	(961)	(487)	(1,989)
Inventories	10,649	(8)	-	10,641
Deferred Outflows	25,034	19,690	(4,393)	40,331
Increase (Decrease) in Liabilities:				
Accounts Payable	15,032	16,420	3,677	35,129
Wages and Related Liabilities	(7,143)	(4,239)	(3,287)	(14,669)
Due to Other Funds	(5,412)	(9,150)	-	(14,562)
Deposits	(738)	-	-	(738)
Compensated Absences Payable	6,778	6,714	4,306	17,798
Net Pension Liability	(114,598)	(85,132)	35,768	(163,962)
Total OPEB Liability	34,092	17,630	14,168	65,890
Deferred Inflows	(37,268)	(28,727)	1,461	(64,534)
Total Adjustments	<u>142,283</u>	<u>436,607</u>	<u>68,365</u>	<u>647,255</u>
Net Cash Provided by Operating Activities	<u>\$ 481,860</u>	<u>\$ 570,796</u>	<u>\$ 301,585</u>	<u>\$ 1,354,241</u>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>				
Capital contributions	\$ 285,858	\$ 3,390,796	\$ 243,505	\$ 3,920,159

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Financial Reporting Entity**

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

Blended Component Unit

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

Related Organization

The Hermantown Volunteer Fire Department is a legally separate organization from the City. Related party transactions are limited to payments by the City on a contract for service entered into with the Hermantown Volunteer Fire Department. The City made payments totaling \$516,000 during 2020.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

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

**B. Government-Wide Financial Statements**

The government-wide financial statements (statement of net position and statement of activities) report information on all activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or business-type activity is offset by program revenues. Direct expenses are those which are clearly identifiable with a specific function or business-type activity. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or business-type activity, 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or business-type activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**C. Fund Financial Statements**

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

The funds of the financial reporting entity are described below:

Governmental Funds

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

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

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

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

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

Governmental Funds (Continued)

**Debt Service Funds** – These funds are used to account for the accumulation of resources for and the payment of general long-term obligation principal, interest, and related costs other than those financed by the City sales tax and proprietary funds.

**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 board has decided that the determination of revenues earned, costs incurred, and/or net income is necessary for management accountability.

Major Governmental Funds

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

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

**Essentia Wellness Center Capital Projects Fund** – Accounts for the proceeds of bonds issued as well as capital contributions received which are restricted for the construction of the Essentia Wellness Center.

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

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, 2020**

**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.

**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.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

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

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

Cash and Cash Equivalents (Continued)

For purposes of the proprietary fund-type statements of cash flows, the City considers all legal investments authorized by Minnesota Statutes with a 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.

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.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

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

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

Special Assessments (Continued)

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, 2020, 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, 2020**

**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 – 50
Buildings	10 – 40
Equipment	3 – 25
Infrastructure	15 – 25
Transmission System, Source of Supply, and Pumping Plant	50 – 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. Two years have been recognized and remaining unearned revenue is \$1,800,000 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, 2020**

**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.

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

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

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

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

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

**L. Fund Balance Classifications**

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

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

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

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

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

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

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

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

The City Council has formally adopted a policy regarding the minimum unrestricted fund balance for the General Fund. The policy establishes a year-end targeted unrestricted fund balance of 35%-50%, no less than five months of the next year's budgeted expenditures. This will assist in maintaining an adequate level of fund balance to provide for cash flow requirements and contingency needs because major revenues, including property taxes and other governmental aids, are received in the second half of the City's fiscal year. At December 31, 2020, the unassigned fund balance for the General Fund was 67.59% of the subsequent year's budgeted expenditures, or \$5,945,201.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

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

**M. Net Position**

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the government-wide and proprietary financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to construct or acquire the capital assets (adjusted for unspent debt proceeds). Restricted net position consists of net position with constraints on their use by external restrictions imposed by creditors, grantors, and laws or regulations of other governments. Unrestricted net position is all other net position that does not meet the definition of *restricted or investment in capital assets*.

**N. Use of Estimates**

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

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

Budgetary Information

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

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

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

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

**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, 2020, the City's bank balance was fully insured or collateralized.

**Investments**

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

The City is invested in the Minnesota Municipal Money Market Fund (4M Fund). The 4M Fund is an external investment pool not registered with the Securities and Exchange Commission (SEC). The City's investment in the 4M Fund is measured at the net asset value per share provided by the pool, which is based on amortized cost method that approximates fair value. At December 31, 2020, the City had an investment in the 4M Fund in the amount of \$8,530,098.



**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

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

**Investments (Continued)**

Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At December 31, 2020, 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, 2020, the City had the following investments:

Investment Type	Total Value	Maturities			
		Less Than 1 Year	1-5 Years	Over 5 Years	No Maturity
Federal Home Loan Mortgage Corporation	\$ 5,987	\$ -	\$ -	\$ 5,987	\$ -
Negotiable CDs	13,796,597	2,508,399	11,288,198	-	-
Mutual Funds	577,788	-	-	-	577,788
Municipal Bonds	886,776	886,776	-	-	-
External Investment Pool	8,530,098	-	-	-	8,530,098
<b>Total Investments</b>	<b>\$ 23,797,246</b>	<b>\$ 3,395,175</b>	<b>\$ 11,288,198</b>	<b>\$ 5,987</b>	<b>\$ 9,107,886</b>

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, 2020:

Credit Rating	Fair Value
AA	\$ 487,988
AA-	304,173
Not rated	23,005,085
<b>Total</b>	<b>\$ 23,797,246</b>

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

**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, 2020:

	Total	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by Fair Value Level</b>				
Federal Home Loan Mortgage Corporation	\$ 5,987	\$ -	\$ 5,987	\$ -
Negotiable CDs	11,288,198	-	11,288,198	-
Mutual Funds	577,788	-	577,788	-
Municipal Bonds	886,776	-	886,776	-
Total	12,758,749	\$ -	\$ 12,758,749	\$ -
Investments Measured at Amortized Cost	11,038,497			
Total Investments	\$ 23,797,246			

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, 2020:

		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
External Investment Pool - 4M	\$ 8,530,098	\$ -	None	14 Days

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

Cash on Hand	\$ 700
Deposits	7,106,362
Investments	23,797,246
Total Deposits and Investments	\$ 30,904,308

Presented in the financial statements as follows:

Primary Government:	
Cash and Cash Equivalents	\$ 30,904,308

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

**NOTE 3 RECEIVABLES**

Significant receivable balances not expected to be collected within one year of December 31, 2020 are as follows:

	Governmental Activities	Business-Type Activities
Taxes Receivable	\$ 84,890	\$ -
Special Assessments	5,237,422	186,573
Contracts Receivable	-	60,742
Total	<u>\$ 5,322,312</u>	<u>\$ 247,315</u>

**NOTE 4 CAPITAL ASSETS**

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

	Balance 12/31/2019	Additions	Deletions	Balance 12/31/2020
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 2,935,012	\$ -	\$ -	\$ 2,935,012
Construction in Progress	23,983,092	2,946,009	(26,225,685)	703,416
Total Capital Assets Not Being Depreciated	26,918,104	2,946,009	(26,225,685)	3,638,428
Capital Assets Being Depreciated:				
Land Improvements	1,953,048	53,300	-	2,006,348
Buildings	13,556,016	23,989,062	-	37,545,078
Equipment and Vehicles	2,816,347	2,333,325	(324,302)	4,825,370
Infrastructure	35,238,176	373,091	(33,567)	35,577,700
Total Capital Assets Being Depreciated	53,563,587	26,748,778	(357,869)	79,954,496
Less Accumulated Depreciation:				
Land Improvements	840,530	112,076	-	952,606
Buildings	5,393,466	364,097	-	5,757,563
Equipment and Vehicles	1,561,346	164,931	14,084	1,712,193
Infrastructure	24,581,639	876,692	324,302	25,134,029
Total Accumulated Depreciation	32,376,981	1,517,796	338,386	33,556,391
Total Capital Assets Being Depreciated, Net	21,186,606	25,230,982	(19,483)	46,398,105
Governmental Activities Capital Assets, Net	<u>\$ 48,104,710</u>	<u>\$ 28,176,991</u>	<u>\$ (26,245,168)</u>	<u>\$ 50,036,533</u>

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

**NOTE 4 CAPITAL ASSETS (CONTINUED)**

	Balance 12/31/2019	Additions	Deletions	Balance 12/31/2020
<b>Business-Type Activities</b>				
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ 825,242	\$ 3,699,258	\$ (491,818)	\$ 4,032,682
Land and Permanent Easements	607,514	-	-	607,514
Total Capital Assets not Being Depreciated	1,432,756	3,699,258	(491,818)	4,640,196
Capital Assets Being Depreciated:				
Buildings and Infrastructure	42,680,443	1,101,832	-	43,782,275
Equipment	1,047,486	200,510	-	1,247,996
Total Capital Assets Being Depreciated	43,727,929	1,302,342	-	45,030,271
Less Accumulated Depreciation:				
Buildings and Infrastructure	10,210,521	665,825	-	10,876,346
Equipment	638,447	55,140	-	693,587
Total Accumulated Depreciation	10,848,968	720,965	-	11,569,933
Total Capital Assets Being Depreciated, Net	32,878,961	581,377	-	33,460,338
Business-Type Activities Capital Assets, Net	<u>\$ 34,311,717</u>	<u>\$ 4,280,635</u>	<u>\$ (491,818)</u>	<u>\$ 38,100,534</u>

Depreciation expense was charged to functions/programs of the City as follows at December 31, 2020:

<b>Governmental Activities</b>	
General Government	\$ 189,387
Public Safety	234,318
Public Works	963,273
Community and Economic Development	5,296
Culture and Recreation	125,522
Total Governmental Activities Depreciation Expense	<u>\$ 1,517,796</u>
<b>Business-Type Activities</b>	
Water Utility	\$ 217,315
Sewage Disposal	503,650
Total Depreciation Expense - Business Type Activities	<u>\$ 720,965</u>

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

**NOTE 5 LONG-TERM OBLIGATIONS**

The City had the following long-term obligations at December 31, 2020:

<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.	\$ 1,050,000
General Obligation Improvement Bonds, Series 2012B were issued at a par value of \$3,155,000, have an interest rate of 2.0 - 2.2625%, and mature in 2034.	2,320,000
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.	1,085,000
General Obligation Refunding Bonds, Series 2016A were issued at a par value of \$3,285,000, have an interest rate of 2.0%, and mature in 2030.	2,570,000
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.	3,415,000
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.	1,940,000
General Obligation Tax Abatement Bonds, Series 2018B were issued at a par value of \$7,715,000, have an interest rate of 3.0 - 4.0%, and mature in 2039.	7,565,000
General Obligation Tax Abatement Bonds, Series 2019A were issued at a par value of \$8,845,000, have an interest rate of 3.0 - 5.0%, and mature in 2039.	8,565,000
General Obligation Improvement and Refunding Bonds, Series 2020A issued at a par value of \$3,585,000, have an interest rate of 3.0 - 2.0%, and mature in 2036.	3,585,000
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.	<u>3,915,000</u>
Total General Obligation Bonds	<u>\$ 36,010,000</u>

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

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

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

	Balance 12/31/2019	Additions	Reductions	Balance 12/31/2020	Amount Due Within One Year
<b>Governmental Activities</b>					
Bonds Payable:					
General Obligation Bonds	\$ 32,210,000	\$ 7,500,000	\$ 3,700,000	\$ 36,010,000	\$ 2,680,000
Less:					
Unamortized Bond Discount	(68,586)	-	(8,397)	(60,189)	(8,397)
Unamortized Bond Premium	984,432	348,248	96,778	1,235,902	119,659
Subtotal	<u>33,125,846</u>	<u>7,848,248</u>	<u>3,788,381</u>	<u>37,185,713</u>	<u>2,791,262</u>
Compensated Absences	<u>321,346</u>	<u>266,319</u>	<u>166,533</u>	<u>421,132</u>	<u>-</u>
Total Long-Term Liabilities	<u>\$ 33,447,192</u>	<u>\$ 8,114,567</u>	<u>\$ 3,954,914</u>	<u>\$ 37,606,845</u>	<u>\$ 2,791,262</u>
<b>Business-Type Activities</b>					
Compensated Absences	<u>\$ 87,203</u>	<u>\$ 59,393</u>	<u>\$ 41,595</u>	<u>\$ 105,001</u>	<u>\$ -</u>
Total Long-Term Liabilities	<u>\$ 87,203</u>	<u>\$ 59,393</u>	<u>\$ 41,595</u>	<u>\$ 105,001</u>	<u>\$ -</u>

Annual requirements to amortize all outstanding obligations at December 31, 2020 are as follows:

<u>Year Ending December 31,</u>	General Obligation Bonds		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 2,680,000	\$ 1,068,048	\$ 3,748,048
2022	2,740,000	963,185	3,703,185
2023	2,810,000	878,911	3,688,911
2024	2,530,000	797,355	3,327,355
2025	2,565,000	717,134	3,282,134
2026-2030	9,170,000	2,590,992	11,760,992
2031-2035	7,995,000	1,424,109	9,419,109
2036-2040	5,520,000	340,556	5,860,556
Total	<u>\$ 36,010,000</u>	<u>\$ 8,780,290</u>	<u>\$ 44,790,290</u>

General Obligation bonds are paid from Debt Service Funds.

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

On May 6, 2020 the City issued \$3,585,00 General Obligation Improvement and Refunding Bonds, Series 2020A, refunding \$1,435,000 of the General Improvement Bonds Series 2010A. The bonds bear interest at a rate of 3.00% decreasing to 2.00% and have a final maturity date of February 1, 2036. Future combined debt service payments will be reduced by \$58,206 with a present value savings of \$53,690.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

**NOTE 6 CONDUIT DEBT OBLIGATIONS**

The Hermantown Economic Development Authority (HEDA) has issued revenue bonds for the purpose of providing capital financing to various entities. Even though the debt bears HEDA's name, HEDA is not responsible for the payment of the original debt. The debt is secured by the payments agreed to be paid by these entities under the terms of the agreement between HEDA and the entity. The general description of the transactions and the outstanding balance as of December 31, 2020 are as follows:

<u>Enterprise</u>	<u>Year of Issue</u>	<u>Outstanding Balance 12/31/20</u>
Marshall School 2004B	2004	\$ 185,637
Saints-Hilltoppers Arena Project 2010	2010	321,100
Marshall School 2011	2011	229,964
Total		<u>\$ 736,701</u>

**NOTE 7 INTERFUND TRANSACTIONS**

The composition of interfund balances as of December 31, 2020 is as follows:

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

	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
City Sales Tax Fund	\$ 646,268	\$ -
Munger Trail Fund	-	493,142
Municipal State Aid Streets Fund	-	153,126
Total	<u>\$ 646,268</u>	<u>\$ 646,268</u>

Advances to/from other funds:

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

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

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

**NOTE 7 INTERFUND TRANSACTIONS (CONTINUED)**

**Interfund Transfers**

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

In the year ended December 31, 2020, the City made the following one-time transfers, which are included in the amounts presented above:

	Transfer In	Transfer Out
Governmental Funds:		
General Fund	\$ 14,175	\$ 629,121
City Sales Tax Fund	-	2,741,143
G.O. Refunding Bonds, Series 2016A Refunding	216,657	-
G.O. Improvement Bonds, Series 2010A Fund	255,000	217,431
G.O. Improvement Bonds, Series 2012B Fund	40,119	-
G.O. Improvement Bonds, Series 2014A Fund	231,500	-
G.O. Improvement Bonds, Series 2012A Fund	197,539	-
G.O. Improvement Bonds, Series 2016B Fund	698,807	-
G.O. Tax Abatement Bonds, Series 2018B Fund	517,821	-
G.O. Tax Abatement Bonds, Series 2019A Fund	647,462	-
G.O. Improvement Bonds, Series 2020A	272,484	-
G.O. Improvement Bonds, Series 2020B	90,300	-
Special Assessment Deficiency Fund	-	27,806
Munger Trail Fund	-	14,175
General Capital Projects Fund	541,121	-
Municipal Building Reserve Fund	100,000	-
Special Assessment/Road Improvement Fund	70,000	34,385
Total Governmental Funds	3,892,985	3,664,061
Proprietary Funds:		
Water Utility Fund	148,158	123,702
Sewage Disposal Fund	-	245,011
Storm Water Fund	-	8,369
Total Proprietary Funds	148,158	377,082
Total	\$ 4,041,143	\$ 4,041,143

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



**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

**NOTE 8 FUND BALANCES/NET POSITION**

Fund balance was nonspendable for the following purposes at December 31, 2020:

**Prepaid Items**

Governmental Funds:

General Fund	\$ 77,364
Essentia Wellness Special Revenue Fund	11,349
Hermantown Economic Development Authority Fund	15
Cable Television Fund	150,025
Total Nonspendable	<u>\$ 238,753</u>

Governmental net position and fund balances were restricted for the following purposes at December 31, 2020:

	<u>Net Position</u>	<u>Fund Balance</u>
Debt Service Funds	\$ 16,397,446	\$ 12,296,797
Essentia Wellness Special Revenue Fund	182,421	182,421
Police Program Fund	204,658	204,658
Park Dedication Fund	100,452	100,452
Soccer Fields	73,168	73,168
Total Restricted	<u>\$ 16,958,145</u>	<u>\$ 12,857,496</u>

Fund balances were committed for the following purposes at December 31, 2020:

Other Governmental Funds:

Economic Development	\$ 303,612
Park Improvements	108,456
Wetland Restoration	58,290
Cable TV	264,892
Debt Service	315,128
Total Committed	<u>\$ 1,050,378</u>

Fund balances were assigned for the following purposes at December 31, 2020:

General Capital Projects	\$ 514,431
Essentia Wellness Capital Projects Fund	283,451
Special Assessment/Road Improvement Fund	97,046
Municipal Building Reserve	175,296
HEDA Fleet Projects	101,097
Total Assigned	<u>\$ 1,171,321</u>

The following funds had an unassigned fund balance (deficit) at December 31, 2020:

General Fund	\$ 4,018,261
Munger Trail Fund	(128,255)
TIF District 1 Improvement Fund	(656,122)
Municipal State Aid Streets Fund	(186,542)
Total	<u>\$ 3,047,342</u>

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

**NOTE 9 DEFINED BENEFIT PENSION PLANS**

**A. Plan Description**

The City participates in the following cost-sharing multiple-employer defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax-qualified plans under Section 401 (a) of the Internal Revenue Code.

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

Benefits Provided

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

1. General Employees Plan Benefits

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

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

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

**A. Plan Description (Continued)**

1. General Employees Plan Benefits (Continued)

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

2. Police and Fire Benefits

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

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

**B. Contributions**

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

1. General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in calendar year 2020 and the City was required to contribute 7.5% for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2020 were \$116,340. The City's contribution was equal to the contractually required contribution as set by state statute.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

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

**B. Contributions (Continued)**

2. Police and Fire Fund Contributions

Police and Fire member's contribution rates increased from 11.30% of their annual covered salary to 11.80% and employer rates increased from 16.95% to 17.70% on January 1, 2020. The City's contributions to the Police and Fire Fund for the year ended December 31, 2020 were \$244,165. The City's contributions were equal to the required contributions as set by state statute.

**C. Pension Costs**

1. General Employees Fund Pension Costs

At December 31, 2020, the City reported a liability of \$1,241,060 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$16 million. The state of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. The state of Minnesota's proportionate share of the net pension liability associated with the City totaled \$38,201. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2019, through June 30, 2020, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0207% at the end of the measurement period and 0.0199% for the beginning of the period.

The City's Proportionate Share of the Net Pension Liability	\$ 1,241,060
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the City	38,201
Total	\$ 1,279,261

For the year ended December 31, 2020, the City recognized pension expense of \$89,938 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$3,325 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, 2020**

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

**C. Pension Costs (Continued)**

1. General Employees Fund Pension Costs (Continued)

At December 31, 2020, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 11,315	\$ 4,696
Net Difference Between Projected and Actual Investment Earnings on Plan Investments	-	46,011
Changes in Proportion	21,440	-
Effect of Changes in Assumptions	55,112	-
Contributions Subsequent to Measurement Period	60,626	-
Total	<u>\$ 148,493</u>	<u>\$ 50,707</u>

\$60,626 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	Pension Expense Amount
2021	\$ (42,297)
2022	13,137
2023	36,337
2024	29,983
Total	<u>\$ 37,160</u>

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

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

**C. Pension Costs (Continued)**

2. Police and Fire Fund Pension Costs

At December 31, 2020, the City reported a liability of \$1,540,867 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2019 through June 30, 2020, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.1169% at the end of the measurement period and 0.1203% for the beginning of the period.

The state of Minnesota contributed \$13.5 million to the Police and Fire Fund in the plan fiscal year ended June 30, 2020. The contribution consisted of \$4.5 million in direct state aid that does meet the definition of a special funding situation and \$9.0 million in supplemental state aid that does not meet the definition of a special funding situation. The \$4.5 million direct state was paid on October 1, 2019. Thereafter, by October 1 of each year, the state will pay \$9 million to the Police and Fire Fund until full funding is reached or July 1, 2048, whichever is earlier. The \$9 million in supplemental state aid will continue until the fund is 90% funded, or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90% funded, whichever occurs later.

The state of Minnesota is included as a nonemployer contributing entity in the Police and Fire Retirement Plan Schedule of Employer Allocations and Schedule of Pension Amounts by Employer, Current Reporting Period Only (pension allocation schedules) for the \$4.5 million in direct state aid. Police and Fire Plan employers need to recognize their proportionate share of the state of Minnesota's pension expense (and grant revenue) under GASB 68 special funding situation accounting and financial reporting requirements. For the year ended December 31, 2020, the City recognized pension expense of \$184,235 for its proportionate share of the Police and Fire Plan's pension expense. The City recognized \$10,521 as grant revenue for its proportionate share of the state of Minnesota's pension expense for the contribution of \$4.5 million to the Police and Fire Fund.

The state of Minnesota is not included as a nonemployer contributing entity in the Police and Fire Pension Plan pension allocation schedules for the \$9 million in supplemental state aid. The City recognized \$11,172 for the year ended December 31, 2020 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, 2020**

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

**C. Pension Costs (Continued)**

1. Police and Fire Fund Pension Costs (Continued)

The City's Proportionate Share of the Net Pension Liability	\$ 1,540,867
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the City	<u>36,314</u>
Total	<u>\$ 1,577,181</u>

At December 31, 2020, 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ 68,084	\$ 73,175
Changes in Proportion	516,377	960,984
Net Difference Between Projected and Actual Investment Earnings on Plan Investments	46,803	-
Effect of Changes in Assumptions	61,892	108,439
Contributions Paid to PERA Subsequent to the Measurement Date	<u>131,778</u>	<u>-</u>
Total	<u>\$ 824,934</u>	<u>\$ 1,142,598</u>

\$131,778 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Pension Expense Amount</u>
2021	\$ (124,857)
2022	(442,855)
2023	54,393
2024	72,510
2025	<u>(8,633)</u>
Total	<u>\$ (449,442)</u>

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

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

**C. Pension Costs (Continued)**

2. Aggregate Pension Costs

	General Employees Plan	Police and Fire Plan	Total
Net Pension Liability	\$ 1,241,060	\$ 1,540,867	\$ 2,781,927
Deferred Outflows of Resources	148,493	824,934	973,427
Deferred Inflows of Resources	50,707	1,142,598	1,193,305
Pension Expense	89,938	184,235	274,173

**D. Actuarial Assumptions**

The total pension liability in the June 30, 2020, actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on Pub-2010 General Employee Mortality table for the General Employees Plan and RP 2014 tables for the Police and Fire for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year for the General Employees Plan. For the Police and Fire Plan, cost of living benefit increases for retirees are 1.0% per year as set by state statute.

Actuarial assumptions used in the June 30, 2020 valuation were based on the results of actuarial experience studies. The most recent four-year experience study 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 four-year experience study used for the Police and Fire Plan was completed in 2016. Inflation and investment return assumptions for the Police and Fire Plan are based on the General Employees Retirement Plan experience study completed in 2019. The most recent four-year experience studies for the Police and Fire Plan were completed in 2020. The recommended assumptions for those plans were adopted by the Board and will be effective with the July 1, 2021 actuarial valuations if approved by the Legislature.



**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

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

**D. Actuarial Assumptions (Continued)**

The following changes in actuarial assumptions and plan provisions occurred in 2020:

General Employees Fund

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  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

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

**D. Actuarial Assumptions (Continued)**

Police and Fire Fund

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	35.5 %	5.10%
International Stocks	17.5	5.30%
Bonds (Fixed Income)	20.0	0.75%
Alternative Assets (Private Markets)	25.0	5.90%
Cash	2.0	0.00%
Total	<u>100 %</u>	

**E. Discount Rate**

The discount rate used to measure the total pension liability in 2020 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund, the Police and Fire Fund, and the Correctional Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

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

**F. Pension Liability Sensitivity**

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

Discount Rate	<u>1% Decrease in Discount Rate</u> 6.50%	<u>Discount Rate</u> 7.50%	<u>1% Increase in Discount Rate</u> 8.50%
City's Proportionate Share of the GERF Net Pension Liability	\$ 1,988,988	\$ 1,241,060	\$ 624,079
City's Proportionate Share of the PEPFF Net Pension Liability	\$ 3,071,170	\$ 1,540,867	\$ 274,810

**G. Pension Plan Fiduciary Net Position**

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

**NOTE 10 PUBLIC EMPLOYEES DEFINED CONTRIBUTION PLAN**

Two City Council members are covered by the Defined Contribution Plan, a multiemployer deferred compensation plan administered by PERA. The Defined Contribution Plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are deferred until time of withdrawal. Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

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

An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase share in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2% of employer contributions and twenty-five hundredths of 1% (.0025) of the assets in each member's account annually

Total contributions made by the City during 2020 were:

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

**NOTE 11 POSTEMPLOYMENT HEALTH CARE PLAN**

**Plan Description**

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

**Funding**

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

**OPEB Liability**

The City's total OPEB liability at December 31, 2020 was \$1,627,840. The total OPEB liability was measured as of December 31, 2019 and was determined by an actuarial valuation as of December 31, 2018. 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	2.50% per year
Salary Increases	3.50% average, including inflation.
Healthcare Cost Trend Rate	Beginning at 6.40% with an ultimate rate of 4.00%
Investment Rate of Return	3.71%
Mortality Rate	RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

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

**OPEB Liability (Continued)**

The 2.75% 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, 2020 are as follows:

Beginning Balance	\$ 1,369,500
Changes for the Year:	
Service Cost	51,512
Interest	51,803
Differences between Expected and Actual Experience	-
Changes of Assumptions	204,459
Benefit Payments	(49,434)
Net Changes	<u>258,340</u>
Ending Balance	<u>\$ 1,627,840</u>

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

Sensitivity of Total OPEB Liability at Current Single

Discount Rate:		
1% Higher	3.75%	\$ 1,415,668
Current Discount Rate	2.75%	1,627,840
1% Lower	1.75%	1,887,617

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	7.40%	\$ 1,922,846
Current Discount Rate	6.40%	1,627,840
1% Lower	5.40%	1,387,570

For the year ended December 31, 2020, the City recognized OPEB expense of \$261,774. The City's contributions subsequent to the measurement date of \$46,068, reported as deferred outflows of resources, will be recognized as a reduction of the total OPEB liability in the City's fiscal year ended December 31, 2021.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

**NOTE 12 COMPENSATED ABSENCES**

It is the City’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Upon retirement, in accordance with various employment and union contracts, the value of the qualifying banked sick hours will be submitted as a Health Care Savings Plan (HCSP) contribution to the Minnesota State Retirement System (MSRS) to be used to pay the employee’s health insurance premiums. The year-end accrued sick leave and accrued vacation balance increased by \$17,798 in the proprietary funds and increased by \$99,786 in the governmental funds. As of December 31, 2020, 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, 2020, in the amount of \$526,133. 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, all other employees shall have 25% deposited in the plan. The City paid \$2,990 to the MSRS for this employee benefit in 2020.

**NOTE 13 LEASES**

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

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

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

<u>Year Ending December 31,</u>	<u>Amount</u>
2021	\$ 216,128
2022	216,128
2023	216,128
2024	216,128
2025	220,991
2026-2029	709,749
Total	<u><u>\$ 1,795,252</u></u>

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

**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 2020 the County paid \$222,148 towards the note, leaving a balance as of December 31, 2020 of \$605,604.

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 2020, the City paid the local business \$137,997 related to this agreement. As of December 31, 2020, the City's remaining commitment to the local business is \$855,129.

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, 2020, the City generated tax increment revenue of \$142,537 and made payments of \$83,084, on the note. The note's balance at year-end was \$288,814.

**NOTE 15 COMMITMENTS AND CONTINGENCIES**

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

The City has several active construction projects as of December 31, 2020. The remaining commitment on these projects totaled \$322,391.

**CITY OF HERMANTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

**NOTE 16 RISK MANAGEMENT**

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

**NOTE 17 SUBSEQUENT EVENTS**

At the April 19, 2021 Council Meeting, the City Council approved the issuance of the General Obligation Improvement and Refunding Bonds, Series 2021A, in the amount of \$3,860,000, with a closing date of May 6, 2021. Proceeds from this issuance will be used to finance the City's 2021 LaVaque Junction Road Improvement project, and refund, as a current refunding, the outstanding issuances of the 2012B General Obligation Improvement Bonds.



**REQUIRED SUPPLEMENTARY INFORMATION**

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

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

**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, 2020	0.0207%	\$ 1,241,060	\$ 38,201	\$ 1,279,261	\$ 1,475,147	86.7%	79.1%
June 30, 2019	0.0199%	1,100,226	34,165	1,134,391	1,405,853	80.7%	80.0%
June 30, 2018	0.0198%	1,098,423	36,119	1,134,542	1,331,650	85.2%	79.5%
June 30, 2017	0.0189%	1,206,564	15,199	1,221,763	1,219,758	100.2%	75.9%
June 30, 2016	0.0180%	1,461,511	19,156	1,480,667	1,119,203	132.3%	68.9%
June 30, 2015	0.0181%	938,036	-	938,036	1,062,157	88.3%	78.2%

Schedule of Employer's Contributions

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
December 31, 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, 2020**

*2020 Changes*

Changes in Actuarial Assumptions:

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions

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

*2019 Changes*

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- The Employer supplemental contribution was changed prospectively decreasing from \$31 million to \$21 million per year. The State's special funding contribution was changed prospectively, requiring \$16 million due per year through 2031.

*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.

**CITY OF HERMANTOWN  
INFORMATION ABOUT THE CITY'S NET PENSION LIABILITY  
YEAR ENDED DECEMBER 31, 2020**

*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, 2020**

**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, 2020	0.1169%	\$ 1,540,867	\$ 36,314	\$ 1,577,181	\$ 1,320,534	116.7%	87.2%
June 30, 2019	0.1203%	1,280,715	-	1,280,715	1,298,494	98.6%	89.3%
June 30, 2018	0.1150%	1,225,782	-	1,225,782	1,211,962	101.1%	88.8%
June 30, 2017	0.1210%	1,633,644	-	1,633,644	1,243,764	131.3%	85.4%
June 30, 2016	0.1220%	4,896,072	-	4,896,072	1,151,242	425.3%	63.9%
June 30, 2015	0.1220%	1,386,205	-	1,386,205	1,111,297	124.7%	86.6%

Schedule of Employer's Contributions

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
December 31, 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, 2020**

*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.

*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.

**CITY OF HERMANTOWN  
INFORMATION ABOUT THE CITY'S NET PENSION LIABILITY  
YEAR ENDED DECEMBER 31, 2020**

*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, 2020**

	Special Revenue Funds					
	Hermantown Economic Development Authority Fund	Park Dedication Fund	Hermantown Wetland Mitigation Fund	Police Program Fund	Cable Television Fund	Soccer Fund
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 308,128	\$ 210,901	\$ 58,290	\$ 199,624	\$ 245,718	\$ 73,168
Accounts Receivable	1	2,850	-	5,034	19,143	-
Interest Receivable	-	157	-	-	181	-
Delinquent Taxes Receivable	1,901	-	-	-	-	-
Special Assessments Receivable	-	-	-	-	-	-
Prepaid Items	15	-	-	-	25	-
Advance to Other Funds	-	-	-	-	150,000	-
Total Assets	<u>\$ 310,045</u>	<u>\$ 213,908</u>	<u>\$ 58,290</u>	<u>\$ 204,658</u>	<u>\$ 415,067</u>	<u>\$ 73,168</u>
<b>LIABILITIES</b>						
Accrued Wages and Related Liabilities	\$ 729	\$ -	\$ -	\$ -	\$ 150	\$ -
Accounts Payable	4,800	-	-	-	-	-
Due to Other Funds	-	-	-	-	-	-
Deposits Payable	603	5,000	-	-	-	-
Advance from Other Funds	-	-	-	-	-	-
Total Liabilities	<u>6,132</u>	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>150</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Delinquent Property Tax	286	-	-	-	-	-
Unavailable Special Assessments	-	-	-	-	-	-
Unavailable Revenue - Other	-	-	-	-	-	-
Total Deferred Inflow of Resources	<u>286</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCE (DEFICIT)</b>						
Nonspendable	15	-	-	-	150,025	-
Restricted	-	100,452	-	204,658	-	73,168
Committed	303,612	108,456	58,290	-	264,892	-
Assigned	-	-	-	-	-	-
Unassigned (Deficit)	-	-	-	-	-	-
Total Fund Balance (Deficit)	<u>303,627</u>	<u>208,908</u>	<u>58,290</u>	<u>204,658</u>	<u>414,917</u>	<u>73,168</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance (Deficit)	<u>\$ 310,045</u>	<u>\$ 213,908</u>	<u>\$ 58,290</u>	<u>\$ 204,658</u>	<u>\$ 415,067</u>	<u>\$ 73,168</u>

**CITY OF HERMANTOWN  
COMBINING BALANCE SHEET (CONTINUED)  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2020**

Debt Service Funds					
	Certificate of Indebtedness Fund	G.O. Improvement Bonds Series 2010A Fund	G.O. Improvement Bonds Series 2012A Fund	G.O. Refunding Bonds Series 2016A Fund	G.O. Improvement Bonds Series 2016B Fund
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 38,362	\$ -	\$ 85,806	\$ 366,971	\$ 239,938
Accounts Receivable	-	-	-	-	-
Interest Receivable	-	-	-	-	-
Delinquent Taxes Receivable	212	-	3,995	3,626	-
Special Assessments Receivable	-	-	314,376	683,663	-
Prepaid Items	-	-	-	-	-
Advance to Other Funds	-	-	-	-	-
Total Assets	<u>\$ 38,574</u>	<u>\$ -</u>	<u>\$ 404,177</u>	<u>\$ 1,054,260</u>	<u>\$ 239,938</u>
<b>LIABILITIES</b>					
Accrued Wages and Related Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Payable	-	-	-	-	-
Due to Other Funds	-	-	-	-	-
Deposits Payable	-	-	-	-	-
Advance from Other Funds	-	-	-	-	-
Total Liabilities	-	-	-	-	-
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Delinquent Property Tax	202	-	220	279	-
Unavailable Special Assessments	-	-	314,376	683,663	-
Unavailable Revenue - Other	-	-	-	-	-
Total Deferred Inflow of Resources	<u>202</u>	<u>-</u>	<u>314,596</u>	<u>683,942</u>	<u>-</u>
<b>FUND BALANCE (DEFICIT)</b>					
Nonspendable	-	-	-	-	-
Restricted	38,372	-	89,581	370,318	239,938
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned (Deficit)	-	-	-	-	-
Total Fund Balance (Deficit)	<u>38,372</u>	<u>-</u>	<u>89,581</u>	<u>370,318</u>	<u>239,938</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance (Deficit)	<u>\$ 38,574</u>	<u>\$ -</u>	<u>\$ 404,177</u>	<u>\$ 1,054,260</u>	<u>\$ 239,938</u>

**CITY OF HERMANTOWN  
COMBINING BALANCE SHEET (CONTINUED)  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2020**

Debt Service Funds				
G.O. Improvement Bonds Series 2018A Fund	G.O. Tax Abatement Bonds Series 2018B Fund	G.O. Tax Abatement Bonds Series 2019A Fund	G.O. Improvement Bonds Series 2020B Fund	Special Assessment Deficiency Fund
\$ 187,438	\$ 437,820	\$ 38,202	\$ 66,519	\$ 312,944
-	-	-	-	-
3,382	1,206	-	-	267
-	-	-	-	1,917
-	-	-	-	427,827
-	-	-	-	-
<u>\$ 190,820</u>	<u>\$ 439,026</u>	<u>\$ 38,202</u>	<u>\$ 66,519</u>	<u>\$ 742,955</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
504	180	-	-	-
-	-	-	-	427,827
-	-	-	-	-
<u>504</u>	<u>180</u>	<u>-</u>	<u>-</u>	<u>427,827</u>
-	-	-	-	-
190,316	438,846	38,202	66,519	-
-	-	-	-	315,128
-	-	-	-	-
-	-	-	-	-
<u>190,316</u>	<u>438,846</u>	<u>38,202</u>	<u>66,519</u>	<u>315,128</u>
<u>\$ 190,820</u>	<u>\$ 439,026</u>	<u>\$ 38,202</u>	<u>\$ 66,519</u>	<u>\$ 742,955</u>

**CITY OF HERMANTOWN  
COMBINING BALANCE SHEET (CONTINUED)  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2020**

	Capital Project Funds						Total Nonmajor Governmental Funds
	General Capital Projects Fund	Municipal Building Reserve Fund	Munger Trail Fund	TIF District 1 Improvement Fund	HEDA Fleet Projects Fund	Municipal State Aid Streets Fund	
<b>ASSETS</b>							
Cash and Cash Equivalents	\$ 559,571	\$ 175,296	\$ -	\$ 85,915	\$ 101,097	\$ -	\$ 3,791,708
Accounts Receivable	-	-	390,995	-	-	108,582	526,605
Interest Receivable	-	-	-	-	-	-	605
Delinquent Taxes Receivable	-	-	-	-	-	-	16,239
Special Assessments Receivable	-	-	-	-	-	-	1,425,866
Prepaid Items	-	-	-	-	-	-	40
Advance to Other Funds	-	-	-	-	-	-	150,000
Total Assets	<u>\$ 559,571</u>	<u>\$ 175,296</u>	<u>\$ 390,995</u>	<u>\$ 85,915</u>	<u>\$ 101,097</u>	<u>\$ 108,582</u>	<u>\$ 5,911,063</u>
<b>LIABILITIES</b>							
Accrued Wages and Related Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 879
Accounts Payable	45,140	-	26,108	42,037	-	33,416	151,501
Due to Other Funds	-	-	493,142	-	-	153,126	646,268
Deposits Payable	-	-	-	-	-	-	5,603
Advance from Other Funds	-	-	-	700,000	-	-	700,000
Total Liabilities	<u>45,140</u>	<u>-</u>	<u>519,250</u>	<u>742,037</u>	<u>-</u>	<u>186,542</u>	<u>1,504,251</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Delinquent Property Tax	-	-	-	-	-	-	1,671
Unavailable Special Assessments	-	-	-	-	-	-	1,425,866
Unavailable Revenue - Other	-	-	-	-	-	108,582	108,582
Total Deferred Inflow of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>108,582</u>	<u>1,536,119</u>
<b>FUND BALANCE (DEFICIT)</b>							
Nonspendable	-	-	-	-	-	-	150,040
Restricted	-	-	-	-	-	-	1,850,370
Committed	-	-	-	-	-	-	1,050,378
Assigned	514,431	175,296	-	-	101,097	-	790,824
Unassigned (Deficit)	-	-	(128,255)	(656,122)	-	(186,542)	(970,919)
Total Fund Balance (Deficit)	<u>514,431</u>	<u>175,296</u>	<u>(128,255)</u>	<u>(656,122)</u>	<u>101,097</u>	<u>(186,542)</u>	<u>2,870,693</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance (Deficit)	<u>\$ 559,571</u>	<u>\$ 175,296</u>	<u>\$ 390,995</u>	<u>\$ 85,915</u>	<u>\$ 101,097</u>	<u>\$ 108,582</u>	<u>\$ 5,911,063</u>

**CITY OF HERMANTOWN  
COMBINING STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND BALANCES (DEFICITS)  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2020**

	Special Revenue Funds					
	Hermantown Economic Development Authority Fund	Park Dedication Fund	Hermantown Wetland Mitigation Fund	Police Program Fund	Cable Television Fund	Soccer Fund
<b>REVENUES</b>						
Taxes	\$ 159,393	\$ -	\$ -	\$ -	\$ -	\$ -
Franchise Fees	-	-	-	-	37,970	-
Special Assessments	-	-	-	-	-	-
Licenses and Permits	-	42,440	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Fines and Forfeitures	-	-	-	11,013	-	-
Investment Income	-	2,357	-	-	8,706	-
Miscellaneous	2,771	2,850	-	8,514	-	-
Total Revenues	<u>162,164</u>	<u>47,647</u>	<u>-</u>	<u>19,527</u>	<u>46,676</u>	<u>-</u>
<b>EXPENDITURES</b>						
Current:						
General Government	-	-	-	-	-	-
Public Safety	-	-	-	3,315	-	-
Community and Economic Development	65,202	-	9,500	-	-	-
Culture and Recreation	-	-	-	-	13,153	-
Capital Outlay	-	-	-	-	-	-
Debt Service:						
Principal	-	-	-	-	-	-
Interest and Fiscal Charges	-	-	-	-	-	-
Total Expenditures	<u>65,202</u>	<u>-</u>	<u>9,500</u>	<u>3,315</u>	<u>13,153</u>	<u>-</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	96,962	47,647	(9,500)	16,212	33,523	-
<b>OTHER FINANCING SOURCES (USES)</b>						
Bonds Issued	-	-	-	-	-	-
Premium on Issuance of Bonds	-	-	-	-	-	-
Bond Principal Refunded	-	-	-	-	-	-
Transfer In	-	-	-	-	-	-
Transfer Out	-	-	-	-	-	-
Net Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	96,962	47,647	(9,500)	16,212	33,523	-
Fund Balance (Deficit) - Beginning	<u>206,665</u>	<u>161,261</u>	<u>67,790</u>	<u>188,446</u>	<u>381,394</u>	<u>73,168</u>
<b>FUND BALANCE (DEFICIT) - ENDING</b>	<u>\$ 303,627</u>	<u>\$ 208,908</u>	<u>\$ 58,290</u>	<u>\$ 204,658</u>	<u>\$ 414,917</u>	<u>\$ 73,168</u>

**CITY OF HERMANTOWN  
COMBINING STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND BALANCES (DEFICITS) (CONTINUED)  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2020**

Debt Service Funds					
	Certificate of Indebtedness Fund	G.O. Improvement Bonds Series 2010A Fund	G.O. Improvement Bonds Series 2012A Fund	G.O. Refunding Bonds Series 2016A Fund	G.O. Improvement Bonds Series 2016B Fund
<b>REVENUES</b>					
Taxes	\$ 438	\$ -	\$ -	\$ 79,015	\$ -
Franchise Fees	-	-	-	-	-
Special Assessments	-	-	60,558	161,351	-
Licenses and Permits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Fines and Forfeitures	-	-	-	-	-
Investment Income	-	1,080	-	-	-
Miscellaneous	-	-	-	-	-
Total Revenues	<u>438</u>	<u>1,080</u>	<u>60,558</u>	<u>240,366</u>	<u>-</u>
<b>EXPENDITURES</b>					
Current:					
General Government	-	-	-	-	-
Public Safety	-	-	-	-	-
Community and Economic Development	-	-	-	-	-
Culture and Recreation	-	-	-	-	-
Capital Outlay	-	-	-	-	-
Debt Service:					
Principal	-	345,000	155,000	365,000	510,000
Interest and Fiscal Charges	-	75,700	24,786	60,905	110,955
Total Expenditures	<u>-</u>	<u>420,700</u>	<u>179,786</u>	<u>425,905</u>	<u>620,955</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	438	(419,620)	(119,228)	(185,539)	(620,955)
<b>OTHER FINANCING SOURCES (USES)</b>					
Bonds Issued	-	1,420,000	-	-	-
Premium on Issuance of Bonds	-	63,005	-	-	-
Bond Principal Refunded	-	(1,435,000)	-	-	-
Transfer In	-	255,000	197,539	216,657	698,807
Transfer Out	-	(217,431)	-	-	-
Net Other Financing Sources (Uses)	<u>-</u>	<u>85,574</u>	<u>197,539</u>	<u>216,657</u>	<u>698,807</u>
<b>NET CHANGE IN FUND BALANCE</b>	438	(334,046)	78,311	31,118	77,852
Fund Balance (Deficit) - Beginning	<u>37,934</u>	<u>334,046</u>	<u>11,270</u>	<u>339,200</u>	<u>162,086</u>
<b>FUND BALANCE (DEFICIT) - ENDING</b>	<u>\$ 38,372</u>	<u>\$ -</u>	<u>\$ 89,581</u>	<u>\$ 370,318</u>	<u>\$ 239,938</u>

**CITY OF HERMANTOWN  
COMBINING STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND BALANCES (DEFICITS) (CONTINUED)  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2020**

Debt Service Funds				
G.O. Improvement Bonds Series 2018A Fund	G.O. Tax Abatement Bonds Series 2018B Fund	G.O. Tax Abatement Bonds Series 2019A Fund	G.O. Improvement Bonds Series 2020B Fund	Special Assessment Deficiency Fund
\$ 143,470	\$ 51,158	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	8,433
-	-	-	-	-
-	-	-	-	-
-	-	-	-	3,893
-	-	-	-	-
<u>143,470</u>	<u>51,158</u>	<u>-</u>	<u>-</u>	<u>12,326</u>
-	-	-	-	2,750
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
75,000	150,000	280,000	-	-
65,355	265,330	319,486	23,781	-
<u>140,355</u>	<u>415,330</u>	<u>599,486</u>	<u>23,781</u>	<u>2,750</u>
3,115	(364,172)	(599,486)	(23,781)	9,576
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	517,821	647,462	90,300	-
-	-	-	-	(27,806)
<u>-</u>	<u>517,821</u>	<u>647,462</u>	<u>90,300</u>	<u>(27,806)</u>
3,115	153,649	47,976	66,519	(18,230)
<u>187,201</u>	<u>285,197</u>	<u>(9,774)</u>	<u>-</u>	<u>333,358</u>
<u>\$ 190,316</u>	<u>\$ 438,846</u>	<u>\$ 38,202</u>	<u>\$ 66,519</u>	<u>\$ 315,128</u>



**CITY OF HERMANTOWN  
COMBINING STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND BALANCES (DEFICITS) (CONTINUED)  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2020**

	Capital Project Funds						Total Nonmajor Governmental Funds
	General Capital Projects Fund	Municipal Building Reserve Fund	Munger Trail Fund	TIF District 1 Improvement Fund	HEDA Fleet Projects Fund	Municipal State Aid Streets Fund	
<b>REVENUES</b>							
Taxes	\$ -	\$ -	\$ -	\$ 142,025	\$ 137,998	\$ -	\$ 713,497
Franchise Fees	-	-	-	-	-	-	37,970
Special Assessments	-	-	-	-	34,969	-	265,311
Licenses and Permits	-	-	-	-	-	-	42,440
Intergovernmental	-	-	416,492	-	-	547,889	964,381
Fines and Forfeitures	-	-	-	-	-	-	11,013
Investment Income	-	-	-	-	-	-	16,036
Miscellaneous	-	7,470	-	-	-	-	21,605
Total Revenues	-	7,470	416,492	142,025	172,967	547,889	2,072,253
<b>EXPENDITURES</b>							
Current:							
General Government	-	68,565	-	-	-	-	71,315
Public Safety	-	-	-	-	-	-	3,315
Community and Economic Development	-	-	-	84,996	138,395	-	298,093
Culture and Recreation	-	-	-	-	-	-	13,153
Capital Outlay	255,031	30,184	530,572	-	-	685,591	1,501,378
Debt Service:							
Principal	-	-	-	-	-	-	1,880,000
Interest and Fiscal Charges	-	-	-	28,000	-	-	974,298
Total Expenditures	255,031	98,749	530,572	112,996	138,395	685,591	4,741,552
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(255,031)	(91,279)	(114,080)	29,029	34,572	(137,702)	(2,669,299)
<b>OTHER FINANCING SOURCES (USES)</b>							
Bonds Issued	-	-	-	-	-	-	1,420,000
Premium on Issuance of Bonds	-	-	-	-	-	-	63,005
Bond Principal Refunded	-	-	-	-	-	-	(1,435,000)
Transfer In	541,121	100,000	-	-	-	-	3,264,707
Transfer Out	-	-	(14,175)	-	-	-	(259,412)
Net Other Financing Sources (Uses)	541,121	100,000	(14,175)	-	-	-	3,053,300
<b>NET CHANGE IN FUND BALANCE</b>	286,090	8,721	(128,255)	29,029	34,572	(137,702)	384,001
Fund Balance (Deficit) - Beginning	228,341	166,575	-	(685,151)	66,525	(48,840)	2,486,692
<b>FUND BALANCE (DEFICIT) - ENDING</b>	\$ 514,431	\$ 175,296	\$ (128,255)	\$ (656,122)	\$ 101,097	\$ (186,542)	\$ 2,870,693

**CITY OF HERMANTOWN  
COMBINING STATEMENT OF NET POSITION  
NONMAJOR ENTERPRISE FUNDS  
YEAR ENDED DECEMBER 31, 2020**

	Storm Water Funds	Street Lighting Fund	Total Nonmajor Enterprise Funds
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 113,766	\$ 536,487	\$ 650,253
Interest Receivable	-	410	410
Accounts Receivable, Net of Allowance	76,668	34,392	111,060
Advance to Other Funds	-	550,000	550,000
Prepaid Items	796	-	796
Total Current Assets	<u>191,230</u>	<u>1,121,289</u>	<u>1,312,519</u>
Noncurrent Assets:			
Capital Assets, Net of Depreciation:			
Assets Being Depreciated, Net	419,053	-	419,053
Total Capital Assets, Net of Depreciation	<u>419,053</u>	<u>-</u>	<u>419,053</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Other Postemployment Benefits	1,438	-	1,438
Pensions	4,280	-	4,280
Total Deferred Outflows of Resources	<u>5,718</u>	<u>-</u>	<u>5,718</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 616,001</u>	<u>\$ 1,121,289</u>	<u>\$ 1,737,290</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	\$ 2,450	\$ 13,143	\$ 15,593
Accrued Wages and Related Liabilities	2,650	-	2,650
Total Current Liabilities	<u>5,100</u>	<u>13,143</u>	<u>18,243</u>
Noncurrent Liabilities:			
Compensated Absences	24,657	-	24,657
Net Pension Liability	35,768	-	35,768
Total OPEB Liability	50,824	-	50,824
Total Noncurrent Liabilities	<u>111,249</u>	<u>-</u>	<u>111,249</u>
Total Liabilities	116,349	13,143	129,492
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pensions	1,461	-	1,461
Total Deferred Intflows of Resources	<u>1,461</u>	<u>-</u>	<u>1,461</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	419,053	-	419,053
Unrestricted	79,138	1,108,146	1,187,284
Total Net Position	<u>498,191</u>	<u>1,108,146</u>	<u>1,606,337</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 616,001</u>	<u>\$ 1,121,289</u>	<u>\$ 1,737,290</u>

**CITY OF HERMANTOWN  
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
NONMAJOR ENTERPRISE FUNDS  
YEAR ENDED DECEMBER 31, 2020**

	Storm Water Funds	Street Lighting Fund	Total Nonmajor Enterprise Funds
<b>OPERATING REVENUES</b>			
User Fees	\$ 388,846	\$ 137,343	\$ 526,189
<b>OPERATING EXPENSES</b>			
Personal Services	166,428	-	166,428
Maintenance and Supplies	40,443	39,650	80,093
Utilities	-	29,207	29,207
Professional Services	11,636	355	11,991
Insurance	-	5,250	5,250
Total Operating Expenses	<u>218,507</u>	<u>74,462</u>	<u>292,969</u>
<b>NET OPERATING INCOME</b>	170,339	62,881	233,220
<b>NONOPERATING REVENUES</b>			
Hookups and Miscellaneous Income	2,547	8,608	11,155
Capital Contributions	243,505	-	243,505
Investment Income	182	28,114	28,296
Total Nonoperating Revenues	<u>246,234</u>	<u>36,722</u>	<u>282,956</u>
<b>INCOME BEFORE TRANSFERS</b>	416,573	99,603	516,176
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer Out	<u>(8,369)</u>	<u>-</u>	<u>(8,369)</u>
<b>CHANGE IN NET POSITION</b>	408,204	99,603	507,807
Net Position - Beginning	<u>89,987</u>	<u>1,008,543</u>	<u>1,098,530</u>
<b>NET POSITION - ENDING</b>	<u>\$ 498,191</u>	<u>\$ 1,108,146</u>	<u>\$ 1,606,337</u>

**CITY OF HERMANTOWN  
COMBINING STATEMENT OF CASH FLOWS  
NONMAJOR ENTERPRISE FUNDS  
YEAR ENDED DECEMBER 31, 2020**

	Nonmajor Enterprise Fund		Total Nonmajor Enterprise Funds
	Storm Water Funds	Street Lighting Fund	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from Users	\$ 409,399	\$ 133,942	\$ 543,341
Payments to Employees	(118,405)	-	(118,405)
Payments to Suppliers	(51,762)	(71,589)	(123,351)
Net Cash Provided by Operating Activities	<u>239,232</u>	<u>62,353</u>	<u>301,585</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers Out	(8,369)	-	(8,369)
Cash Received from Hookups and Miscellaneous Income	<u>2,547</u>	<u>8,608</u>	<u>11,155</u>
Net Cash Provided (Used) by Noncapital Financing Activities	(5,822)	8,608	2,786
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and Construction of Capital Assets	(130,352)	-	(130,352)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment Income	<u>182</u>	<u>28,102</u>	<u>28,284</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	103,240	99,063	202,303
Cash and Cash Equivalents - Beginning of Year	<u>10,526</u>	<u>437,424</u>	<u>447,950</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 113,766</u>	<u>\$ 536,487</u>	<u>\$ 650,253</u>

**CITY OF HERMANTOWN  
COMBINING STATEMENT OF CASH FLOWS  
NONMAJOR ENTERPRISE FUNDS  
YEAR ENDED DECEMBER 31, 2020**

	Nonmajor Enterprise Funds		Total Nonmajor Enterprise Funds
	Storm Water Funds	Street Lighting Fund	
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating Income	\$ 170,339	\$ 62,881	\$ 233,220
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
(Increase) Decrease in Assets:			
Accounts Receivable	20,553	(3,401)	17,152
Prepaid Expenses	(487)	-	(487)
Deferred Outflows	(4,393)	-	(4,393)
Increase (Decrease) in Liabilities:			
Accounts Payable	804	2,873	3,677
Wages and Related Liabilities	(3,287)	-	(3,287)
Compensated Absences Payable	4,306	-	4,306
Net Pension Liability	35,768	-	35,768
Total OPEB Liability	14,168	-	14,168
Deferred Inflows	1,461	-	1,461
Total Adjustments	<u>68,893</u>	<u>(528)</u>	<u>68,365</u>
Net Cash Provided by Operating	<u>\$ 239,232</u>	<u>\$ 62,353</u>	<u>\$ 301,585</u>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>			
Capital contributions	\$ 243,505	\$ -	\$ 243,505

## **OTHER REPORTS**



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable City Council  
City of Hermantown  
Hermantown, Minnesota

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hermantown, Minnesota (the City), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 11, 2021.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

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

**Purpose of this Report**

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



**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
May 11, 2021





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## INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable City Council  
City of Hermantown  
Hermantown, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hermantown, Minnesota (the City), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated, May 11, 2021.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above-referenced provisions, insofar as they relate to accounting matters.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Cities* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
May 11, 2021

