

**CITY OF HERMANTOWN
HERMANTOWN, MINNESOTA**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2023



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INTRODUCTORY SECTION

**CITY OF HERMANTOWN
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2023**

ELECTED

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Wayne Boucher	Mayor	December 31, 2024
John Geissler	Councilor	December 31, 2024
Ellie Jones	Councilor	December 31, 2024
Andy Hjelle	Councilor	December 31, 2026
Brian LeBlanc	Councilor	December 31, 2026

APPOINTED

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



INDEPENDENT AUDITORS' REPORT

Honorable City Council
City of Hermantown
Hermantown, Minnesota

Report on the Audit of the Financial Statements

Opinions

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hermantown, as of December 31, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparisons for the general fund, city sales tax fund, and the Essentia Wellness Center special revenue fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, schedule of changes in the City's total OPEB liability, the PERA schedule of the City's net proportionate share of net pension liability, and related ratios, the PERA schedule of City contributions, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hermantown's basic financial statements. The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

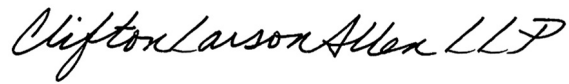
Management is responsible for the other information included in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information,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

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

Honorable City Council
City of Hermantown

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2024, on our consideration of the City of Hermantown’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Hermantown’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Hermantown’s internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
May 17, 2024

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF HERMANTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2023**

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, 2023. Please read it in conjunction with the City's financial statements, which begin on page 12.

FINANCIAL HIGHLIGHTS

- The City's net position increased \$16,082,701 or 18.07% as a result of this year's operations. The net position of the governmental activities increased \$13,179,870, or 34.93%. The net position of the business-type activities increased \$2,902,831, or 5.66%.
- The General Fund unassigned fund balance was \$5,744,311 or 79.86% of the total General Fund expenditures and other financing uses for 2023.

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, 2023**

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, Debt Service, Capital Project, and Essentia Wellness Center Special Revenue Funds which are considered to be major funds. Data from the remaining governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is included in the combining fund statements in the supplementary information section of this report.

- Proprietary funds – The City maintains four enterprise funds which are included in these financial statements. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for operation of the Water Utility and Sewage Disposal funds, which are considered to be major funds. Data from the remaining enterprise funds is combined into a single, aggregated presentation.

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

**CITY OF HERMANTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2023**

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:

	2023			2022		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Assets:						
Current and Other Assets	\$ 35,428,016	\$ 15,924,511	\$ 51,352,527	\$ 32,382,436	\$ 13,976,980	\$ 46,359,416
Capital Assets	57,308,984	39,394,382	96,703,366	49,285,443	38,454,820	87,740,263
Total Assets	92,737,000	55,318,893	148,055,893	81,667,879	52,431,800	134,099,679
Deferred Outflows of Resources	3,650,438	110,749	3,761,187	4,147,120	170,660	4,317,780
Liabilities:						
Long-Term Liabilities	37,129,658	801,288	37,930,946	41,689,015	995,280	42,684,295
Other Liabilities	4,931,598	288,215	5,219,813	4,929,396	261,525	5,190,921
Total Liabilities	42,061,256	1,089,503	43,150,759	46,618,411	1,256,805	47,875,216
Deferred Inflows of Resources	4,706,126	160,310	4,866,436	1,467,676	68,657	1,536,333
Net Position:						
Net Investment in Capital Assets	25,417,784	39,394,382	64,812,166	15,895,698	38,454,820	54,350,518
Restricted	20,147,023	-	20,147,023	18,175,790	-	18,175,790
Unrestricted	4,055,249	14,785,447	18,840,696	3,657,424	12,822,178	16,479,602
Total Net Position	\$ 49,620,056	\$ 54,179,829	\$ 103,799,885	\$ 37,728,912	\$ 51,276,998	\$ 89,005,910

**CITY OF HERMANTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2023**

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:

	2023			2022		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
REVENUES						
Program Revenues:						
Charges for Service	\$ 836,891	\$ 4,352,801	\$ 5,189,692	\$ 929,369	\$ 4,167,113	\$ 5,096,482
Operating Grants and Contributions	1,492,420	-	1,492,420	437,545	-	437,545
Capital Grants and Contributions	5,592,635	70,000	5,662,635	1,105,380	-	1,105,380
General Revenues:						
Property Taxes	7,720,266	-	7,720,266	7,241,818	-	7,241,818
Sales Tax	6,321,064	-	6,321,064	4,152,273	-	4,152,273
State Aids	495,787	-	495,787	352,433	-	352,433
Interest	845,368	661,730	1,507,098	(282,090)	(246,586)	(528,676)
Other	411,648	300,845	712,493	427,172	263,147	690,319
Gain on Sale of Capital Assets	(104,293)	-	(104,293)	(684)	-	(684)
Transfers	1,110,712	1,499,633	2,610,345	(294,466)	391,669	97,203
Total Revenues	<u>24,722,498</u>	<u>6,885,009</u>	<u>31,607,507</u>	<u>14,068,750</u>	<u>4,575,343</u>	<u>18,644,093</u>
EXPENSES						
General Government	1,871,973	-	1,871,973	908,394	-	908,394
Public Safety	4,814,243	-	4,814,243	4,793,810	-	4,793,810
Streets and Highways	3,136,416	-	3,136,416	3,137,058	-	3,137,058
Community and Economic Development	1,465,546	-	1,465,546	771,981	-	771,981
Culture and Recreation	712,176	-	712,176	724,377	-	724,377
Interest and Fiscal Charges	831,000	-	831,000	802,625	-	802,625
Water Utility	-	1,871,399	1,871,399	-	1,728,971	1,728,971
Sewage Disposal	-	1,683,597	1,683,597	-	1,783,555	1,783,555
Street Lighting	-	40,507	40,507	-	45,981	45,981
Storm Water Utility	-	386,675	386,675	-	225,956	225,956
Total Expenses	<u>12,831,354</u>	<u>3,982,178</u>	<u>16,813,532</u>	<u>11,138,245</u>	<u>3,784,463</u>	<u>14,922,708</u>
Change in Net Position	11,891,144	2,902,831	14,793,975	2,930,505	790,880	3,721,385
Net Position - Beginning of Year	<u>37,728,912</u>	<u>51,276,998</u>	<u>89,005,910</u>	<u>34,798,407</u>	<u>50,486,118</u>	<u>85,284,525</u>
Net Position - End of Year	<u>\$ 49,620,056</u>	<u>\$ 54,179,829</u>	<u>\$ 103,799,885</u>	<u>\$ 37,728,912</u>	<u>\$ 51,276,998</u>	<u>\$ 89,005,910</u>

**CITY OF HERMANTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2023**

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, 2023, the City's governmental funds reported a combined fund balance of \$24,004,925, an increase of \$2,161,576 from the 2022 balance of \$21,843,349.

The General Fund is the main operating fund of the City of Hermantown. At December 31, 2023, fund balance of the General Fund was \$6,276,826 with 91.52% 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 79.86% of total General Fund expenditures and other financing uses. During 2023, the fund balance of the General Fund increased by \$1,453,291.

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 \$2,902,831 in 2023. Net operating income for 2023 was \$438,213.

General Fund Budgetary Highlights

The City adopted an original General Fund revenue and other financing sources budget of \$7,266,219 which was not revised during the year. The City adopted an original General Fund expenditure and other financing uses budget of \$7,266,219 which was revised during the year.

The City's final budget for the General Fund anticipated that expenditures and other financing uses would exceed revenues and other financing sources by \$42,000. The actual results for the year showed revenues and other financing sources exceeding expenditures and other financing uses by \$1,453,291. Actual revenues and other financing sources were \$1,379,610 more than anticipated. Actual expenditures and other financing uses were \$115,681 less than anticipated.

Capital Assets

The City of Hermantown's investment in capital assets as of December 31, 2023 was \$96,959,539, net of accumulated depreciation and amortization. This investment includes land, permanent easements, buildings, infrastructure, equipment, and construction in progress. Additional information related to the City's capital assets can be found in Note 4 of the notes to the financial statements.

**CITY OF HERMANTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2023**

Debt

The City had \$30,870,000 in general obligation bonds outstanding at the end of 2023.

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

Other liabilities for obligations such as vacation, sick leave, net pension liability, and severance are discussed further in the Note 6 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

- A comprehensive Finance Management Plan study was conducted by Ehlers Inc. and the City. Based on that study, that plan was implemented in 2019 and is continuing in 2024 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 2024 General Fund budgeted expenditures increased 12% or \$944,341. Some of the increase was due to normal personnel increases, new staff, a new City Fire department, an election in 2024, increased maintenance on City buildings, increased funding for capital purchases, and inflationary pressures.
- The City increased the total tax levy by 9% while net tax capacity increased 10.4%. At the December 2023 Truth and Taxation meeting, the City Council approved a local tax rate decrease from 45.43% in 2023 to 45.08% in 2024.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

**CITY OF HERMANTOWN
STATEMENT OF NET POSITION
DECEMBER 31, 2023**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 26,657,927	\$ 14,384,607	\$ 41,042,534
Accounts Receivable	2,631,473	525,818	3,157,291
Interest Receivable	49,612	40,896	90,508
Delinquent Taxes Receivable	113,526	12,085	125,611
Special Assessments Receivable	5,075,393	175,278	5,250,671
Lease Receivable	1,331,029	50,161	1,381,190
Contracts Receivable	-	49,429	49,429
Internal Balances	(550,000)	550,000	-
Inventories	-	113,662	113,662
Prepaid Items	119,056	22,575	141,631
Capital and Right to Use Assets, Net of Depreciation/Amortization:			
Assets Not Being Depreciated/Amortized	11,801,074	1,173,398	12,974,472
Assets Being Depreciated/Amortized, Net	45,764,083	38,220,984	83,985,067
Total Assets	<u>92,993,173</u>	<u>55,318,893</u>	<u>148,312,066</u>
DEFERRED OUTFLOWS OF RESOURCES			
Other Postemployment Benefits Related	52,048	10,855	62,903
Pension Related	3,598,390	99,894	3,698,284
Total Deferred Outflows of Resources	<u>3,650,438</u>	<u>110,749</u>	<u>3,761,187</u>
 Total Assets and Deferred Outflows of Resources	 <u>\$ 96,643,611</u>	 <u>\$ 55,429,642</u>	 <u>\$ 152,073,253</u>
LIABILITIES			
Accounts Payable	\$ 1,173,425	\$ 258,882	\$ 1,432,307
Accrued Wages and Related Liabilities	337,456	17,463	354,919
Accrued Interest	355,506	-	355,506
Customer Deposits	209,964	11,870	221,834
Unearned Revenue	1,822,694	-	1,822,694
Long-Term Liabilities:			
Total Other Postemployment Benefits Liability	1,660,224	346,238	2,006,462
Net Pension Liability	3,035,426	358,969	3,394,395
Amount Due within One Year	2,825,534	-	2,825,534
Amounts Due in More than One Year	29,608,474	96,081	29,704,555
Total Liabilities	<u>41,028,703</u>	<u>1,089,503</u>	<u>42,118,206</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows - Lease Receivable	1,268,903	46,022	1,314,925
Pension Related	3,437,223	114,288	3,551,511
Total Deferred Inflows of Resources	<u>4,706,126</u>	<u>160,310</u>	<u>4,866,436</u>
NET POSITION			
Net Investment in Capital Assets	25,418,372	39,394,382	64,812,754
Restricted (See Note 9)	21,352,352	-	21,352,352
Unrestricted	4,138,058	14,785,447	18,923,505
Total Net Position	<u>50,908,782</u>	<u>54,179,829</u>	<u>105,088,611</u>
 Total Liabilities, Deferred Inflows of Resources and Net Position	 <u>\$ 96,643,611</u>	 <u>\$ 55,429,642</u>	 <u>\$ 152,073,253</u>

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2023**

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
GOVERNMENTAL ACTIVITIES							
General Government	\$ 1,871,973	\$ 134,563	\$ -	\$ -	\$ (1,737,410)	\$ -	\$ (1,737,410)
Public Safety	4,814,243	341,817	664,920	-	(3,807,506)	-	(3,807,506)
Streets and Highways	2,440,917	25,000	712,500	7,496,888	5,793,471	-	5,793,471
Community and Economic Development	763,827	211,286	-	-	(552,541)	-	(552,541)
Culture and Recreation	712,176	124,225	115,000	-	(472,951)	-	(472,951)
Interest and Fiscal Charges	831,000	-	-	-	(831,000)	-	(831,000)
Total Governmental Activities	<u>\$ 11,434,136</u>	<u>\$ 836,891</u>	<u>\$ 1,492,420</u>	<u>\$ 7,496,888</u>	(1,607,937)	-	(1,607,937)
BUSINESS-TYPE ACTIVITIES							
Water Utility	\$ 1,871,399	\$ 1,982,750	\$ -	\$ 278,800	-	390,151	390,151
Sewage Disposal	1,683,597	1,753,093	-	278,800	-	348,296	348,296
Street Lighting	40,507	147,821	-	-	-	107,314	107,314
Storm Water Utility	386,675	469,137	-	110,000	-	192,462	192,462
Total Business-Type Activities	<u>\$ 3,982,178</u>	<u>\$ 4,352,801</u>	<u>\$ -</u>	<u>\$ 667,600</u>	-	1,038,223	1,038,223
GENERAL REVENUES							
Property Taxes					7,720,266	-	7,720,266
Sales Tax					6,321,064	-	6,321,064
Unrestricted Federal Aid					495,787	-	495,787
Investment Income					845,368	661,730	1,507,098
Other					411,648	300,845	712,493
Loss on Sale of Capital Assets					(104,293)	-	(104,293)
TRANSFERS					(902,033)	902,033	-
Total General Revenues and Transfers					<u>14,787,807</u>	<u>1,864,608</u>	<u>16,652,415</u>
CHANGE IN NET POSITION							
					13,179,870	2,902,831	16,082,701
Net Position - Beginning of Year					<u>37,728,912</u>	<u>51,276,998</u>	<u>89,005,910</u>
NET POSITION - END OF YEAR							
					<u>\$ 50,908,782</u>	<u>\$ 54,179,829</u>	<u>\$ 105,088,611</u>

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2023**

	General	City Sales Tax Fund	Essentia Wellness Center Special Revenue Fund	Debt Service Funds	Capital Project Funds	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS							
Cash and Investments	\$ 6,749,579	\$ 7,571,014	\$ 2,011,794	\$ 5,180,771	\$ 2,056,650	\$ 3,088,119	\$ 26,657,927
Accounts Receivable	94,774	1,099,175	89,436	-	766,363	581,725	2,631,473
Interest Receivable	19,062	24,851	-	829	-	4,870	49,612
Delinquent Taxes Receivable	102,633	-	-	7,744	-	3,149	113,526
Special Assessments Receivable	-	-	-	4,060,671	1,014,722	-	5,075,393
Lease Receivable	151,884	-	1,179,145	-	-	-	1,331,029
Prepaid Items	93,599	-	15,433	-	10,000	24	119,056
Due from Other Funds	-	1,107,256	-	-	-	-	1,107,256
Advance to Other Funds	-	-	-	-	-	50,000	50,000
Total Assets	\$ 7,211,531	\$ 9,802,296	\$ 3,295,808	\$ 9,250,015	\$ 3,847,735	\$ 3,727,887	\$ 37,135,272
LIABILITIES							
Accounts Payable	\$ 307,863	\$ 211,275	\$ 21,892	\$ -	\$ 606,132	\$ 26,263	\$ 1,173,425
Accrued Wages Payable	210,408	-	-	-	-	127,048	337,456
Due to Other Funds	-	-	-	-	1,107,256	-	1,107,256
Deposits Payable	203,175	-	-	-	-	6,789	209,964
Advance from Other Funds	-	-	-	-	600,000	-	600,000
Unearned Revenue	-	-	1,519,138	-	-	303,556	1,822,694
Total Liabilities	721,446	211,275	1,541,030	-	2,313,388	463,656	5,250,795
DEFERRED INFLOWS OF RESOURCES							
Delinquent Property Taxes	65,562	-	-	2,178	-	1,332	69,072
Deferred Special Assessments	-	-	-	4,057,415	1,011,087	-	5,068,502
Deferred Inflows - Lease Receivable	147,697	-	1,121,206	-	-	-	1,268,903
Deferred Inflows - Other	-	415,752	89,436	-	760,011	207,876	1,473,075
Total Deferred Inflows of Resources	213,259	415,752	1,210,642	4,059,593	1,771,098	209,208	7,879,552
FUND BALANCES							
Nonspendable	93,599	-	15,433	-	10,000	50,024	169,056
Restricted	438,916	9,175,269	528,703	4,898,802	-	1,895,689	16,937,379
Committed	-	-	-	291,620	-	1,109,310	1,400,930
Assigned	-	-	-	-	1,803,830	-	1,803,830
Unassigned	5,744,311	-	-	-	(2,050,581)	-	3,693,730
Total Fund Balances	6,276,826	9,175,269	544,136	5,190,422	(236,751)	3,055,023	24,004,925
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 7,211,531	\$ 9,802,296	\$ 3,295,808	\$ 9,250,015	\$ 3,847,735	\$ 3,727,887	\$ 37,135,272

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN
RECONCILIATION OF THE BALANCE SHEET TO THE
STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
DECEMBER 31, 2023**

Total Fund Balances - Governmental Funds	\$ 24,004,925
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Capital and Right to Use assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of Capital and Right to Use Assets	95,820,027
Less Accumulated Depreciation and Amortization	(38,254,870)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
	(32,434,008)
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	(3,035,426)
Total OPEB Liability	(1,660,224)
Deferred Outflows of Resources - Pension Related	3,598,390
Deferred Outflows of Resources - OPEB	52,048
Deferred Inflows of Resources - Pension Related	(3,437,223)
Long-term assets that are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
	6,610,649
Governmental funds do not report a liability for accrued interest until due and payable	
	<u>(355,506)</u>
Total Net Position - Governmental Activities	<u><u>\$ 50,908,782</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, 2023

	General	City Sales Tax Fund	Essentia Wellness Center Special Revenue Fund	Debt Service Funds	Capital Project Funds	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES							
Taxes	\$ 6,949,194	\$ 4,204,678	\$ -	\$ 341,791	\$ 279,238	\$ 1,708,717	\$ 13,483,618
Franchise Fees	12,375	-	-	-	-	34,037	46,412
Special Assessments	-	-	-	605,965	179,118	-	785,083
Licenses and Permits	289,172	-	-	-	-	37,700	326,872
Intergovernmental	744,466	-	-	-	5,169,042	-	5,913,508
Charges for Services	122,398	-	308,516	-	-	-	430,914
Fines and Forfeitures	58,075	-	-	-	-	3,670	61,745
Investment Income	301,556	385,512	46,998	12,836	19,760	78,706	845,368
Miscellaneous	144,028	-	56,519	-	203,848	501,791	906,186
Total Revenues	<u>8,621,264</u>	<u>4,590,190</u>	<u>412,033</u>	<u>960,592</u>	<u>5,851,006</u>	<u>2,364,621</u>	<u>22,799,706</u>
EXPENDITURES							
Current:							
General Government	1,117,466	-	-	4,108	245,599	154,038	1,521,211
Public Safety	3,881,244	-	-	-	-	2,146	3,883,390
Streets and Highways	952,431	-	-	-	-	-	952,431
Community and Economic Development	213,640	-	-	-	30,679	310,310	554,629
Culture and Recreation	107,662	-	319,087	-	-	22,371	449,120
Capital Outlay	179,095	1,923,739	-	-	9,000,977	203,324	11,307,135
Debt Service:							
Principal	-	-	-	2,905,000	-	-	2,905,000
Interest and Fiscal Charges	-	-	-	912,620	24,000	-	936,620
Total Expenditures	<u>6,451,538</u>	<u>1,923,739</u>	<u>319,087</u>	<u>3,821,728</u>	<u>9,301,255</u>	<u>692,189</u>	<u>22,509,536</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,169,726	2,666,451	92,946	(2,861,136)	(3,450,249)	1,672,432	290,170
OTHER FINANCING SOURCES (USES)							
Bonds Issued	-	-	-	40,150	1,464,850	-	1,505,000
Premium on Issuance of Bonds	-	-	-	-	102,829	-	102,829
Transfer In	-	-	-	2,966,720	795,006	25,000	3,786,726
Transfer Out	(741,000)	(2,757,402)	-	(27,806)	-	(21,506)	(3,547,714)
Proceeds from Sale of Capital Assets	24,565	-	-	-	-	-	24,565
Net Other Financing Sources (Uses)	<u>(716,435)</u>	<u>(2,757,402)</u>	<u>-</u>	<u>2,979,064</u>	<u>2,362,685</u>	<u>3,494</u>	<u>1,871,406</u>
NET CHANGE IN FUND BALANCE	1,453,291	(90,951)	92,946	117,928	(1,087,564)	1,675,926	2,161,576
Fund Balance - Beginning	4,823,535	9,266,220	451,190	5,072,494	850,813	1,379,097	21,843,349
FUND BALANCE - ENDING	<u>\$ 6,276,826</u>	<u>\$ 9,175,269</u>	<u>\$ 544,136</u>	<u>\$ 5,190,422</u>	<u>\$ (236,751)</u>	<u>\$ 3,055,023</u>	<u>\$ 24,004,925</u>

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES (DEFICITS) TO THE
STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2023**

Total Net Changes in Fund Balances - Governmental Funds \$ 2,161,576

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	11,018,825
Loss on Disposal of Capital Assets	(144,158)
Capital Assets Transferred to Business-Type Activities	(1,144,049)
Capital Contributions	871,700
Depreciation and Amortization Expense	(2,322,604)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 1,980,711

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. (1,463,571)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 2,962,116

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. 35,755

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. (411,547)

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. (288,525)

Compensated absences are an expense in the governmental funds, but increase long-term liabilities in the statement of net position. (76,359)

Change in Net Position - Governmental Activities \$ 13,179,870

CITY OF HERMANTOWN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2023

	Budget		Actual	Variance
	Original	Final		Over (Under)
REVENUES				
Taxes	\$ 6,628,838	\$ 6,628,838	\$ 6,949,194	\$ 320,356
Franchise Fees	16,500	16,500	12,375	(4,125)
Licenses and Permits	179,090	179,090	289,172	110,082
Intergovernmental	242,050	242,050	744,466	502,416
Charges for Services	107,258	107,258	122,398	15,140
Fines and Forfeitures	43,700	43,700	58,075	14,375
Investment Income	6,000	6,000	301,556	295,556
Miscellaneous	42,683	42,683	144,028	101,345
Total Revenues	<u>7,266,119</u>	<u>7,266,119</u>	<u>8,621,264</u>	<u>1,355,145</u>
EXPENDITURES				
Current:				
General Government	1,141,120	1,154,120	1,117,466	(36,654)
Public Safety	3,931,202	3,931,202	3,881,244	(49,958)
Streets and Highways	826,641	855,641	952,431	96,790
Community and Economic Development	321,831	321,831	213,640	(108,191)
Culture and Recreation	154,925	154,925	107,662	(47,263)
Capital Outlay	149,500	149,500	179,095	29,595
Total Expenditures	<u>6,525,219</u>	<u>6,567,219</u>	<u>6,451,538</u>	<u>(115,681)</u>
EXCESS OF REVENUES OVER EXPENDITURES	740,900	698,900	2,169,726	1,470,826
OTHER FINANCING SOURCES (USES)				
Transfer Out	(741,000)	(741,000)	(741,000)	-
Sales of Capital Assets	100	100	24,565	24,465
Net Other Financing Sources (Uses)	<u>(740,900)</u>	<u>(740,900)</u>	<u>(716,435)</u>	<u>24,465</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ (42,000)</u>	1,453,291	<u>\$ 1,495,291</u>
Fund Balance - Beginning			<u>4,823,535</u>	
FUND BALANCE - ENDING			<u>\$ 6,276,826</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, 2023

	Budget		Actual	Variance Over (Under)
	Original	Final		
REVENUES				
Taxes:				
Sales Taxes	\$ 3,485,000	\$ 3,485,000	\$ 4,204,678	\$ 719,678
Investment Income	10,000	10,000	385,512	375,512
Total Revenues	<u>3,495,000</u>	<u>3,495,000</u>	<u>4,590,190</u>	<u>1,095,190</u>
EXPENDITURES				
Current:				
Economic Development	-	-	-	-
Capital Outlay	590,000	1,990,000	1,923,739	(66,261)
Total Expenditures	<u>590,000</u>	<u>1,990,000</u>	<u>1,923,739</u>	<u>(66,261)</u>
EXCESS OF REVENUES OVER EXPENDITURES	2,905,000	1,505,000	2,666,451	1,161,451
OTHER FINANCING USES				
Transfer Out	<u>(2,757,402)</u>	<u>(2,757,402)</u>	<u>(2,757,402)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>\$ 147,598</u>	<u>\$ (1,252,402)</u>	(90,951)	<u>\$ 1,161,451</u>
Fund Balance - Beginning			<u>9,266,220</u>	
FUND BALANCE - ENDING			<u>\$ 9,175,269</u>	

See accompanying Notes to Financial Statements.

CITY OF HERMANTOWN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
ESSENTIA WELLNESS CENTER SPECIAL REVENUE FUND
DECEMBER 31, 2023

	Budget		Actual	Variance
	Original	Final		Over (Under)
REVENUES				
Investment Income	\$ -	\$ -	\$ 46,998	\$ 46,998
Charges for Services	329,652	329,652	308,516	(21,136)
Miscellaneous	-	-	56,519	56,519
Total Revenues	<u>329,652</u>	<u>329,652</u>	<u>412,033</u>	<u>82,381</u>
EXPENDITURES				
Current:				
Culture and Recreation	<u>229,652</u>	<u>229,652</u>	<u>319,087</u>	<u>89,435</u>
NET CHANGE IN FUND BALANCE	<u>\$ 100,000</u>	<u>\$ 100,000</u>	92,946	<u>\$ (7,054)</u>
Fund Balance - Beginning			<u>451,190</u>	
FUND BALANCE - ENDING			<u>\$ 544,136</u>	

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2023**

	Business-Type Activities Enterprise Fund			Total Enterprise Funds
	Water Utility Funds	Sewage Disposal Fund	Nonmajor Enterprise Funds	
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 6,058,363	\$ 6,900,908	\$ 1,425,336	\$ 14,384,607
Interest Receivable	17,251	19,653	3,992	40,896
Accounts Receivable	212,254	211,107	114,800	538,161
Lease Receivable	50,161	-	-	50,161
Advance to Other Funds	-	-	550,000	550,000
Inventories	113,246	416	-	113,662
Prepaid Items	11,329	10,651	595	22,575
Total Current Assets	<u>6,462,604</u>	<u>7,142,735</u>	<u>2,094,723</u>	<u>15,700,062</u>
Noncurrent Assets:				
Capital Assets, Net of Depreciation:				
Assets Not Being Depreciated	221,869	864,848	86,681	1,173,398
Assets Being Depreciated, Net	9,475,932	28,239,269	505,783	38,220,984
Total Capital Assets, Net of Depreciation	<u>9,697,801</u>	<u>29,104,117</u>	<u>592,464</u>	<u>39,394,382</u>
Long-Term Portion of Contracts Receivable	31,896	17,275	-	49,171
Special Assessments Receivable	4,824	170,411	43	175,278
Total Noncurrent Assets	<u>9,734,521</u>	<u>29,291,803</u>	<u>592,507</u>	<u>39,618,831</u>
DEFERRED OUTFLOWS OF RESOURCES				
Other Postemployment Benefits Related	4,887	3,822	2,146	10,855
Pension Related	44,249	36,709	18,936	99,894
Total Deferred Outflows of Resources	<u>49,136</u>	<u>40,531</u>	<u>21,082</u>	<u>110,749</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 16,246,261</u>	<u>\$ 36,475,069</u>	<u>\$ 2,708,312</u>	<u>\$ 55,429,642</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	\$ 147,905	\$ 94,410	\$ 16,567	\$ 258,882
Accrued Wages and Related Liabilities	7,976	6,141	3,346	17,463
Customer Deposits	11,870	-	-	11,870
Total Current Liabilities	<u>167,751</u>	<u>100,551</u>	<u>19,913</u>	<u>288,215</u>
Noncurrent Liabilities:				
Compensated Absences	41,090	38,658	16,333	96,081
Net Pension Liability	159,008	131,916	68,045	358,969
Total OPEB Liability	155,877	121,923	68,438	346,238
Total Noncurrent Liabilities	<u>355,975</u>	<u>292,497</u>	<u>152,816</u>	<u>801,288</u>
Total Liabilities	<u>523,726</u>	<u>393,048</u>	<u>172,729</u>	<u>1,089,503</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows - Lease Receivable	46,022	-	-	46,022
Pension Related	50,625	41,999	21,664	114,288
Total Deferred Inflows of Resources	<u>96,647</u>	<u>41,999</u>	<u>21,664</u>	<u>160,310</u>
NET POSITION				
Net Investment in Capital Assets	9,697,801	29,104,117	592,464	39,394,382
Unrestricted	5,928,087	6,935,905	1,921,455	14,785,447
Total Net Position	<u>15,625,888</u>	<u>36,040,022</u>	<u>2,513,919</u>	<u>54,179,829</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 16,246,261</u>	<u>\$ 36,475,069</u>	<u>\$ 2,708,312</u>	<u>\$ 55,429,642</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, 2023

	Business-Type Activities Enterprise Fund			Total Enterprise Funds
	Water Utility Funds	Sewage Disposal Fund	Nonmajor Enterprise Funds	
OPERATING REVENUES				
User Fees	\$ 1,689,229	\$ 1,663,379	\$ 469,137	\$ 3,821,745
Service Charges	293,132	89,714	-	382,846
Franchise Fees	-	-	147,821	147,821
Total Operating Revenues	<u>1,982,361</u>	<u>1,753,093</u>	<u>616,958</u>	<u>4,352,412</u>
OPERATING EXPENSES				
Personnel Services	370,851	223,897	194,133	788,881
Water Purchases	970,345	-	-	970,345
WLSSD Charges	-	629,788	-	629,788
Maintenance and Supplies	241,205	192,738	117,279	551,222
Utilities	12,871	11,506	37,535	61,912
Professional Services	7,368	7,493	67,116	81,977
Insurance	17,810	16,496	-	34,306
Miscellaneous	622	1,841	-	2,463
Depreciation Expense	250,327	531,859	11,119	793,305
Total Operating Expenses	<u>1,871,399</u>	<u>1,615,618</u>	<u>427,182</u>	<u>3,914,199</u>
NET OPERATING INCOME	110,962	137,475	189,776	438,213
NONOPERATING REVENUES				
Hookups and Miscellaneous Income	162,137	126,182	12,915	301,234
Loss on Disposal of Capital Assets	-	(67,979)	-	(67,979)
Intergovernmental Grants	-	-	70,000	70,000
Investment Income	270,577	306,723	84,430	661,730
Total Nonoperating Revenues	<u>432,714</u>	<u>364,926</u>	<u>167,345</u>	<u>964,985</u>
INCOME BEFORE TRANSFERS AND CONTRIBUTIONS	543,676	502,401	357,121	1,403,198
OTHER FINANCING SOURCES (USES)				
Capital Contributions	617,823	1,001,304	119,518	1,738,645
Transfer In	6,000	-	-	6,000
Transfer Out	(134,738)	(89,274)	(21,000)	(245,012)
Total Other Financing Sources (Uses)	<u>489,085</u>	<u>912,030</u>	<u>98,518</u>	<u>1,499,633</u>
CHANGE IN NET POSITION	1,032,761	1,414,431	455,639	2,902,831
Net Position - Beginning	<u>14,593,127</u>	<u>34,625,591</u>	<u>2,058,280</u>	<u>51,276,998</u>
NET POSITION - ENDING	<u>\$ 15,625,888</u>	<u>\$ 36,040,022</u>	<u>\$ 2,513,919</u>	<u>\$ 54,179,829</u>

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2023**

	Business-Type Activities Enterprise Fund			Total Enterprise Funds
	Water Utility Funds	Sewage Disposal Fund	Nonmajor Enterprise Funds	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Users	\$ 1,961,151	\$ 1,814,400	\$ 614,093	\$ 4,389,644
Payments to Employees	(427,302)	(296,416)	(151,025)	(874,743)
Payments to Suppliers	(1,236,497)	(856,691)	(227,598)	(2,320,786)
Net Cash Provided by Operating Activities	297,352	661,293	235,470	1,194,115
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers In	6,000	-	-	6,000
Transfers Out	(134,738)	(89,274)	(21,000)	(245,012)
Intergovernmental Grants	-	-	70,000	70,000
Cash Received from Hookups and Miscellaneous Income	69,951	126,182	12,915	209,048
Net Cash Provided (Used) by Noncapital Financing Activities	(58,787)	36,908	61,915	40,036
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and Construction of Capital Assets	-	(3,005)	(59,195)	(62,200)
Payments from Lease Receivable	152,108	-	-	152,108
Net Cash Provided (Used) by Capital and Related Financing Activities	152,108	(3,005)	(59,195)	89,908
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment Income	262,954	297,152	82,367	642,473
NET INCREASE IN CASH AND CASH EQUIVALENTS	653,627	992,348	320,557	1,966,532
Cash and Cash Equivalents - Beginning of Year	5,404,736	5,908,560	1,104,779	12,418,075
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 6,058,363</u>	<u>\$ 6,900,908</u>	<u>\$ 1,425,336</u>	<u>\$ 14,384,607</u>

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2023**

	Business-Type Activities Enterprise Fund			Total Enterprise Funds
	Water Utility Funds	Sewage Disposal Fund	Nonmajor Enterprise Funds	
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income	\$ 110,962	\$ 137,475	\$ 189,776	\$ 438,213
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation	250,327	531,859	11,119	793,305
(Increase) Decrease in Assets:				
Accounts Receivable	(6,195)	41,533	(2,865)	32,473
Special Assessments Receivable	(11)	11,349	-	11,338
Prepaid Expenses	1,221	(186)	269	1,304
Inventories	(33,888)	2,409	-	(31,479)
Deferred Outflows	29,209	28,099	2,603	59,911
Increase (Decrease) in Liabilities:				
Accounts Payable	46,391	948	(5,937)	41,402
Wages and Related Liabilities	1,027	915	646	2,588
Due to Other Funds	2,296	8,425	-	10,721
Deposits	(17,300)	-	-	(17,300)
Compensated Absences Payable	(11,221)	(5,132)	(4,501)	(20,854)
Net Pension Liability	(71,826)	(62,001)	(1,876)	(135,703)
Total OPEB Liability	10,501	(73,539)	25,603	(37,435)
Deferred Inflows	(14,141)	39,139	20,633	45,631
Total Adjustments	186,390	523,818	45,694	755,902
Net Cash Provided by Operating Activities	\$ 297,352	\$ 661,293	\$ 235,470	\$ 1,194,115
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Capital Contributions	\$ 617,823	\$ 1,001,304	\$ 119,518	\$ 1,738,645

See accompanying Notes to Financial Statements.

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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

Blended Component Unit

The Hermantown Economic Development Authority (HEDA) provides services almost entirely to the City and is governed by a board of seven commissioners, which is substantially the same as the City Council. The City is financially accountable for HEDA. The City approves the budget, levies taxes (if necessary), and must approve debt issuances. HEDA has had limited activity and has monthly meetings. For these reasons, HEDA is recognized as a blended component unit of the City.

Related Organization

The Hermantown Volunteer Fire Department is a legally separate organization from the City. Related party transactions are limited to payments by the City on a contract for service entered into with the Hermantown Volunteer Fire Department. The City made payments totaling \$413,634 during 2023.

B. Government-Wide Financial Statements

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

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide Financial Statements (Continued)

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

C. Fund Financial Statements

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

The funds of the financial reporting entity are described below:

Governmental Funds

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

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

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

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

Proprietary Funds

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

CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Fund Financial Statements (Continued)

Major Governmental Funds

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

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

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

Debt Service Funds – Accounts for the accumulated resources to pay the interest and principal payments on General Obligation bonds.

Capital Project Funds – Accounts for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays.

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, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are generally recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the City considers all revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal year. Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise fees, special assessments, intergovernmental revenues, charges for service, and interest associated with the current fiscal period are all considered susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Adoption of New Accounting Standards

In May 2020, the GASB issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This standard defines a subscription-based information technology arrangement (SBITA); established that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability; provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and requires note disclosures regarding a SBITA.

The City has adopted the requirements of the guidance effective January 1, 2023, and has applied the provisions of this standard to the beginning of the period of adoption. Beginning fund balance/net position was not restated due to the implementation of GASB 96. The City did not identify any applicable arrangements, so the implementation of this standard did not have any effect on the City's financial statements.

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Equity

Cash and Cash Equivalents

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

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

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

Interfund Transactions

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

Receivables

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

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

Property Taxes

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

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

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Equity (Continued)

Special Assessments

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

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

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2023, 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 and recorded as an asset at the time of purchase.

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, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Equity (Continued)

Capital Assets (Continued)

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

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

Right-to-use lease assets are initially measured at the present value of payments expected to be made during the lease term, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

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. Five years have been recognized and remaining unearned revenue is \$1,500,000 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.

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

I. Pensions

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

J. Other Postemployment Benefits (OPEB)

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

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 assets that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has reported deferred outflows related to pensions for its proportionate shares of collective deferred outflows of resources related to pensions and the City's contributions to pension plans subsequent to the measurement date of the collective net pension liability. The City has reported deferred outflows related to OPEB resulting from differences between expected and actual experience, changes in proportion, and contributions to the plan subsequent to the measurement date and before the end of the reporting period.

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

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Leases

The City determines if an arrangement is a lease at inception. Lessor leases are included in lease receivables and deferred inflow of resources in the statement of net position and fund financial statements.

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

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

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

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

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Fund Balance Classifications

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

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

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

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

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

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

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

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

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, 2023, the unassigned fund balance for the General Fund was 69.96% of the subsequent year's budgeted expenditures, or \$8,210,560.

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Net Position

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

O. Use of Estimates

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

P. Stewardship, Compliance, and Accountability

Budgetary Information

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

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

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Stewardship, Compliance, and Accountability (Continued)

Budgetary Information (Continued)

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

Expenditures exceed budgeted amounts in the following fund at December 31, 2023:

	Final Budget	Expenditures	Excess
Essentia Wellness Center Special Revenue Fund	\$ 229,652	\$ 319,087	\$ 89,435

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, 2023, the City's bank balance was fully insured or collateralized.

Investments

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

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

The City is invested in the Minnesota Municipal Money Market Fund (4M Fund). The 4M Fund is an external investment pool not registered with the Securities and Exchange Commission (SEC). The City's investment in the 4M Fund is measured at the net asset value per share provided by the pool, which is based on amortized cost method that approximates fair value. At December 31, 2023, the City had an investment in the 4M Fund in the amount of \$3,643,033.

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, 2023, 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, 2023, the City had the following investments:

<u>Investment Type</u>	<u>Total Value</u>	<u>Maturities</u>			
		<u>Less Than 1 Year</u>	<u>1-5 Years</u>	<u>Over 5 Years</u>	<u>No Maturity</u>
U.S. Treasury Notes	\$ 5,055,946	\$ 2,694,988	\$ 2,360,958	\$ -	\$ -
Negotiable CDs	25,947,328	8,179,643	17,767,685	-	-
External Investment Pool	3,643,033	-	-	-	3,643,033
Total Investments	\$ 34,646,307	\$ 10,874,631	\$ 20,128,643	\$ -	\$ 3,643,033

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, 2023:

<u>Credit Rating</u>	<u>Fair Value</u>
Not Rated	<u>\$ 34,646,307</u>

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

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, 2023:

	Total	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Negotiable CDs	\$ 25,947,328	\$ -	25,947,328	\$ -
U.S. Treasury Notes	5,055,946	5,055,946	-	-
Total	31,003,274	\$ 5,055,946	\$ 25,947,328	\$ -
Investments Measured at Amortized Cost	3,643,033			
Total Investments	\$ 34,646,307			

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, 2023:

	Total	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
External Investment Pool - 4M	\$ 3,643,033	\$ -	None	14 Days

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

Cash on Hand	\$ 700
Deposits	6,395,527
Investments	34,646,307
Total Deposits and Investments	\$ 41,042,534

Presented in the financial statements as follows:

Primary Government:	
Cash and Investments	\$ 41,042,534

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 3 RECEIVABLES

Significant receivable balances not expected to be collected within one year of December 31, 2023 are as follows:

	Governmental Activities	Business-Type Activities
Taxes Receivable	\$ 69,072	\$ -
Special Assessments	3,957,740	175,278
Lease Receivables	1,331,029	50,161
Contracts Receivable	-	49,171
Total	<u>\$ 5,357,841</u>	<u>\$ 274,610</u>

NOTE 4 CAPITAL ASSETS

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

	Balance 12/31/2022	Additions	Deletions	Transfer	Balance 12/31/2023
Governmental Activities					
Capital Assets Not Being Depreciated:					
Land	\$ 3,186,012	\$ 30,000	\$ (7,515)	\$ -	\$ 3,208,497
Construction in Progress	949,227	9,312,963	(525,564)	(1,144,049)	8,592,577
Total Capital Assets Not Being Depreciated	4,135,239	9,342,963	(533,079)	(1,144,049)	11,801,074
Capital Assets Being Depreciated:					
Land Improvements	3,329,551	-	-	-	3,329,551
Buildings	36,752,517	450,087	-	-	37,202,604
Equipment and Vehicles	2,995,211	588,392	(259,288)	-	3,324,315
Infrastructure	37,834,968	2,034,647	-	-	39,869,615
Total Capital Assets Being Depreciated	80,912,247	3,073,126	(259,288)	-	83,726,085
Right-to-Use Lease Assets:					
Equipment	294,599	-	(1,731)	-	292,868
Total Right-to-Use Lease Assets	294,599	-	(1,731)	-	292,868
Less Accumulated Depreciation:					
Land Improvements	1,149,080	256,409	-	-	1,405,489
Buildings	6,834,070	932,079	-	-	7,766,149
Equipment and Vehicles	1,864,645	172,500	(122,645)	-	1,914,500
Infrastructure	26,149,596	902,178	-	-	27,051,774
Less Accumulated Amortization:					
Right-to-Use Lease Asset - Equipment	59,251	59,438	(1,731)	-	116,958
Total Accumulated Depreciation/Amortization	36,056,642	2,322,604	(124,376)	-	38,254,870
Total Capital Assets Being Depreciated/Amortized, Net	45,150,204	750,522	(136,643)	-	45,764,083
Governmental Activities Capital Assets, Net	<u>\$ 49,285,443</u>	<u>\$ 10,093,485</u>	<u>\$ (669,722)</u>	<u>\$ (1,144,049)</u>	<u>\$ 57,565,157</u>

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 4 CAPITAL ASSETS (CONTINUED)

	Balance 12/31/2022	Additions	Deletions	Transfers	Balance 12/31/2023
Business-Type Activities					
Capital Assets Not Being Depreciated:					
Construction in Progress	\$ 37,354	\$ 59,195	\$ -	\$ 469,335	\$ 565,884
Land and Permanent Easements	607,514	-	-	-	607,514
Total Capital Assets Not Being Depreciated	644,868	59,195	-	469,335	1,173,398
Capital Assets Being Depreciated:					
Buildings and Infrastructure	49,189,879	597,601	(114,518)	607,681	50,280,643
Equipment	1,719,527	67,033	-	67,033	1,786,560
Total Capital Assets Being Depreciated	50,909,406	664,634	(114,518)	674,714	52,067,203
Less Accumulated Depreciation:					
Buildings and Infrastructure	12,300,805	730,387	(46,540)	-	12,984,652
Equipment	798,649	62,918	-	-	861,567
Total Accumulated Depreciation	13,099,454	793,305	(46,540)	-	13,846,219
Total Capital Assets Being Depreciated, Net	37,809,952	(128,671)	(67,978)	674,714	38,220,984
Business-Type Activities Capital Assets, Net	<u>\$ 38,454,820</u>	<u>\$ (69,476)</u>	<u>\$ (67,978)</u>	<u>\$ 1,144,049</u>	<u>\$ 39,394,382</u>

Depreciation expense and amortization expense was charged to functions/programs of the City as follows at December 31, 2023:

Governmental Activities

General Government	\$ 217,198
Public Safety	245,541
Public Works	976,167
Community and Economic Development	878,403
Culture and Recreation	5,295
Total Governmental Activities	<u>2,322,604</u>
Depreciation and Amortization Expense	<u>\$ 2,322,604</u>

Business-Type Activities

Water Utility	\$ 250,327
Sewage Disposal	531,859
Storm Water	11,119
Total Depreciation and Amortization Expense - Business Type Activities	<u>\$ 793,305</u>

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 5 LEASE RECEIVABLES

The City, acting as lessor, leases certain real property to several communications companies on which to install cell towers under long-term, non-cancelable lease agreements. These leases expire in fiscal year 2026 and 2028. During the year ended December 31, 2023, the City recognized \$22,881 and \$3,752 in lease revenue and interest revenue, respectively, pursuant to these contracts.

The City, acting as a lessor, leases certain real property on which billboards are installed under long-term, non-cancelable lease agreements. These leases expire in fiscal year 2024 and 2029. During the year ended December 31, 2023, the City recognized \$2,098 and \$372 in lease revenue and interest revenue, respectively, pursuant to these contracts.

The City, acting as a lessor, leases certain building space under a long-term, non-cancelable lease agreement. This lease expires in fiscal years 2028 and 2029. During the year ended December 31, 2023, the City recognized \$206,383 and \$49,183 in lease revenue and interest revenue, pursuant to these contracts.

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

<u>Year Ending December 31,</u>	<u>Long-Term Leases Receivable</u>	
	<u>Principal</u>	<u>Interest</u>
2024	\$ 218,700	\$ 47,643
2025	236,848	39,033
2026	253,558	29,789
2027	251,277	20,295
2028	241,875	10,743
2029-2033	178,932	2,241
Total	<u>\$ 1,381,190</u>	<u>\$ 149,744</u>

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

	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>	<u>Principal Due</u>
	<u>12/31/2022</u>			<u>12/31/2023</u>	<u>Within One Year</u>
Long-Term Lease Receivables:					
Billboards	\$ 10,831	\$ -	\$ 2,225	\$ 8,606	\$ 1,522
Cell Tower	108,436	-	21,542	86,894	23,493
Buildings	1,348,275	106,545	169,130	1,285,690	193,685
Total	<u>\$ 1,467,542</u>	<u>\$ 106,545</u>	<u>\$ 192,897</u>	<u>\$ 1,381,190</u>	<u>\$ 218,700</u>

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 6 LONG-TERM OBLIGATIONS

The City had the following long-term obligations at December 31, 2023:

<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.	\$ 540,000
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.	605,000
General Obligation Refunding Bonds, Series 2016A were issued at a par value of \$3,285,000, have an interest rate of 2.0%, and mature in 2030.	1,430,000
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.	1,780,000
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.	1,705,000
General Obligation Tax Abatement Bonds, Series 2018B were issued at a par value of \$7,715,000, have an interest rate of 3.0 - 4.0%, and mature in 2039.	6,690,000
General Obligation Tax Abatement Bonds, Series 2019A were issued at a par value of \$8,845,000, have an interest rate of 3.0 - 5.0%, and mature in 2039.	7,600,000
General Obligation Improvement and Refunding Bonds, Series 2020A issued at a par value of \$3,585,000, have an interest rate of 3.0 - 2.0%, and mature in 2036.	2,225,000
General Obligation Sewage Disposal System Bonds, Series 2020B were issued at a par value of \$3,915,000, have an interest rate of 3.0 - 2.0%, and mature in 2037.	3,325,000
General Obligation Improvement and Refunding Bonds, Series 2021A were issued at a par value of \$3,860,000, have an interest rate of 2.0 - 1.150%, and mature in 2036.	3,465,000
General Obligation Improvement Bonds, Series 2023A were issued at a par value of \$1,505,000, have an interest rate of 4.0 - 5.0%, and mature in 2039.	<u>1,505,000</u>
Total General Obligation Bonds	<u><u>\$ 30,870,000</u></u>

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 6 LONG-TERM OBLIGATIONS (CONTINUED)

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

	Balance 12/31/2022	Additions	Reductions	Balance 12/31/2023	Amount Due Within One Year
Governmental Activities					
Bonds Payable:					
General Obligation Bonds	\$ 32,270,000	\$ 1,505,000	\$ 2,905,000	\$ 30,870,000	\$ 2,630,000
Leases Payable	239,646	-	57,116	182,530	58,700
Premiums/(Discounts):					
Unamortized Bond Discount	(2,117)	-	(903)	(1,214)	(663)
Unamortized Bond Premium	882,216	102,829	145,161	839,884	137,497
Subtotal	33,389,745	1,607,829	3,106,374	31,891,200	2,825,534
Compensated Absences	466,449	265,375	189,016	542,808	-
Total Long-Term Liabilities	<u>\$ 33,856,194</u>	<u>\$ 1,873,204</u>	<u>\$ 3,295,390</u>	<u>\$ 32,434,008</u>	<u>\$ 2,825,534</u>
Business-Type Activities					
Compensated Absences	\$ 116,935	\$ 23,895	\$ 44,749	\$ 96,081	\$ -
Total Long-Term Liabilities	<u>\$ 116,935</u>	<u>\$ 23,895</u>	<u>\$ 44,749</u>	<u>\$ 96,081</u>	<u>\$ -</u>

Annual requirements to amortize all outstanding obligations at December 31, 2023 are as follows:

Year Ending December 31,	General Obligation Bonds		Leases Payable	
	Principal	Interest	Principal	Interest
2024	\$ 2,630,000	\$ 885,764	\$ 58,699	\$ 4,837
2025	2,740,000	797,594	60,567	2,585
2026	2,610,000	708,279	62,106	278
2027	1,860,000	632,909	1,158	22
2028	1,940,000	570,709	-	-
2027-2031	9,180,000	2,084,273	-	-
2032-2036	8,520,000	857,417	-	-
2037-2039	1,390,000	23,863	-	-
Total	<u>\$ 30,870,000</u>	<u>\$ 6,560,808</u>	<u>\$ 182,530</u>	<u>\$ 7,722</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.

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 7 CONDUIT DEBT OBLIGATIONS

The Hermantown Economic Development Authority (HEDA) has issued revenue bonds for the purpose of providing capital financing to various entities. Even though the debt bears HEDA's name, HEDA is not responsible for the payment of the original debt. The debt is secured by the payments agreed to be paid by these entities under the terms of the agreement between HEDA and the entity. The general description of the transactions and the outstanding balance as of December 31, 2023 are as follows:

<u>Enterprise</u>	<u>Year of Issue</u>	<u>Outstanding Balance 12/31/23</u>
Saints-Hilltoppers Arena Project 2010	2010	\$ 230,312
Marshall School 2011	2011	172,774
Total		<u>\$ 403,086</u>

NOTE 8 INTERFUND TRANSACTIONS

The composition of interfund balances as of December 31, 2023 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	\$ 1,107,256	\$ -
Capital Project Fund (by Project/Department)		
Munger Trail Fund	-	68,731
Hockey Arena	-	306,972
Fichtner Field	-	80,016
Municipal State Aid Streets Fund	-	557,651
Special Assessment Projects Fund	-	93,886
Total	<u>\$ 1,107,256</u>	<u>\$ 1,107,256</u>

Advances to/from other funds:

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

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

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 8 INTERFUND TRANSACTIONS (CONTINUED)

Interfund Transfers

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

In the year ended December 31, 2023, the City made the following one-time transfers, which are included in the amounts presented below:

	<u>Transfer In</u>	<u>Transfer Out</u>
Governmental Funds:		
General Fund	\$ -	\$ 741,000
City Sales Tax Fund	-	2,757,402
Debt Service Fund (by Issuance)		
G.O. Improvement Bonds, Series 2014A	80,450	-
G.O. Improvement Bonds, Series 2020A	297,000	-
G.O. Improvement Bonds, Series 2012A	197,539	-
G.O. Refunding Bonds, Series 2016A	216,623	-
G.O. Refunding Bonds, Series 2016B	698,807	-
G.O. Tax Abatement Bonds, Series 2018B	520,971	-
G.O. Tax Abatement Bonds, Series 2019A	647,620	-
G.O. Improvement Bonds, Series 2020B	293,370	-
G.O. Improvement Bonds, Series 2021A	14,340	-
Special Assessment Deficiency	-	27,806
Capital Projects Fund (by Project/Department)		
Munger Trail	21,506	-
General Capital Projects	648,500	-
Municipal Building Reserve	125,000	-
Nonmajor Governmental Funds - Park Dedication	25,000	21,506
Total Governmental Funds	<u>3,786,726</u>	<u>3,547,714</u>
Proprietary Funds:		
Water Utility Fund	6,000	134,738
Sewage Disposal Fund	-	89,274
Storm Water Fund	-	21,000
Total Proprietary Funds	<u>6,000</u>	<u>245,012</u>
Total	<u>\$ 3,792,726</u>	<u>\$ 3,792,726</u>

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

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 9 FUND BALANCES/NET POSITION

Fund balance was nonspendable for the following purposes at December 31, 2023:

Advances to Other Funds

Governmental Funds:

Cable Television Fund	\$	50,000
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Prepaid Items

Governmental Funds:

General Fund		93,599
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Essentia Wellness Center Special Revenue Fund		15,433
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Hermantown Economic Development Authority Fund		19
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Munger Trail Fund		10,000
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Cable Television Fund		5
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Total Nonspendable	<u>\$</u>	<u>169,056</u>
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Governmental net position and fund balances were restricted for the following purposes at December 31, 2023:

	Net Position	Fund Balance
Debt Service Funds	\$ 8,600,711	\$ 4,898,802
General Fund - Public Safety Aid	438,916	438,916
City Sales Tax Fund - Public Works	9,591,021	9,175,269
Community Recreation Sales Tax Fund - Recreation	1,796,596	1,588,720
Essentia Wellness Center Special Revenue Fund - Wellness	618,139	528,703
Police Program Fund - Public Safety	201,042	201,042
Park Dedication Fund - Recreation	32,759	32,759
Soccer Association Fund - Recreation	73,168	73,168
Total Restricted	\$ 21,352,352	\$ 16,937,379

Fund balances were committed for the following purposes at December 31, 2023:

Other Governmental Funds:

Economic Development	\$	689,783
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Wetland Restoration		10,964
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Cable TV		408,563
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Debt Service		291,620
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Total Committed	<u>\$</u>	<u>1,400,930</u>
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Fund balances were assigned for the following purposes at December 31, 2023:

General Capital Projects	\$	1,163,191
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Essentia Wellness Center Capital Projects Fund		277,871
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Municipal Building Reserve		262,284
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HEDA Fleet Projects		100,484
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Total Assigned	<u>\$</u>	<u>1,803,830</u>
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**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 9 FUND BALANCES/NET POSITION (CONTINUED)

The following funds had an unassigned fund balance (deficit) at December 31, 2023:

Capital Projects Fund (by Project/Department)	
Munger Trail	\$ (82,806)
Hockey Arena	(386,103)
Fichtner Field	(99,146)
TIF District 1 Improvement	(565,761)
Special Assessment Projects	(163,106)
Municipal State Aid Streets	(753,659)
Total	<u>\$ (2,050,581)</u>

NOTE 10 DEFINED BENEFIT PENSION PLANS

A. Plan Description

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

1. General Employees Retirement Plan

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

2. Public Employees Police and Fire Plan

The Police and Fire Plan, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the Police and Fire Plan also covers police officers and firefighters belonging to local relief associations that elected to merge with and transfer assets and administration to PERA.

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 10 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided

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

1. General Employees Retirement Plan Benefits

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

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. In 2023, legislation repealed the statute delaying increases for members retiring before full retirement age.

2. Police and Fire Plan Benefits

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

Benefit increases are provided to benefit recipients each January. The postretirement increase is fixed at 1 percent. Recipients that have been receiving the annuity or benefit for at least 36 months as of the June 30 before the effective date of

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 10 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. Police and Fire Plan Benefits (Continued)

the increase will receive the full increase. Recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

C. Contributions

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

1. General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2023 and the City was required to contribute 7.50% for Coordinated Plan members. The City contributions to the General Employees Fund for the year ended December 31, 2023, were \$124,823. The City's contributions were equal to the required contributions as set by state statute.

2. Police and Fire Fund Contributions

Police and Fire Plan members were required to contribute 11.80% of their annual covered salary in fiscal year 2023 and the City was required to contribute 17.70% for Police and Fire Plan members. The City contributions to the Police and Fire Fund for the year ended December 31, 2023, were \$285,399. The City's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2023, the City reported a liability of \$1,235,807 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$34,053.

The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2022 through June 30, 2023, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0221 percent at the end of the measurement period and 0.0215 percent for the beginning of the period.

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 10 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. General Employees Fund Pension Costs (Continued)

The City's Proportionate Share of the Net Pension Liability	\$ 1,235,807
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the City	<u>34,053</u>
Total	<u>\$ 1,269,860</u>

For the year ended December 31, 2023, the City recognized pension expense of \$219,236 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$153 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2023, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 40,585	\$ 8,513
Effect of Changes in Assumptions	200,060	338,724
Net Difference Between Projected and Actual Investment Earnings on Plan Investments	-	46,215
Changes in Proportion	41,867	-
Contributions Subsequent to Measurement Period	<u>61,388</u>	<u>-</u>
Total	<u>\$ 343,900</u>	<u>\$ 393,452</u>

A total of \$61,388 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2024. 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
2024	\$ 51,329
2025	(173,375)
2026	37,915
2027	(26,809)
Total	<u>\$ (110,940)</u>

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 10 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs

At December 31, 2023, the City reported a liability of \$2,158,588 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2022 through June 30, 2023, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.1250 percent at the end of the measurement period and 0.1207 percent for the beginning of the period.

The State of Minnesota contributed \$18 million to the Police and Fire Fund in the plan fiscal year ended June 30, 2023. The contribution consisted of \$9 million in direct state aid that meets the definition of a special funding situation and \$9 million in supplemental state aid that does not meet the definition of a special funding situation. The \$9 million direct state was paid on October 1, 2022. Thereafter, by October 1 of each year, the state will pay \$9 million to the Police and Fire Fund until full funding is reached or July 1, 2048, whichever is earlier. The \$9 million in supplemental state aid will continue until the fund is 90 percent funded, or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$86,926.

The State of Minnesota is included as a non-employer contributing entity in the Police and Fire Retirement Plan Schedule of Employer Allocations and Schedule of Pension Amounts by Employer, Current Reporting Period Only (pension allocation schedules) for the \$9 million in direct state aid. Police and Fire Plan employers need to recognize their proportionate share of the State of Minnesota's pension expense (and grant revenue) under GASB 68 special funding situation accounting and financial reporting requirements. For the year ended June 30, 2023, the City recognized pension expense of \$641,243 for its proportionate share of the Police and Fire Plan's pension expense. The City recognized \$11,250 as grant revenue and pension expense for its proportionate share of the State of Minnesota's pension expense for the contribution of \$9 million to the Police and Fire Fund.

The State of Minnesota is not included as a non-employer contributing entity in the Police and Fire Pension Plan pension allocation schedules for the \$9 million in supplemental state aid. The City recognized \$11,250 for the year ended December 31, 2023 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, 2023**

NOTE 10 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs (Continued)

The City's Proportionate Share of the Net Pension Liability	\$ 2,158,588
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the City	<u>86,926</u>
Total	<u><u>\$ 2,245,514</u></u>

At December 31, 2023, the City reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 595,195	\$ -
Effect of Changes in Assumptions	2,504,867	3,035,000
Net Difference Between Projected and Actual Investment Earnings on Plan Investments	-	103,623
Changes in Proportion	103,258	19,436
Contributions Paid to PERA Subsequent to the Measurement Date	<u>151,064</u>	<u>-</u>
Total	<u><u>\$ 3,354,384</u></u>	<u><u>\$ 3,158,059</u></u>

A total of \$151,064 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2024.

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
2024	\$ 119,160
2025	33,466
2026	544,306
2027	(126,805)
2028	<u>(524,866)</u>
Total	<u><u>\$ 45,261</u></u>

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 10 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

3. Pension Totals

For the year ended December 31, 2023, the City had the following recorded in relation to all of the plans in which it participates:

	General Employees Plan	Police and Fire Plan	Total
Net Pension Liability	\$ 1,235,807	\$ 2,158,588	\$ 3,394,395
Deferred Outflows of Resources	343,900	3,354,384	3,698,284
Deferred Inflows of Resources	393,452	3,158,059	3,551,511
Pension Expense	219,389	652,493	871,882

E. Long-Term Expected Return on Investment

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

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

F. Actuarial Assumptions

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

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 10 DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. Actuarial Assumptions (Continued)

Inflation is assumed to be 2.25 percent for the General Employees Plan, Police and Fire Plan, and the Correctional Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan, 1% for the Police and Fire Plan, and 2 percent for the Correctional Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 27 years of service. In the Police and Fire Plan, salary growth assumptions range from 11.75 percent after one year of service to 3.0 percent after 24 years of service. In the Correctional Plan, salary growth assumptions range from 11.0 percent at age 20 to 3.0 percent at age 60.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. Mortality rates for the Police and Fire Plan and the Correctional Plans are based on the Pub-2010 Public Safety Employee Mortality tables. The tables are adjusted slightly to fit PERA's experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2022. The assumption changes were adopted by the Board and became effective with the July 1, 2023 actuarial valuation. The most recent four-year experience studies for the Police and Fire and the Correctional Plan were completed in 2020 were adopted by the Board and became effective with the July 1, 2021 actuarial valuation.

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

General Employees Fund

Changes in Actuarial Assumptions:

- The investment return assumption and single discount rate were changed from 6.50 percent to 7.00 percent.

Changes in Plan Provisions:

- An additional one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- A one-time, non-compounding benefit increase of 2.50 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 10 DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. Actuarial Assumptions (Continued)

Police and Fire Fund

Changes in Actuarial Assumptions:

- The investment return assumption was changed from 6.50 percent to 7.00 percent.
- The single discount rate changed from 5.4 percent to 7.0 percent.

Changes in Plan Provisions:

- Additional one-time direct state aid contribution of 19.4 million will be contributed to the Plan on October 1, 2023.
- Vesting requirement for new hires after June 30, 2014, was changed from a graded 20-year vesting schedule to a graded 10-year vesting schedule, with 50 percent vesting after five years, increasing incrementally to 100 percent after 10 years.
- A one-time, non-compounding benefit increase of 3.0 percent will be payable in a lump sum for calendar year 2024 by March 31, 2024.
- Psychological treatment is required effective July 1, 2023, prior to approval for a duty disability benefit for a psychological condition relating to the member's occupation.
- The total and permanent duty disability benefit was increased, effective July 1, 2023.

G. Discount Rate

The discount rate used to measure the total pension liability in 2023 was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees and Police and Fire Plans 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, 2023**

NOTE 10 DEFINED BENEFIT PENSION PLANS (CONTINUED)

H. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
Discount Rate	6.00%	7.00%	8.00%
City's Proportionate Share of the GERP Net Pension Liability	\$ 2,186,242	\$ 1,235,807	\$ 454,038
	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
Discount Rate	6.00%	7.00%	8.00%
City's Proportionate Share of the PEPFF Net Pension Liability	\$ 4,282,895	\$ 2,158,588	\$ 412,123

I. Pension Plan Fiduciary Net Position

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

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 11 PUBLIC EMPLOYEES DEFINED CONTRIBUTION PLAN

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. *Minnesota Statutes*, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent 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 contributions must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives two percent of employer contributions and twenty-five hundredths of one percent (0.25 percent) of the assets in each member's account annually.

Total contributions made by the City during 2023 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rates
\$ 1,900	\$ 1,900	5%	5%	5%

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 12 POSTEMPLOYMENT HEALTH CARE PLAN

Plan Description

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

Funding

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

OPEB Liability

The City's total OPEB liability at December 31, 2023 was \$2,006,462. The total OPEB liability was measured as of December 31, 2022 and was determined by an actuarial valuation as of December 31, 2022. The total OPEB liability was determined by the use of the alternative measurement method as of that date. The total OPEB liability was determined using the following assumptions and other inputs, applied to all periods in the measurement, unless otherwise specified:

Inflation	2.25% per year
Salary Increases	N/A
Healthcare Cost Trend Rate	Beginning at 6.30% with an ultimate rate of 3.90%
Investment Rate of Return	N/A
Mortality Rate	RP-2014 White Collar Mortality Tables with MP-2021 Generational Improvement Scale.

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 12 POSTEMPLOYMENT HEALTH CARE PLAN (CONTINUED)

OPEB Liability (Continued)

The 4.05% 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, 2023 are as follows:

Beginning Balance	\$ 1,755,973
Changes for the Year:	
Service Cost	56,720
Interest	32,734
Differences between Expected and Actual Experience	1,076,825
Changes of Assumptions	(848,421)
Benefit Payments	<u>(67,369)</u>
Net Changes	<u>250,489</u>
Ending Balance	<u>\$ 2,006,462</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	5.05%	\$ 1,788,658
Current Discount Rate	4.05%	2,006,462
1% Lower	3.05%	2,264,680

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

Sensitivity of Total OPEB Liability at Current Healthcare

Trend Rate:		
1% Higher	7.30%	\$ 2,264,120
Current Discount Rate	6.30%	2,006,462
1% Lower	5.30%	1,786,665

For the year ended December 31, 2023, the City recognized OPEB expense of \$317,858. The City's contributions subsequent to the measurement date of \$62,903, 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, 2024.

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 13 COMPENSATED ABSENCES

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Upon retirement, in accordance with various employment and union contracts, the value of the qualifying banked sick hours will be submitted as a Health Care Savings Plan (HCSP) contribution to the Minnesota State Retirement System (MSRS) to be used to pay the employee's health insurance premiums. The year-end accrued sick leave and accrued vacation balance decreased by \$20,854 in the proprietary funds and increased by \$76,359 in the governmental funds. As of December 31, 2023, 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, 2023, in the amount of \$638,889. 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% for management and 45% for LELs, of such excess credit towards sick leave deposited in the State of Minnesota Health Care Savings Plan at the employees December 31 wage rate of the year in question. IOUE 49'ers shall have 25% deposited in the plan. The City paid \$15,265 to the MSRS for this employee benefit in 2023.

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 2023 the County paid \$173,738 towards the note, leaving a balance as of December 31, 2023 of \$11,302.

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 2023, the City paid the local business \$127,833 related to this agreement. As of December 31, 2023, the City's remaining commitment to the local business is \$534,940.

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, 2023, the City generated tax increment revenue of \$151,952 and made payments of \$88,572, on the note. The note's balance at year-end was \$78,035.

**CITY OF HERMANTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 15 RISK MANAGEMENT

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

NOTE 16 SUBSEQUENT EVENTS

In October 2023, the City Council approved the Hermantown Volunteer Fire Department to join the City. Effective January 1, 2024, the City will take over providing fire and emergency medical services to citizens. Additionally, the City Council approved joining the statewide volunteer firefighter pension plan effective January 1, 2024.

REQUIRED SUPPLEMENTARY INFORMATION

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

Measurement Date	December 31, 2022	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017
Total OPEB Liability:						
Service Cost	\$ 56,720	\$ 53,440	\$ 64,111	\$ 51,512	\$ 84,347	\$ 74,039
Interest	32,734	34,185	45,895	51,803	27,530	27,316
Difference Between Expected and Actual Experience	1,076,825	1,807	295,378	-	435,708	-
Changes in Assumptions	(848,421)	38,322	(303,730)	204,459	93,012	34,433
Benefit Payments	(67,369)	(55,208)	(46,067)	(49,434)	(36,958)	(25,701)
Total Changes	<u>250,489</u>	<u>72,546</u>	<u>55,587</u>	<u>258,340</u>	<u>603,639</u>	<u>110,087</u>
Total OPEB Liability - Beginning	<u>1,755,973</u>	<u>1,683,427</u>	<u>1,627,840</u>	<u>1,369,500</u>	<u>765,861</u>	<u>655,774</u>
Total OPEB Liability - Ending	<u>\$ 2,006,462</u>	<u>\$ 1,755,973</u>	<u>\$ 1,683,427</u>	<u>\$ 1,627,840</u>	<u>\$ 1,369,500</u>	<u>\$ 765,861</u>
Covered Employee Payroll	\$ 3,029,884	\$ 3,136,054	\$ 2,934,716	\$ 2,906,994	\$ 2,729,652	\$ 2,661,675
Districts Total Pension Liability as a Percentage of Covered Employee Payroll	66.2%	56.0%	57.4%	56.0%	50.2%	28.8%

Notes to Schedule:

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

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

Assumption Changes

Measurement Date: December 31, 2022

- The discount rate was changed from 1.84% to 4.05% based on updated 20-year municipal bond rates.
- Healthcare trend rates were reset to reflect updated cost increase expectations.
- Medical per capita claims costs were updated to reflect recent experience.
- Withdrawal, mortality, and salary increase rates were updated from the rates used in the 7/1/2020 PERA General Employees Plan and 7/1/2020 PERA Police & Fire Plan valuations to the rates used in the 7/1/2022 valuations.
- The percent of employees currently electing coverage assumed to elect coverage at retirement changed from 50% to 30% to reflect recent plan experience.
- The inflation assumption was changed from 2.25% to 2.50% based on an updated historical analysis of inflation rates and forward-looking market expectations.

Measurement Date: December 31, 2021

- The discount rate was changed from 2.00% to 1.84% based on updated 20-year municipal bond rates.

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

Measurement Date: December 31, 2020

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

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, 2023**

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, 2023	0.0221%	\$ 1,235,807	\$ 34,053	\$ 1,269,860	\$ 1,756,880	72.3%	76.7%
June 30, 2022	0.0215%	1,702,806	49,853	1,752,659	1,610,853	108.8%	76.7%
June 30, 2021	0.0213%	909,604	27,777	937,381	1,531,373	61.2%	87.0%
June 30, 2020	0.0207%	1,241,060	38,201	1,279,261	1,475,147	86.7%	79.1%
June 30, 2019	0.0199%	1,100,226	34,165	1,134,391	1,405,853	80.7%	80.0%
June 30, 2018	0.0198%	1,098,423	36,119	1,134,542	1,331,650	85.2%	79.5%
June 30, 2017	0.0189%	1,206,564	15,199	1,221,763	1,219,758	100.2%	75.9%
June 30, 2016	0.0180%	1,461,511	19,156	1,480,667	1,119,203	132.3%	68.9%
June 30, 2015	0.1810%	938,036	-	938,036	1,062,157	88.3%	78.2%

Schedule of Employer's Contributions

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
December 31, 2023	\$ 124,823	\$ 124,823	\$ -	\$ 1,664,307	7.50%
December 31, 2022	126,528	126,528	-	1,687,040	7.50%
December 31, 2021	116,846	116,846	-	1,557,947	7.50%
December 31, 2020	116,340	116,340	-	1,551,200	7.50%
December 31, 2019	110,136	110,136	-	1,468,480	7.50%
December 31, 2018	101,958	101,958	-	1,359,438	7.50%
December 31, 2017	94,783	94,783	-	1,263,774	7.50%
December 31, 2016	88,405	88,405	-	1,178,729	7.50%
December 31, 2015	81,908	81,908	-	1,092,079	7.50%

**CITY OF HERMANTOWN
INFORMATION ABOUT THE CITY'S NET PENSION LIABILITY
YEAR ENDED DECEMBER 31, 2023**

2023 Changes

Changes in Actuarial Assumptions

- The investment return assumption and single discount rate were changed from 6.50 percent to 7.00 percent.

Changes in Plan Provisions

- An additional one-time direct state aid contributions of \$170.1 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- A one-time, non-compounding benefit increase of 2.50 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

2022 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2021 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**CITY OF HERMANTOWN
INFORMATION ABOUT THE CITY'S NET PENSION LIABILITY
YEAR ENDED DECEMBER 31, 2023**

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, 2023**

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, 2023**

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, 2023	0.1250%	\$ 2,158,588	\$ 86,926	\$ 2,245,514	\$ 1,640,886	136.8%	70.5%
June 30, 2022	0.1207%	5,252,387	229,321	5,481,708	1,465,942	373.9%	70.5%
June 30, 2021	0.1178%	909,291	40,881	950,172	1,392,373	68.2%	93.7%
June 30, 2020	0.1169%	1,540,867	36,314	1,577,181	1,320,534	119.4%	87.2%
June 30, 2019	0.1203%	1,280,715	-	1,280,715	1,298,494	98.6%	89.3%
June 30, 2018	0.1150%	1,225,782	-	1,225,782	1,211,962	101.1%	88.8%
June 30, 2017	0.1210%	1,633,644	-	1,633,644	1,243,764	131.3%	85.4%
June 30, 2016	0.1220%	4,896,072	-	4,896,072	1,151,242	425.3%	63.9%
June 30, 2015	0.1220%	1,386,205	-	1,386,205	1,111,297	124.7%	86.6%

Schedule of Employer's Contributions

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
December 31, 2023	\$ 285,399	\$ 285,399	\$ -	\$ 1,612,424	17.70%
December 31, 2022	272,944	272,944	-	1,542,056	17.70%
December 31, 2021	257,301	257,301	-	1,453,678	17.70%
December 31, 2020	244,165	244,165	-	1,379,463	17.70%
December 31, 2019	223,205	223,205	-	1,316,844	16.95%
December 31, 2018	202,107	202,107	-	1,247,571	16.20%
December 31, 2017	195,547	195,547	-	1,207,079	16.20%
December 31, 2016	196,959	196,959	-	1,215,798	16.20%
December 31, 2015	185,428	185,428	-	1,144,614	16.20%

**CITY OF HERMANTOWN
INFORMATION ABOUT THE CITY'S NET PENSION LIABILITY
YEAR ENDED DECEMBER 31, 2023**

2023 Changes

Changes in Actuarial Assumptions:

- The investment return assumption was changed from 6.50 percent to 7.00 percent.
- The single discount rate changed from 5.40 percent to 7.00 percent.

Changes in Plan Provisions

- Additional one-time direct state aid contribution of \$19.4 million will be contributed to the Plan on October 1, 2023.
- Vesting requirement for new hires after June 30, 2014, was changed from a graded 20-year vesting schedule to a graded 10-year vesting schedule, with 50 percent vesting after five years, increasing incrementally to 100% after 10 years.
- A one-time, non-compounding benefit increase of 3.0 percent will be payable in a lump sum for calendar year 2024 by March 31, 2024.
- Psychological treatment is required effective July 1, 2023, prior to approval for a duty disability benefit for a psychological condition relating to the member's occupation.
- The total and permanent duty disability benefit was increased, effective July 1, 2023.

2022 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**CITY OF HERMANTOWN
INFORMATION ABOUT THE CITY'S NET PENSION LIABILITY
YEAR ENDED DECEMBER 31, 2023**

2021 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2020 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2019 Changes

Changes in Actuarial Assumptions:

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

**CITY OF HERMANTOWN
INFORMATION ABOUT THE CITY'S NET PENSION LIABILITY
YEAR ENDED DECEMBER 31, 2023**

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.

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, 2023**

	Special Revenue Funds								
	Hermantown Economic Development Authority Fund	Park Dedication Fund	Hermantown Wetland Mitigation Fund	American Rescue Plan Fund	Police Program Fund	Cable Television Fund	Soccer Fund	Community Recreation Sales Tax Fund	Total Nonmajor Governmental Funds
ASSETS									
Cash and Cash Equivalents	\$ 683,467	\$ 41,134	\$ 10,964	\$ 441,946	\$ 201,042	\$ 391,202	\$ 73,168	\$ 1,245,196	\$ 3,088,119
Accounts Receivable	15,722	-	-	-	-	16,416	-	549,587	581,725
Interest Receivable	1,948	-	-	-	-	1,109	-	1,813	4,870
Delinquent Taxes Receivable	3,149	-	-	-	-	-	-	-	3,149
Prepaid Items	19	-	-	-	-	5	-	-	24
Advance to Other Funds	-	-	-	-	-	50,000	-	-	50,000
Total Assets	<u>\$ 704,305</u>	<u>\$ 41,134</u>	<u>\$ 10,964</u>	<u>\$ 441,946</u>	<u>\$ 201,042</u>	<u>\$ 458,732</u>	<u>\$ 73,168</u>	<u>\$ 1,796,596</u>	<u>\$ 3,727,887</u>
LIABILITIES									
Accrued Wages and Related Liabilities	\$ 587	\$ -	\$ -	\$ 126,345	\$ -	\$ 116	\$ -	\$ -	\$ 127,048
Accounts Payable	10,795	3,375	-	12,045	-	48	-	-	26,263
Deposits Payable	1,789	5,000	-	-	-	-	-	-	6,789
Unearned Revenue	-	-	-	303,556	-	-	-	-	303,556
Total Liabilities	<u>13,171</u>	<u>8,375</u>	<u>-</u>	<u>441,946</u>	<u>-</u>	<u>164</u>	<u>-</u>	<u>-</u>	<u>463,656</u>
DEFERRED INFLOWS OF RESOURCES									
Delinquent Property Tax	1,332	-	-	-	-	-	-	-	1,332
Unavailable Revenue - Other	-	-	-	-	-	-	-	207,876	207,876
Total Deferred Inflow of Resources	<u>1,332</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>207,876</u>	<u>209,208</u>
FUND BALANCE (DEFICIT)									
Nonspendable	19	-	-	-	-	50,005	-	-	50,024
Restricted	-	32,759	-	-	201,042	-	73,168	1,588,720	1,895,689
Committed	689,783	-	10,964	-	-	408,563	-	-	1,109,310
Total Fund Balance (Deficit)	<u>689,802</u>	<u>32,759</u>	<u>10,964</u>	<u>-</u>	<u>201,042</u>	<u>458,568</u>	<u>73,168</u>	<u>1,588,720</u>	<u>3,055,023</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance (Deficit)	<u>\$ 704,305</u>	<u>\$ 41,134</u>	<u>\$ 10,964</u>	<u>\$ 441,946</u>	<u>\$ 201,042</u>	<u>\$ 458,732</u>	<u>\$ 73,168</u>	<u>\$ 1,796,596</u>	<u>\$ 3,727,887</u>

**CITY OF HERMANTOWN
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2023**

	Special Revenue Funds								Total Nonmajor Governmental Funds
	Hermantown Economic Development Authority Fund	Park Dedication Fund	Hermantown Wetland Mitigation Fund	American Rescue Plan Fund	Police Program Fund	Cable Television Fund	Soccer Fund	Community Recreation Sales Tax Fund	
REVENUES									
Taxes	\$ 149,227	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,559,490	\$ 1,708,717
Franchise Fees	-	-	-	-	-	34,037	-	-	34,037
Licenses and Permits	-	37,700	-	-	-	-	-	-	37,700
Fines and Forfeitures	-	-	-	-	3,670	-	-	-	3,670
Investment Income	30,122	-	-	-	-	19,354	-	29,230	78,706
Miscellaneous	73,891	-	-	424,666	3,234	-	-	-	501,791
Total Revenues	253,240	37,700	-	424,666	6,904	53,391	-	1,588,720	2,364,621
EXPENDITURES									
Current:									
General Government	-	-	-	154,038	-	-	-	-	154,038
Public Safety	-	-	-	-	2,146	-	-	-	2,146
Community and Economic Development	237,679	-	-	72,631	-	-	-	-	310,310
Culture and Recreation	-	3,375	-	4,267	-	14,729	-	-	22,371
Capital Outlay	4,500	60	5,034	193,730	-	-	-	-	203,324
Total Expenditures	242,179	3,435	5,034	424,666	2,146	14,729	-	-	692,189
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	11,061	34,265	(5,034)	-	4,758	38,662	-	1,588,720	1,672,432
OTHER FINANCING SOURCES (USES)									
Transfer In	-	25,000	-	-	-	-	-	-	25,000
Transfer Out	-	(21,506)	-	-	-	-	-	-	(21,506)
Net Other Financing Sources (Uses)	-	3,494	-	-	-	-	-	-	3,494
NET CHANGE IN FUND BALANCE	11,061	37,759	(5,034)	-	4,758	38,662	-	1,588,720	1,675,926
Fund Balance (Deficit) - Beginning	678,741	(5,000)	15,998	-	196,284	419,906	73,168	-	1,379,097
FUND BALANCE - ENDING	<u>\$ 689,802</u>	<u>\$ 32,759</u>	<u>\$ 10,964</u>	<u>\$ -</u>	<u>\$ 201,042</u>	<u>\$ 458,568</u>	<u>\$ 73,168</u>	<u>\$ 1,588,720</u>	<u>\$ 3,055,023</u>

**CITY OF HERMANTOWN
COMBINING BALANCE SHEET
DEBT SERVICE FUND – BY ISSUANCE
DECEMBER 31, 2023**

Debt Service Fund						
	Certificate of Indebtedness Fund	G.O. Improvement Bonds Series 2012A Fund	G.O. Improvement Bonds Series 2014A Fund	G.O. Refunding Bonds Series 2016A Fund	G.O. Improvement Bonds Series 2016B Fund	G.O. Improvement Bonds Series 2018A Fund
ASSETS						
Cash and Cash Equivalents	\$ 38,458	\$ 242,325	\$ 386,128	\$ 324,613	\$ 463,059	\$ 207,458
Interest Receivable	-	-	-	-	-	-
Delinquent Taxes Receivable	75	220	-	16	-	3,145
Special Assessments Receivable	-	210,493	952,889	341,841	-	-
Total Assets	<u>\$ 38,533</u>	<u>\$ 453,038</u>	<u>\$ 1,339,017</u>	<u>\$ 666,470</u>	<u>\$ 463,059</u>	<u>\$ 210,603</u>
LIABILITIES						
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
DEFERRED INFLOWS OF RESOURCES						
Delinquent Property Tax	76	220	-	-	-	1,380
Unavailable Special Assessments	-	210,314	951,759	340,976	-	-
Total Deferred Inflow of Resources	<u>76</u>	<u>210,534</u>	<u>951,759</u>	<u>340,976</u>	<u>-</u>	<u>1,380</u>
FUND BALANCE (DEFICIT)						
Restricted	38,457	242,504	387,258	325,494	463,059	209,223
Committed	-	-	-	-	-	-
Total Fund Balance (Deficit)	<u>38,457</u>	<u>242,504</u>	<u>387,258</u>	<u>325,494</u>	<u>463,059</u>	<u>209,223</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance (Deficit)	<u>\$ 38,533</u>	<u>\$ 453,038</u>	<u>\$ 1,339,017</u>	<u>\$ 666,470</u>	<u>\$ 463,059</u>	<u>\$ 210,603</u>

**CITY OF HERMANTOWN
COMBINING BALANCE SHEET (CONTINUED)
DEBT SERVICE FUND – BY ISSUANCE
DECEMBER 31, 2023**

Debt Service Fund							
G.O. Tax Abatement Bonds Series 2018B Fund	G.O. Tax Abatement Bonds Series 2019A Fund	G.O. Improvement Bonds Series 2020A Fund	G.O. Improvement Bonds Series 2020B Fund	G.O. Improvement Bonds Series 2021A Fund	G.O. Improvement Bonds Series 2023A Fund	Special Assessment Deficiency Fund	Total Debt Service Fund
\$ 535,215	\$ 150,828	\$ 545,873	\$ 92,074	\$ 1,863,800	\$ 40,150	\$ 290,790	\$ 5,180,771
-	-	-	-	-	-	829	829
1,143	-	1,383	-	1,762	-	-	7,744
-	-	866,580	-	1,313,718	-	375,150	4,060,671
<u>\$ 536,358</u>	<u>\$ 150,828</u>	<u>\$ 1,413,836</u>	<u>\$ 92,074</u>	<u>\$ 3,179,280</u>	<u>\$ 40,150</u>	<u>\$ 666,769</u>	<u>\$ 9,250,015</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
502	-	-	-	-	-	-	2,178
-	-	865,750	-	1,313,467	-	375,149	4,057,415
<u>502</u>	<u>-</u>	<u>865,750</u>	<u>-</u>	<u>1,313,467</u>	<u>-</u>	<u>375,149</u>	<u>4,059,593</u>
535,856	150,828	548,086	92,074	1,865,813	40,150	-	4,898,802
-	-	-	-	-	-	291,620	291,620
<u>535,856</u>	<u>150,828</u>	<u>548,086</u>	<u>92,074</u>	<u>1,865,813</u>	<u>40,150</u>	<u>291,620</u>	<u>5,190,422</u>
<u>\$ 536,358</u>	<u>\$ 150,828</u>	<u>\$ 1,413,836</u>	<u>\$ 92,074</u>	<u>\$ 3,179,280</u>	<u>\$ 40,150</u>	<u>\$ 666,769</u>	<u>\$ 9,250,015</u>

**CITY OF HERMANTOWN
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND BALANCES
DEBT SERVICE FUND – BY ISSUANCE
YEAR ENDED DECEMBER 31, 2023**

	Debt Service Fund						
	Certificate of Indebtedness Fund	G.O. Improvement Bonds Series 2012A Fund	G.O. Improvement Bonds Series 2014A Fund	G.O. Refunding Bonds Series 2016A Fund	G.O. Improvement Bonds Series 2016B Fund	G.O. Improvement Bonds Series 2018A Fund	G.O. Tax Abatement Bonds Series 2018B Fund
REVENUES							
Taxes	\$ 6	\$ -	\$ -	\$ (42)	\$ -	\$ 144,472	\$ 52,551
Special Assessments	-	39,564	81,097	168,375	-	-	-
Investment Income	-	-	-	-	-	-	-
Total Revenues	6	39,564	81,097	168,333	-	144,472	52,551
EXPENDITURES							
Current:							
General Government	-	-	-	-	-	-	-
Debt Service:							
Principal	-	175,000	125,000	385,000	560,000	80,000	305,000
Interest and Fiscal Charges	-	15,211	20,925	33,350	62,700	59,175	237,225
Total Expenditures	-	190,211	145,925	418,350	622,700	139,175	542,225
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	6	(150,647)	(64,828)	(250,017)	(622,700)	5,297	(489,674)
OTHER FINANCING SOURCES (USES)							
Bonds Issued	-	-	-	-	-	-	-
Transfer In	-	197,539	80,450	216,623	698,807	-	520,971
Transfer Out	-	-	-	-	-	-	-
Net Other Financing Sources (Uses)	-	197,539	80,450	216,623	698,807	-	520,971
NET CHANGE IN FUND BALANCE	6	46,892	15,622	(33,394)	76,107	5,297	31,297
Fund Balance - Beginning	38,451	195,612	371,636	358,888	386,952	203,926	504,559
FUND BALANCE - ENDING	\$ 38,457	\$ 242,504	\$ 387,258	\$ 325,494	\$ 463,059	\$ 209,223	\$ 535,856

**CITY OF HERMANTOWN
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND BALANCES (CONTINUED)
DEBT SERVICE FUND – BY ISSUANCE
YEAR ENDED DECEMBER 31, 2023**

Debt Service Fund						
G.O. Tax Abatement Bonds Series 2019A Fund	G.O. Improvement Bonds Series 2020A Fund	G.O. Improvement Bonds Series 2020B Fund	G.O. Improvement Bonds Series 2021A Fund	G.O. Improvement Bonds Series 2023A Fund	Special Assessment Deficiency Fund	Total Debt Service Fund
\$ -	\$ 63,532	\$ -	\$ 81,272	\$ -	\$ -	\$ 341,791
-	142,910	-	156,617	-	17,402	605,965
-	-	-	-	-	12,836	12,836
-	206,442	-	237,889	-	30,238	960,592
-	-	-	-	-	4,108	4,108
340,000	495,000	195,000	245,000	-	-	2,905,000
274,481	63,325	83,225	63,003	-	-	912,620
614,481	558,325	278,225	308,003	-	4,108	3,821,728
(614,481)	(351,883)	(278,225)	(70,114)	-	26,130	(2,861,136)
-	-	-	-	40,150	-	40,150
647,620	297,000	293,370	14,340	-	-	2,966,720
-	-	-	-	-	(27,806)	(27,806)
647,620	297,000	293,370	14,340	40,150	(27,806)	2,979,064
33,139	(54,883)	15,145	(55,774)	40,150	(1,676)	117,928
117,689	602,969	76,929	1,921,587	-	293,296	5,072,494
<u>\$ 150,828</u>	<u>\$ 548,086</u>	<u>\$ 92,074</u>	<u>\$ 1,865,813</u>	<u>\$ 40,150</u>	<u>\$ 291,620</u>	<u>\$ 5,190,422</u>

**CITY OF HERMANTOWN
COMBINING BALANCE SHEET
CAPITAL PROJECT FUND – BY PROJECT
DECEMBER 31, 2023**

	Capital Project Funds				
	General Capital Projects Fund	Municipal Building Reserve Fund	Essentia Wellness Center Capital Projects Fund	Munger Trail Fund	Hockey Arena
ASSETS					
Cash and Cash Equivalents	\$ 1,180,778	\$ 462,784	\$ 277,871	\$ -	\$ -
Accounts Receivable	-	-	-	-	-
Special Assessments Receivable	-	-	-	-	-
Prepaid Items	-	-	-	10,000	-
Total Assets	<u>\$ 1,180,778</u>	<u>\$ 462,784</u>	<u>\$ 277,871</u>	<u>\$ 10,000</u>	<u>\$ -</u>
LIABILITIES					
Accounts Payable	\$ 17,587	\$ 200,500	\$ -	\$ 14,075	\$ 79,131
Due to Other Funds	-	-	-	68,731	306,972
Advance from Other Funds	-	-	-	-	-
Total Liabilities	<u>17,587</u>	<u>200,500</u>	<u>-</u>	<u>82,806</u>	<u>386,103</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable Special Assessments	-	-	-	-	-
Deferred Inflows - Other	-	-	-	-	-
Total Deferred Inflow of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE (DEFICIT)					
Nonspendable	-	-	-	10,000	-
Assigned	1,163,191	262,284	277,871	-	-
Unassigned (Deficit)	-	-	-	(82,806)	(386,103)
Total Fund Balance (Deficit)	<u>1,163,191</u>	<u>262,284</u>	<u>277,871</u>	<u>(72,806)</u>	<u>(386,103)</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance (Deficit)	<u>\$ 1,180,778</u>	<u>\$ 462,784</u>	<u>\$ 277,871</u>	<u>\$ 10,000</u>	<u>\$ -</u>

**CITY OF HERMANTOWN
 COMBINING BALANCE SHEET (CONTINUED)
 CAPITAL PROJECT FUND – BY PROJECT
 DECEMBER 31, 2023**

Capital Project Funds					
Fichtner Field	TIF District 1 Improvement Fund	HEDA Fleet Projects Fund	Municipal State Aid Streets Fund	Special Assessment Projects Fund	Total Capital Project Fund
\$ -	\$ 34,733	\$ 100,484	\$ 107	\$ (107)	\$ 2,056,650
-	-	-	766,363	-	766,363
-	-	-	-	1,014,722	1,014,722
-	-	-	-	-	10,000
<u>\$ -</u>	<u>\$ 34,733</u>	<u>\$ 100,484</u>	<u>\$ 766,470</u>	<u>\$ 1,014,615</u>	<u>\$ 3,847,735</u>
\$ 19,130	\$ 494	\$ -	\$ 202,467	\$ 72,748	\$ 606,132
80,016	-	-	557,651	93,886	1,107,256
-	600,000	-	-	-	600,000
<u>99,146</u>	<u>600,494</u>	<u>-</u>	<u>760,118</u>	<u>166,634</u>	<u>2,313,388</u>
-	-	-	-	1,011,087	1,011,087
-	-	-	760,011	-	760,011
<u>-</u>	<u>-</u>	<u>-</u>	<u>760,011</u>	<u>1,011,087</u>	<u>1,771,098</u>
-	-	-	-	-	10,000
-	-	100,484	-	-	1,803,830
<u>(99,146)</u>	<u>(565,761)</u>	<u>-</u>	<u>(753,659)</u>	<u>(163,106)</u>	<u>(2,050,581)</u>
<u>(99,146)</u>	<u>(565,761)</u>	<u>100,484</u>	<u>(753,659)</u>	<u>(163,106)</u>	<u>(236,751)</u>
<u>\$ -</u>	<u>\$ 34,733</u>	<u>\$ 100,484</u>	<u>\$ 766,470</u>	<u>\$ 1,014,615</u>	<u>\$ 3,847,735</u>

**CITY OF HERMANTOWN
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND BALANCES
CAPITAL PROJECT FUND – BY PROJECT
YEAR ENDED DECEMBER 31, 2023**

	Capital Project Funds				
	General Capital Projects Fund	Municipal Building Reserve Fund	Essentia Wellness Center Capital Projects Fund	Munger Trail Fund	Hockey Arena
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Special Assessments	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Investment Income	-	-	-	-	-
Miscellaneous	-	178,848	-	-	-
Total Revenues	<u>-</u>	<u>178,848</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES					
Current:					
General Government	17,587	228,012	-	-	-
Community and Economic Development	-	-	-	-	-
Capital Outlay	413,089	450,088	-	72,807	358,482
Debt Service:					
Interest and Fiscal Charges	-	-	-	-	-
Total Expenditures	<u>430,676</u>	<u>678,100</u>	<u>-</u>	<u>72,807</u>	<u>358,482</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(430,676)	(499,252)	-	(72,807)	(358,482)
OTHER FINANCING SOURCES (USES)					
Bonds Issued	-	-	-	-	-
Premium on Issuance of Bonds	-	-	-	-	-
Transfer In	648,500	125,000	-	21,506	-
Net Other Financing Sources (Uses)	<u>648,500</u>	<u>125,000</u>	<u>-</u>	<u>21,506</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	217,824	(374,252)	-	(51,301)	(358,482)
Fund Balance (Deficit) - Beginning	945,367	636,536	277,871	(21,505)	(27,621)
FUND BALANCE (DEFICIT) - ENDING	<u>\$ 1,163,191</u>	<u>\$ 262,284</u>	<u>\$ 277,871</u>	<u>\$ (72,806)</u>	<u>\$ (386,103)</u>

**CITY OF HERMANTOWN
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND BALANCES (CONTINUED)
CAPITAL PROJECT FUND – BY PROJECT
YEAR ENDED DECEMBER 31, 2023**

Capital Project Funds						
Fichtner Field	TIF District 1 Improvement Fund	HEDA Fleet Projects Fund	Special Assessment/ Road Improvement Fund	Municipal State Aid Streets Fund	Special Assessment Projects Fund	Total Capital Project Fund
\$ -	\$ 151,405	\$ 127,833	\$ -	\$ -	\$ -	\$ 279,238
-	-	-	-	-	179,118	179,118
15,000	-	-	-	4,441,542	712,500	5,169,042
-	-	-	-	-	19,760	19,760
-	-	-	-	-	25,000	203,848
<u>15,000</u>	<u>151,405</u>	<u>127,833</u>	<u>-</u>	<u>4,441,542</u>	<u>936,378</u>	<u>5,851,006</u>
-	-	-	-	-	-	245,599
-	9,722	20,957	-	-	-	30,679
92,797	82,172	106,876	-	4,816,037	2,608,629	9,000,977
-	24,000	-	-	-	-	24,000
<u>92,797</u>	<u>115,894</u>	<u>127,833</u>	<u>-</u>	<u>4,816,037</u>	<u>2,608,629</u>	<u>9,301,255</u>
(77,797)	35,511	-	-	(374,495)	(1,672,251)	(3,450,249)
-	-	-	-	-	1,464,850	1,464,850
-	-	-	-	-	102,829	102,829
-	-	-	-	-	-	795,006
-	-	-	-	-	1,567,679	2,362,685
(77,797)	35,511	-	-	(374,495)	(104,572)	(1,087,564)
<u>(21,349)</u>	<u>(601,272)</u>	<u>100,484</u>	<u>-</u>	<u>(379,164)</u>	<u>(58,534)</u>	<u>850,813</u>
<u>\$ (99,146)</u>	<u>\$ (565,761)</u>	<u>\$ 100,484</u>	<u>\$ -</u>	<u>\$ (753,659)</u>	<u>\$ (163,106)</u>	<u>\$ (236,751)</u>

**CITY OF HERMANTOWN
COMBINING STATEMENT OF NET POSITION
NONMAJOR ENTERPRISE FUNDS
DECEMBER 31, 2023**

	Storm Water Fund	Street Lighting Fund	Total Nonmajor Enterprise Funds
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 504,645	\$ 920,691	\$ 1,425,336
Interest Receivable	1,431	2,561	3,992
Accounts Receivable, Net of Allowance	78,594	36,206	114,800
Advance to Other Funds	-	550,000	550,000
Prepaid Items	595	-	595
Total Current Assets	<u>585,265</u>	<u>1,509,458</u>	<u>2,094,723</u>
Noncurrent Assets:			
Capital Assets, Net of Depreciation:			
Assets Not Being Depreciated	86,681	-	86,681
Assets Being Depreciated, Net	505,783	-	505,783
Total Capital Assets, Net of Depreciation	<u>592,464</u>	<u>-</u>	<u>592,464</u>
Special Assessments Receivable	43	-	43
Total Noncurrent Assets	<u>592,507</u>	<u>-</u>	<u>592,507</u>
DEFERRED OUTFLOWS OF RESOURCES			
Other Postemployment Benefits	2,146	-	2,146
Pensions	18,936	-	18,936
Total Deferred Outflows of Resources	<u>21,082</u>	<u>-</u>	<u>21,082</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 1,198,854</u>	<u>\$ 1,509,458</u>	<u>\$ 2,708,312</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 11,314	\$ 5,253	\$ 16,567
Accrued Wages and Related Liabilities	3,346	-	3,346
Total Current Liabilities	<u>14,660</u>	<u>5,253</u>	<u>19,913</u>
Noncurrent Liabilities:			
Compensated Absences	16,333	-	16,333
Net Pension Liability	68,045	-	68,045
Total OPEB Liability	68,438	-	68,438
Total Noncurrent Liabilities	<u>152,816</u>	<u>-</u>	<u>152,816</u>
Total Liabilities	167,476	5,253	172,729
DEFERRED INFLOWS OF RESOURCES			
Pensions	21,664	-	21,664
Total Deferred Inflows of Resources	<u>21,664</u>	<u>-</u>	<u>21,664</u>
NET POSITION			
Net Investment in Capital Assets	592,464	-	592,464
Unrestricted	417,250	1,504,205	1,921,455
Total Net Position	<u>1,009,714</u>	<u>1,504,205</u>	<u>2,513,919</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 1,198,854</u>	<u>\$ 1,509,458</u>	<u>\$ 2,708,312</u>

CITY OF HERMANTOWN
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
NONMAJOR ENTERPRISE FUNDS
YEAR ENDED DECEMBER 31, 2023

	Storm Water Fund	Street Lighting Fund	Total Nonmajor Enterprise Funds
OPERATING REVENUES			
User Fees	\$ 469,137	\$ -	\$ 469,137
Franchise Fees	-	147,821	147,821
Total Operating Revenues	<u>469,137</u>	<u>147,821</u>	<u>616,958</u>
OPERATING EXPENSES			
Personnel Services	193,573	560	194,133
Maintenance and Supplies	114,867	2,412	117,279
Utilities	-	37,535	37,535
Professional Services	67,116	-	67,116
Depreciation Expense	11,119	-	11,119
Total Operating Expenses	<u>386,675</u>	<u>40,507</u>	<u>427,182</u>
NET OPERATING INCOME	82,462	107,314	189,776
NONOPERATING REVENUES			
Hookups and Miscellaneous Income	12,915	-	12,915
Intergovernmental Grants	70,000	-	70,000
Investment Income	22,453	61,977	84,430
Total Nonoperating Revenues	<u>105,368</u>	<u>61,977</u>	<u>167,345</u>
INCOME BEFORE TRANSFERS	187,830	169,291	357,121
OTHER FINANCING SOURCES (USES)			
Transfer Out	(21,000)	-	(21,000)
Capital Contributions	119,518	-	119,518
Total Other Financing Sources (Uses)	<u>98,518</u>	<u>-</u>	<u>98,518</u>
CHANGE IN NET POSITION	286,348	169,291	455,639
Net Position - Beginning	<u>723,366</u>	<u>1,334,914</u>	<u>2,058,280</u>
NET POSITION - ENDING	<u>\$ 1,009,714</u>	<u>\$ 1,504,205</u>	<u>\$ 2,513,919</u>

**CITY OF HERMANTOWN
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
YEAR ENDED DECEMBER 31, 2023**

	Nonmajor Enterprise Fund		Total Nonmajor Enterprise Funds
	Storm Water Fund	Street Lighting Fund	
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Users	\$ 466,715	\$ 147,378	\$ 614,093
Payments to Employees	(150,465)	(560)	(151,025)
Payments to Suppliers	(186,547)	(41,051)	(227,598)
Net Cash Provided by Operating Activities	<u>129,703</u>	<u>105,767</u>	<u>235,470</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers Out	(21,000)	-	(21,000)
Intergovernmental	70,000	-	70,000
Cash Received from Hookups and Miscellaneous Income	12,915	-	12,915
Net Cash Provided by Noncapital Financing Activities	<u>61,915</u>	<u>-</u>	<u>61,915</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and Construction of Capital Assets	(59,195)	-	(59,195)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Income	<u>21,645</u>	<u>60,722</u>	<u>82,367</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	154,068	166,489	320,557
Cash and Cash Equivalents - Beginning of Year	<u>350,577</u>	<u>754,202</u>	<u>1,104,779</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 504,645</u></u>	<u><u>\$ 920,691</u></u>	<u><u>\$ 1,425,336</u></u>

**CITY OF HERMANTOWN
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
NONMAJOR ENTERPRISE FUNDS
YEAR ENDED DECEMBER 31, 2023**

	Nonmajor Enterprise Funds		Total Nonmajor Enterprise Funds
	Storm Water Fund	Street Lighting Fund	
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income	\$ 82,462	\$ 107,314	\$ 189,776
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	11,119	-	11,119
(Increase) Decrease in Assets:			
Accounts Receivable	(2,422)	(443)	(2,865)
Prepaid Expenses	269	-	269
Deferred Outflows	2,603	-	2,603
Increase (Decrease) in Liabilities:			
Accounts Payable	(4,833)	(1,104)	(5,937)
Wages and Related Liabilities	646	-	646
Compensated Absences Payable	(4,501)	-	(4,501)
Net Pension Liability	(1,876)	-	(1,876)
Total OPEB Liability	25,603	-	25,603
Deferred Inflows	20,633	-	20,633
Total Adjustments	<u>47,241</u>	<u>(1,547)</u>	<u>45,694</u>
Net Cash Provided by Operating	<u>\$ 129,703</u>	<u>\$ 105,767</u>	<u>\$ 235,470</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Capital contributions	\$ 119,518	\$ -	\$ 119,518

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND OTHER REQUIRED 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 the 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 City of Hermantown, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City of Hermantown's basic financial statements, and have issued our report thereon dated May 17, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Hermantown'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 City of Hermantown's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Hermantown's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

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

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 entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
May 17, 2024



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Honorable City Council
City of Hermantown
Hermantown, Minnesota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited City of Hermantown's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of City of Hermantown's major federal programs for the year ended December 31, 2023. City of Hermantown's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, City of Hermantown complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of City of Hermantown and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of City of Hermantown's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to City of Hermantown's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on City of Hermantown's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about City of Hermantown's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding City of Hermantown's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of City of Hermantown's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of City of Hermantown's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2023-001. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on City of Hermantown's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. City of Hermantown's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-001 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on City of Hermantown's response to the internal control over compliance finding identified in our audit described in the accompanying schedule of findings and questioned costs. City of Hermantown's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
May 17, 2024

**CITY OF HERMANTOWN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2023**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures	Passed Through to Subrecipients
U.S. DEPARTMENT OF TRANSPORTATION				
Passed Through Minnesota Department of Transportation:				
Highway Planning and Construction	20.205	SP 202-101-014	\$ 1,480,000	\$ -
U.S. DEPARTMENT OF THE TREASURY				
Direct:				
COVID 19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	Direct	424,666	-
Total Federal Expenditures			<u>\$ 1,904,666</u>	<u>\$ -</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**CITY OF HERMANTOWN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2023**

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Hermantown (the City) under programs of the federal government for the year ended December 31, 2023. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 INDIRECT COST RATE

The City of Hermantown has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.



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 the 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 (the City) as of and for the year ended December 31, 2023, 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 17, 2024.

In connection with our audit, we noted that the City of Hermantown failed to comply with provisions of the claims and disbursements 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 as described in the Schedule of Findings and Questioned Costs as item 2023-002. Also, in connection with our audit, nothing came to our attention that caused us to believe that the City of Hermantown failed to comply with the provisions of the contracting - bid laws, depositories of public funds and public investments, conflicts of interest, public indebtedness, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, 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.

City of Hermantown's response to the findings identified in our audit is described in the Schedule of Findings and Questioned Costs as item 2023-002. City of Hermantown's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of those charged with governance and management of City of Hermantown and the State Auditor and is not intended to be, and should not be, used by anyone other than these specified parties.

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

CliftonLarsonAllen LLP

Minneapolis, Minnesota
May 17, 2024

**CITY OF HERMANTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2023**

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: Unmodified

1. Internal control over financial reporting:

- Material weakness(es) identified? _____ yes _____ x no
- Significant deficiency(ies) identified? _____ yes _____ x none reported

2. Noncompliance material to financial statements noted? _____ yes _____ x no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? _____ yes _____ x no
- Significant deficiency(ies) identified? _____ x yes _____ none reported

1. Type of auditors’ report issued on compliance for major federal programs: Unmodified

2. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ x yes _____ no

Identification of Major Federal Programs

Assistance Listing Number(s)	Name of Federal Program or Cluster
20.205	Highway Planning and Construction
Dollar threshold used to distinguish between Type A and Type B programs:	\$ <u>750,000</u>
Auditee qualified as low-risk auditee?	_____ yes _____ <u>x</u> no

**CITY OF HERMANTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2023**

Section II – Financial Statement Findings

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

Section III – Findings and Questioned Costs – Major Federal Programs

Finding 2023-001:

Federal agency: Department of Transportation

Federal program name: Highway Planning and Construction

Assistance Listing Number: 20.205

Federal Award Identification Number and Year: 202-101-014, 2023

Pass-Through Agency: Minnesota Department of Transportation

Pass-Through Agency Number: SP 202-101-014

Award Period: 2023

Type of Finding: Significant Deficiency in Internal Control over Compliance, Other Matters

Criteria or specific requirement: The Uniform Guidance requires the City to have a procurement policy per §200.319. The Uniform Guidance also requires the City procedures for suspension and debarment per §200.214.

Condition: The City does not have a procurement policy which includes all required aspects under the Uniform Guidance including suspension and debarment.

Questioned Costs: None

Context: The City does not have a procurement policy which includes all required aspects under the Uniform Guidance including suspension and debarment.

Cause: The City was unaware of the requirement.

Effect: The City is not in compliance with the Uniform Guidance procurement policy requirement. This may lead to the payment of contracts that do not comply with federal regulations and guidelines, which could result in the inappropriate use of federal funds or expending funds to suspended or debarred entities.

Recommendation: We recommend the City implement a procurement, suspension, and debarment policy that complies with the Uniform Guidance.

Views of responsible officials: There is no disagreement with the audit finding.

**CITY OF HERMANTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2023**

Section IV – MN Legal Compliance Findings

Finding 2023-002:

Criteria or specific requirement: Minnesota Statute § 471.425 Subdivision 2 notes that a City must pay each vendor obligation according to the terms of the contract or, if no contract terms apply, within the standard payment period unless the City in good faith disputes the obligation. Standard payment period is defined for the City as being within 35 days of the date of receipt of the invoice. Subdivision 4 of the same statute notes that if late payment is made interest should be paid upon the amount that is being paid late.

Condition: It was noted that 1 out of the 22 disbursements tested were not paid within the requirement payment period, and no interest was included in the late payment to the vendor.

Cause: The mail service has increasingly slow, which caused delays in the City's receipt of invoices. Despite the slow mail service, the City made every effort to pay invoices as timely as possible.

Effect: The City is not in compliance with Minnesota Statutes.

Recommendation: We recommend the City put in place internal controls that will prevent any late payments from occurring in the future.

Views of responsible officials: There is no disagreement with the audit finding.



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