CITY OF HERMANTOWN
HERMANTOWN, MINNESOTA

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2025

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INTRODUCTORY SECTION

ELECTED

Name	Title	Term Expires
Wayne Boucher	Mayor	December 31, 2028
John Geissler	Councilor	December 31, 2028
Joe Peterson	Councilor	December 31, 2028
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 McClure	City Clerk	Appointed
Paul Senst	Public Works Director	Appointed

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

Honorable City Council
City of Hermantown
Hermantown, Minnesota

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hermantown, as of and for the year ended December 31, 2025, 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 accompanying 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, 2025, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

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, the respective budgetary comparisons for the general fund, city sales tax fund, and the Essentia Wellness Center special revenue fund, the schedule of changes in the City's total OPEB liability and related ratios and the information about the City's net pension liability, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2026, 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

CliftonLarsonAllen LLP

Minneapolis, Minnesota
May 28, 2026

REQUIRED SUPPLEMENTARY INFORMATION

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, 2025. Please read it in conjunction with the City's financial statements, which begin on page 12.

FINANCIAL HIGHLIGHTS

- The City's net position increased $10,813,817 or 8.83% as a result of this year's operations. The net position of the governmental activities increased $9,306,166, or 14.10%. The net position of the business-type activities increased $1,507,651 or 2.67%.

- The General Fund unassigned fund balance was $8,389,375 or 84.36% of the total General Fund expenditures and other financing uses for 2025.

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.

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 the operation of the Water Utility, Sewage Disposal, and Storm Water 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.

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:

	2025			2024		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
ASSETS						
Current and Other Assets	$ 73,905,305	$ 18,029,683	$ 91,934,988	$ 61,142,544	$ 16,754,775	$ 77,897,319
Capital Assets	65,832,932	41,006,255	106,839,187	73,052,829	40,958,329	114,011,158
Total Assets	139,738,237	59,035,938	198,774,175	134,195,373	57,713,104	191,908,477
DEFERRED OUTFLOWS OF RESOURCES	2,773,456	93,908	2,867,364	3,222,080	66,264	3,288,344
LIABILITIES						
Long-Term Liabilities	56,743,837	594,549	57,338,386	60,582,306	748,762	61,331,068
Other Liabilities	5,483,966	348,703	5,832,669	4,943,379	311,854	5,255,233
Total Liabilities	62,227,803	943,252	63,171,055	65,525,685	1,060,616	66,586,301
DEFERRED INFLOWS OF RESOURCES	4,963,757	159,651	5,123,408	5,877,801	199,460	6,077,261
NET POSITION						
Net Investment in Capital Assets	35,832,594	41,006,255	76,838,849	27,627,870	40,958,329	68,586,199
Restricted	28,571,728	-	28,571,728	34,063,302	-	34,063,302
Unrestricted	10,915,811	17,020,688	27,936,499	4,322,795	15,560,963	19,883,758
Total Net Position	$ 75,320,133	$ 58,026,943	$ 133,347,076	$ 66,013,967	$ 56,519,292	$ 122,533,259

Total assets for governmental activities increased by $5,542,864 largely due to increases in capital assets. Total assets increased for the Business-Type Activities by $1,322,834 due to excess of revenues, including capital contributions, over expenses.

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:

	2025			2024		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
REVENUES						
Program Revenues:						
Charges for Service	$ 1,114,288	$ 4,969,171	$ 6,083,459	$ 1,004,062	$ 4,566,479	$ 5,570,541
Operating Grants and Contributions	1,614,407	-	1,614,407	9,820,322	-	9,820,322
Capital Grants and Contributions	1,918,685	3,182	1,921,867	-	2,187,699	2,187,699
General Revenues:						
Property Taxes	9,567,997	-	9,567,997	8,471,371	-	8,471,371
Sales Tax	6,275,297	-	6,275,297	5,405,616	-	5,405,616
Unrestricted Federal Aid	11,680	-	11,680	291,879	-	291,879
Interest	1,343,331	709,638	2,052,969	1,432,977	764,575	2,197,552
Other	(105,473)	830,613	725,140	559,728	250,671	810,399
Gain (Loss) on Sale of Capital Assets	(9,538)	-	(9,538)	4,078	-	4,078
Transfers	516,053	(516,053)	-	1,240,754	(1,240,754)	-
Total Revenues	22,246,727	5,996,551	28,243,278	28,230,787	6,528,670	34,759,457
EXPENSES						
General Government	2,255,835	-	2,255,835	852,810	-	852,810
Public Safety	3,789,320	-	3,789,320	6,278,386	-	6,278,386
Streets and Highways	2,827,530	-	2,827,530	3,989,030	-	3,989,030
Community and Economic Development	1,351,089	-	1,351,089	2,466,515	-	2,466,515
Culture and Recreation	773,040	-	773,040	754,930	-	754,930
Interest and Fiscal Charges	1,958,897	-	1,958,897	1,444,250	-	1,444,250
Water Utility	-	2,402,393	2,402,393	-	1,895,211	1,895,211
Sewage Disposal	-	1,733,518	1,733,518	-	1,841,422	1,841,422
Street Lighting	-	27,521	27,521	-	72,625	72,625
Storm Water Utility	-	335,032	335,032	-	379,949	379,949
Total Expenses	12,955,711	4,498,464	17,454,175	15,785,921	4,189,207	19,975,128
EXCESS (DEFICIENCY) BEFORE SPECIAL ITEMS	9,291,016	1,498,087	10,789,103	12,444,866	2,339,463	14,784,329
SPECIAL ITEMS						
Transfer of Operations	-	-	-	2,407,871	-	2,407,871
OTHER FINANCING SOURCES						
Insurance Recoveries	15,150	9,564	24,714	252,448	-	252,448
CHANGE IN NET POSITION	9,306,166	1,507,651	10,813,817	15,105,185	2,339,463	17,444,648
Net Position - Beginning of Year	66,013,967	56,519,292	122,533,259	50,908,782	54,179,829	105,088,611
NET POSITION - END OF YEAR	$ 75,320,133	$ 58,026,943	$ 133,347,076	$ 66,013,967	$ 56,519,292	$ 122,533,259

Governmental activities had a change in net position of $9,306,166, due to revenues and other financing sources greater than the corresponding increase in expenses. Business-Type Activities had a change in net position of $1,507,651 due to excess of revenues over expenses, largely due to charges for services and contribution revenues, which increased from the previous year.

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, 2025, the City's governmental funds reported a combined fund balance of $35,200,782, a decrease of $5,011,806 from the 2024 balance of $40,212,588.

The General Fund is the main operating fund of the City of Hermantown. At December 31, 2025, fund balance of the General Fund was $8,512,638 with 98.55% 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 84.36% of total General Fund expenditures and other financing uses. During 2025, the fund balance of the General Fund increased by $360,404.

The City Sales Tax Fund was created to account for the restricted sales tax revenues collected that are authorized by 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. The fund balance at the end of 2025 was $12,084,105, which increased $1,961,287 during the year due to excess of revenues over expenditures due to less capital outlay expenditures.

The Essentia Wellness Center Special Revenue Fund was created to account for lease revenue from the Essentia Wellness Center. The fund balance at the end of 2025 was $1,024,516, which increased $191,654 during the year due to excess of revenues over expenditures due to additional miscellaneous revenue.

The Debt Service Funds were created to account for the accumulated resources to pay the interest and principal payments on General Obligation bonds. The fund balance at the end of 2025 was $6,370,487, which increased $513,228 during the year due to the naming rights agreement for the Hermantown Ice Arena.

The Capital Project Funds were created to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays. The fund balance at the end of 2025 was $577,714, which decreased $8,948,305 during the year due to large amounts of capital outlay expenditures.

Proprietary Funds

The City's proprietary fund financial statements provide the same type of information found in the government-wide financial statements, only in more detail. The proprietary funds net position increased $1,507,651 in 2025. Net operating income for 2025 was $470,707.

General Fund Budgetary Highlights

The City adopted an original General Fund revenue and other financing sources budget of $8,891,017 which was not revised during the year. The City adopted an original General Fund expenditure and other financing uses budget of $8,891,017 which was revised during the year to $10,006,017.

The City's final budget for the General Fund anticipated that expenditures and other financing uses would exceed revenues and other financing sources by $1,115,000. The actual results for the year showed revenues and other financing sources exceeding expenditures and other financing uses by $360,404. Actual revenues and other financing sources were $1,378,374 more than anticipated. Actual expenditures and other financing uses were $81,980 less than anticipated.

Capital Assets

The City of Hermantown's investment in capital assets as of December 31, 2025 was $131,088,869, 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.

Debt

The City had $50,470,000 in general obligation bonds outstanding at the end of 2025. 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 2026 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 2026 General Fund budgeted expenditures increased 11%. Some of the increase was due to normal personnel increases, increase in Fire Department on call staff hours, increase in City Engineer fees, increase in outsourced Information Technology services, an election in 2026, and inflationary pressures.
- The City increased the total tax levy by 7% while net tax capacity increased 9%. At the December 2025 Truth and Taxation meeting, the City Council approved a local tax rate increase from 45.61% in 2025 to 46.41% in 2026.

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, 2025

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	$ 38,977,105	$ 16,593,531	$ 55,570,636
Accounts Receivable	1,810,382	756,710	2,567,092
Due from Other Governments	123,716	-	123,716
Interest Receivable	106,048	67,691	173,739
Delinquent Taxes Receivable	121,148	12,718	133,866
Special Assessments Receivable	4,915,975	187,597	5,103,572
Lease Receivable	886,314	19,619	905,933
Contracts Receivable	2,652,273	8,109	2,660,382
Internal Balances	(113,020)	113,020	-
Prepaid Items	138,570	270,688	409,258
Net Pension Asset	37,112	-	37,112
Other Assets:			
Construction in Progress - Held for Others	24,249,682	-	24,249,682
Capital and Right to Use Assets, Net of Depreciation/Amortization:			
Assets Not Being Depreciated/Amortized	5,789,393	747,669	6,537,062
Assets Being Depreciated/Amortized, Net	60,043,539	40,258,586	100,302,125
Total Assets	139,738,237	59,035,938	198,774,175
DEFERRED OUTFLOWS OF RESOURCES			
Other Postemployment Benefits Related	39,875	10,044	49,919
Pension Related	2,733,581	83,864	2,817,445
Total Deferred Outflows of Resources	2,773,456	93,908	2,867,364
Total Assets and Deferred Outflows of Resources	$ 142,511,693	$ 59,129,846	$ 201,641,539
LIABILITIES			
Accounts Payable	$ 1,760,889	$ 291,630	$ 2,052,519
Accrued Wages and Related Liabilities	187,352	37,239	224,591
Accrued Interest	820,406	-	820,406
Customer Deposits	1,340,319	19,834	1,360,153
Unearned Revenue	1,375,000	-	1,375,000
Long-Term Liabilities:			
Total Other Postemployment Benefits Liability	1,035,033	260,667	1,295,700
Net Pension Liability	2,199,463	222,686	2,422,149
Amount Due within One Year	3,934,229	-	3,934,229
Amounts Due in More than One Year	49,575,112	111,196	49,686,308
Total Liabilities	62,227,803	943,252	63,171,055
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows - Lease Receivable	790,269	16,513	806,782
Deferred Inflows - Naming Rights	1,050,000	-	1,050,000
Pension Related	3,123,488	143,138	3,266,626
Total Deferred Inflows of Resources	4,963,757	159,651	5,123,408
NET POSITION			
Net Investment in Capital Assets	35,832,594	41,006,255	76,838,849
Restricted for:			
Debt Service	9,493,437	-	9,493,437
Public Safety Aid	693,082	-	693,082
City Sales Tax	12,450,757	-	12,450,757
Community Recreation Sales Tax	4,762,975	-	4,762,975
Essentia Wellness Center	1,007,539	-	1,007,539
Hermantown Economic Development Authority	1,362	-	1,362
Housing Trust Fund	23,408	-	23,408
Park Dedication Fund	66,000	-	66,000
Soccer Association Fund	73,168	-	73,168
Unrestricted	10,915,811	17,020,688	27,936,499
Total Net Position	75,320,133	58,026,943	133,347,076
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 142,511,693	$ 59,129,846	$ 201,641,539

See accompanying Notes to Basic Financial Statements.

CITY OF HERMANTOWN
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2025

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Business-Type Activities	Net (Expense) Revenue and Changes in Net Position: Total
GOVERNMENTAL ACTIVITIES							
General Government	$ 2,255,835	$ 160,366	$ 1,000	$ -	$ (2,094,469)	$ -	$ (2,094,469)
Public Safety	3,789,320	481,889	575,907	-	(2,731,524)	-	(2,731,524)
Streets and Highways	2,827,530	-	37,500	1,918,685	(871,345)	-	(871,345)
Community and Economic Development	1,351,089	348,595	-	-	(1,002,494)	-	(1,002,494)
Culture and Recreation	773,040	123,438	1,000,000	-	350,398	-	350,398
Interest and Fiscal Charges	1,958,897	-	-	-	(1,958,897)	-	(1,958,897)
Total Governmental Activities	12,955,711	1,114,288	1,614,407	1,918,685	(8,308,331)	-	(8,308,331)
BUSINESS-TYPE ACTIVITIES							
Water Utility	2,402,393	2,395,376	-	-	-	(7,017)	(7,017)
Sewage Disposal	1,733,518	1,908,840	-	3,182	-	178,504	178,504
Street Lighting	27,521	145,214	-	-	-	117,693	117,693
Storm Water Utility	335,032	519,741	-	-	-	184,709	184,709
Total Business-Type Activities	4,498,464	4,969,171	-	3,182	-	473,889	473,889
Total Primary Government	$ 17,454,175	$ 6,083,459	$ 1,614,407	$ 1,921,867	(8,308,331)	473,889	(7,834,442)
GENERAL REVENUES							
Property Taxes					9,567,997	-	9,567,997
Sales Tax					6,275,297	-	6,275,297
Unrestricted Federal Aid					11,680	-	11,680
Investment Income					1,343,331	709,638	2,052,969
Other					(105,473)	830,613	725,140
Loss on Sale of Capital Assets					(9,538)	-	(9,538)
Insurance Recoveries					15,150	9,564	24,714
Total General Revenues					17,098,444	1,549,815	18,648,259
TRANSFERS					516,053	(516,053)	-
Total General Revenues and Transfers					17,614,497	1,033,762	18,648,259
CHANGE IN NET POSITION					9,306,166	1,507,651	10,813,817
Net Position - Beginning of Year					66,013,967	56,519,292	122,533,259
NET POSITION - END OF YEAR					$ 75,320,133	$ 58,026,943	$ 133,347,076

See accompanying Notes to Basic Financial Statements.

CITY OF HERMANTOWN
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2025

	General	City Sales Tax Fund	Essentia Wellness Center Special Revenue Fund	Community Recreation Sales Tax Fund	Debt Service Funds	Capital Project Funds	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS								
Cash and Investments	$ 8,667,117	$ 10,414,996	$ 2,113,582	$ -	$ 6,357,960	$ 5,369,400	$ 6,054,050	$ 38,977,105
Accounts Receivable	19,046	1,080,320	127,706	-	-	15,980	567,330	1,810,382
Due from Other Governments	-	-	-	-	-	123,716	-	123,716
Interest Receivable	34,211	44,564	-	-	1,360	-	25,913	106,048
Contracts Receivable	-	-	-	-	-	2,652,273	-	2,652,273
Delinquent Taxes Receivable	107,183	-	-	-	11,168	-	2,797	121,148
Special Assessments Receivable	-	-	-	-	4,289,461	626,514	-	4,915,975
Lease Receivable	69,996	-	816,318	-	-	-	-	886,314
Prepaid Items	121,530	-	16,977	-	-	-	63	138,570
Due from Other Funds	-	914,437	-	-	-	-	1,529,178	2,443,615
Total Assets	$ 9,019,083	$ 12,454,317	$ 3,074,583	$ -	$ 10,659,949	$ 8,787,883	$ 8,179,331	$ 52,175,146
LIABILITIES								
Accounts Payable	$ 166,878	$ 3,560	$ 18,845	$ -	$ -	$ 1,524,667	$ 46,939	$ 1,760,889
Accrued Wages Payable	184,897	-	-	-	-	-	2,455	187,352
Due to Other Funds	-	-	-	-	-	2,106,635	-	2,106,635
Deposits Payable	26,392	-	-	-	-	-	1,313,927	1,340,319
Advance from Other Funds	-	-	-	-	-	450,000	-	450,000
Unearned Revenue	-	-	1,300,000	-	-	75,000	-	1,375,000
Total Liabilities	378,167	3,560	1,318,845	-	-	4,156,302	1,363,321	7,220,195
DEFERRED INFLOWS OF RESOURCES								
Unavailable - Delinquent Property Taxes	69,231	-	-	-	1,639	-	1,362	72,232
Unavailable - Special Assessments	-	-	-	-	4,287,823	624,616	-	4,912,439
Deferred amounts related to leases	59,047	-	731,222	-	-	-	-	790,269
Unavailable - Naming Rights	-	-	-	-	-	1,050,000	-	1,050,000
Deferred Inflows - Other	-	366,652	-	-	-	2,379,251	183,326	2,929,229
Total Deferred Inflows of Resources	128,278	366,652	731,222	-	4,289,462	4,053,867	184,688	9,754,169
FUND BALANCES								
Nonspendable	121,530	-	16,977	-	-	-	63	138,570
Restricted	1,733	12,084,105	1,007,539	-	6,024,381	-	5,433,574	24,551,332
Committed	-	-	-	-	346,106	-	1,197,685	1,543,791
Assigned	-	-	-	-	-	577,714	-	577,714
Unassigned	8,389,375	-	-	-	-	-	-	8,389,375
Total Fund Balances	8,512,638	12,084,105	1,024,516	-	6,370,487	577,714	6,631,322	35,200,782
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 9,019,083	$ 12,454,317	$ 3,074,583	$ -	$ 10,659,949	$ 8,787,883	$ 8,179,331	$ 52,175,146

See accompanying Notes to Basic Financial Statements.

CITY OF HERMANTOWN
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION – GOVERNMENTAL FUNDS
DECEMBER 31, 2025

Total Fund Balances - Governmental Funds	$ 35,200,782
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 Construction in Progress Held for Others	24,249,682
Cost of Capital and Right to Use Assets	110,034,335
Less Accumulated Depreciation and Amortization	(44,201,403)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	(53,509,341)
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 (Asset)	(2,162,351)
Total OPEB Liability	(1,035,033)
Deferred Outflows of Resources - Pension Related	2,733,581
Deferred Outflows of Resources - OPEB	39,875
Deferred Inflows of Resources - Pension Related	(3,123,488)
Long-term assets that are not available to pay for current period expenditures and, therefore, are deferred in the funds.	7,913,900
Governmental funds do not report a liability for accrued interest until due and payable	(820,406)
Total Net Position - Governmental Activities	$ 75,320,133

See accompanying Notes to Basic Financial Statements.

CITY OF HERMANTOWN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2025

	General	City Sales Tax Fund	Essentia Wellness Center Special Revenue Fund	Community Recreation Sales Tax Fund	Debt Service Funds	Capital Project Funds	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES								
Taxes	$ 8,292,786	$ 4,150,365	$ -	$ -	$ 700,791	$ 407,875	$ 2,240,334	$ 15,792,151
Franchise Fees	16,500	-	-	-	-	-	24,828	41,328
Special Assessments	-	-	-	-	721,578	64,169	-	785,747
Licenses and Permits	408,505	-	-	-	-	-	48,450	456,955
Intergovernmental	938,107	-	-	-	-	6,892,555	41,531	7,872,193
Charges for Services	135,365	-	308,905	-	750,000	150,000	116,462	1,460,732
Fines and Forfeitures	51,638	-	-	-	-	-	200	51,838
Investment Income	343,139	457,160	33,747	-	13,891	226,824	268,570	1,343,331
Miscellaneous	94,486	-	182,570	-	-	9,959	38,157	325,172
Total Revenues	10,280,526	4,607,525	525,222	-	2,186,260	7,751,382	2,778,532	28,129,447
EXPENDITURES								
Current:								
General Government	1,430,027	40,246	-	-	590	7,650	20,123	1,498,636
Public Safety	5,005,502	-	-	-	-	-	38,525	5,044,027
Streets and Highways	899,053	-	-	-	-	-	-	899,053
Community and Economic Development	427,963	-	-	-	-	208,689	702,408	1,339,060
Culture and Recreation	250,416	-	316,976	-	-	-	24,896	592,288
Capital Outlay	1,283,267	130,616	16,592	-	-	19,093,092	-	20,523,567
Debt Service:								
Principal	2,021	-	-	-	2,740,000	58,546	-	2,800,567
Interest and Fiscal Charges	-	-	-	-	1,851,509	31,457	-	1,882,966
Total Expenditures	9,298,249	170,862	333,568	-	4,592,099	19,399,434	785,952	34,580,164
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	982,277	4,436,663	191,654	-	(2,405,839)	(11,648,052)	1,992,580	(6,450,717)
OTHER FINANCING SOURCES (USES)								
Insurance Recoveries	15,150	-	-	-	-	-	-	15,150
Transfer In	-	-	-	-	3,819,067	2,699,747	150,000	6,668,814
Transfer Out	(646,023)	(2,475,376)	-	-	(900,000)	-	(1,232,654)	(5,254,053)
Proceeds from Sale of Capital Assets	9,000	-	-	-	-	-	-	9,000
Net Other Financing Sources (Uses)	(621,873)	(2,475,376)	-	-	2,919,067	2,699,747	(1,082,654)	1,438,911
NET CHANGE IN FUND BALANCE	360,404	1,961,287	191,654	-	513,228	(8,948,305)	909,926	(5,011,806)
Fund Balance - Beginning	8,152,234	10,122,818	832,862	3,574,563	5,857,259	9,526,019	2,146,833	40,212,588
Changes to or within Financial Reporting Entity - See Note 17	-	-	-	(3,574,563)	-	-	3,574,563	-
Fund Balances - Beginning, As Adjusted	8,152,234	10,122,818	832,862	-	5,857,259	9,526,019	5,721,396	40,212,588
FUND BALANCE - END OF YEAR	$ 8,512,638	$ 12,084,105	$ 1,024,516	$ -	$ 6,370,487	$ 577,714	$ 6,631,322	$ 35,200,782

See accompanying Notes to Basic 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, 2025

Total Net Changes in Fund Balances - Governmental Funds	$ (5,011,806)
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	20,519,474
Loss on Disposal of Capital Assets	(18,538)
Depreciation and Amortization Expense	(2,572,443)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(6,367,105)
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.	166,061
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	2,800,567
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.	(240,535)
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.	200,479
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.	659,182
Compensated absences are an expense in the governmental funds, but increase long-term liabilities in the Statement of Net Position.	69,538
Change in Net Position - Governmental Activities	$ 9,306,166

See accompanying Notes to Basic Financial Statements.

CITY OF HERMANTOWN
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
DECEMBER 31, 2025

	Business-Type Activities Enterprise Fund				
	Water Utility Funds	Sewage Disposal Fund	Storm Water Fund	Street Lighting Nonmajor Enterprise Fund	Total Enterprise Funds
ASSETS					
Current Assets:					
Cash and Investments	$ 6,692,128	$ 8,863,413	$ -	$ 1,037,990	$ 16,593,531
Interest Receivable	26,402	34,969	1,700	4,620	67,691
Accounts Receivable	313,146	308,054	84,632	63,596	769,428
Lease Receivable	19,619	-		-	19,619
Advance to Other Funds	-	-	-	450,000	450,000
Prepaid Items	247,414	22,184	1,090	-	270,688
Total Current Assets	7,298,709	9,228,620	87,422	1,556,206	18,170,957
Noncurrent Assets:					
Capital Assets, Net of Depreciation:					
Assets Not Being Depreciated	362,024	385,645	-	-	747,669
Assets Being Depreciated, Net	9,788,706	27,577,667	2,892,213	-	40,258,586
Total Capital Assets, Net of Depreciation	10,150,730	27,963,312	2,892,213	-	41,006,255
Long-Term Portion of Contracts Receivable	-	8,109	-	-	8,109
Special Assessments Receivable	4,813	182,775	9	-	187,597
Total Noncurrent Assets	10,155,543	28,154,196	2,892,222	-	41,201,961
DEFERRED OUTFLOWS OF RESOURCES					
Other Postemployment Benefits Related	4,638	3,415	1,991	-	10,044
Pension Related	37,802	30,187	15,875	-	83,864
Total Deferred Outflows of Resources	42,440	33,602	17,866	-	93,908
Total Assets and Deferred Outflows of Resources	$ 17,496,692	$ 37,416,418	$ 2,997,510	$ 1,556,206	$ 59,466,826
LIABILITIES					
Current Liabilities:					
Accounts Payable	$ 166,334	$ 109,297	$ 10,828	$ 5,171	$ 291,630
Accrued Wages and Related Liabilities	16,846	13,429	6,964	-	37,239
Due To Other Funds	-	-	336,980	-	336,980
Customer Deposits	19,834	-	-	-	19,834
Total Current Liabilities	203,014	122,726	354,772	5,171	685,683
Noncurrent Liabilities:					
Compensated Absences	48,998	42,615	19,583	-	111,196
Net Pension Liability	100,377	80,155	42,154	-	222,686
Total OPEB Liability	120,356	88,632	51,679	-	260,667
Total Noncurrent Liabilities	269,731	211,402	113,416	-	594,549
Total Liabilities	472,745	334,128	468,188	5,171	1,280,232
DEFERRED INFLOWS OF RESOURCES					
Deferred Inflows - Lease Receivable	16,513	-	-	-	16,513
Pension Related	64,520	51,522	27,096	-	143,138
Total Deferred Inflows of Resources	81,033	51,522	27,096	-	159,651
NET POSITION					
Net Investment in Capital Assets	10,150,730	27,963,312	2,892,213	-	41,006,255
Unrestricted	6,792,184	9,067,456	(389,987)	1,551,035	17,410,675
Total Net Position	16,942,914	37,030,768	2,502,226	1,551,035	58,026,943
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 17,496,692	$ 37,416,418	$ 2,997,510	$ 1,556,206	$ 59,466,826

See accompanying Notes to Basic Financial Statements.

CITY OF HERMANTOWN
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2025

	Business-Type Activities Enterprise Fund				
	Water Utility Funds	Sewage Disposal Fund	Storm Water Fund	Street Lighting Nonmajor Enterprise Fund	Total Enterprise Funds
OPERATING REVENUES					
User Fees	$ 1,921,240	$ 1,811,931	$ 519,741	$ -	$ 4,252,912
Service Charges	474,136	96,909	-	-	571,045
Franchise Fees	-	-	-	145,214	145,214
Total Operating Revenues	2,395,376	1,908,840	519,741	145,214	4,969,171
OPERATING EXPENSES					
Personnel Services	427,434	293,326	162,834	-	883,594
Water Purchases	1,346,711	-	-	-	1,346,711
WLSSD Charges	-	686,070	-	-	686,070
Maintenance and Supplies	301,930	167,055	123,727	16,863	609,575
Utilities	13,855	11,040	-	10,658	35,553
Professional Services	8,739	9,152	5,252	-	23,143
Insurance	31,164	21,006	-	-	52,170
Miscellaneous	700	165	-	-	865
Depreciation Expense	271,860	545,704	43,219	-	860,783
Total Operating Expenses	2,402,393	1,733,518	335,032	27,521	4,498,464
NET OPERATING INCOME (LOSS)	(7,017)	175,322	184,709	117,693	470,707
NONOPERATING REVENUES					
Hookups and Miscellaneous Income	123,947	92,741	5,027	-	221,715
Intergovernmental Grants	-	-	608,898	-	608,898
Special Assessments	-	3,182		-	3,182
Insurance Recoveries	9,564	-	-	-	9,564
Investment Income	269,379	357,714	17,349	65,196	709,638
Total Nonoperating Revenues	402,890	453,637	631,274	65,196	1,552,997
INCOME BEFORE TRANSFERS AND CONTRIBUTIONS	395,873	628,959	815,983	182,889	2,023,704
TRANFERS AND CAPITAL CONTRIBUTIONS					
Capital Contributions	130,764	-	767,944	-	898,708
Transfer In	6,000	-	-	-	6,000
Transfer Out	(246,074)	(50,528)	(844,059)	(280,100)	(1,420,761)
Total Transfers and Capital Contributions	(109,310)	(50,528)	(76,115)	(280,100)	(516,053)
CHANGE IN NET POSITION	286,563	578,431	739,868	(97,211)	1,507,651
Net Position - Beginning of Year	16,656,351	36,452,337	1,762,358	1,648,246	56,519,292
NET POSITION - END OF YEAR	$ 16,942,914	$ 37,030,768	$ 2,502,226	$ 1,551,035	$ 58,026,943

See accompanying Notes to Basic Financial Statements.

CITY OF HERMANTOWN
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2025

	Business-Type Activities Enterprise Fund				
	Water Utility Funds	Sewage Disposal Fund	Storm Water Fund	Street Lighting Nonmajor Enterprise Fund	Total Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Users	$ 2,318,726	$ 1,862,421	$ 521,744	$ 117,848	$ 4,820,739
Cash Received from Interfund Services Provided	-	-	78,072	-	78,072
Payments to Employees	(551,490)	(364,188)	(201,273)	-	(1,116,951)
Payments to Suppliers	(1,570,162)	(871,561)	(174,982)	(26,228)	(2,642,933)
Net Cash Provided by Operating Activities	197,074	626,672	223,561	91,620	1,138,927
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers In	6,000	-	-	-	6,000
Transfers Out	(246,074)	(50,528)	(844,059)	(280,100)	(1,420,761)
Advance to Other Funds	-	-		100,000	100,000
Insurance Recoveries	9,564	-	-	-	9,564
Intergovernmental Grants	-	-	608,898	-	608,898
Cash Received from Hookups and Miscellaneous Income	64,697	92,742	5,027	-	162,466
Net Cash Provided (Used) by Noncapital Financing Activities	(165,813)	42,214	(230,134)	(180,100)	(533,833)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Special Assessments	-	3,182	-	-	3,182
Acquisition and Construction of Capital Assets	-	-	(10,000)	-	(10,000)
Payments from Lease Receivable	93,725	-		-	93,725
Net Cash Provided by Capital and Related Financing Activities	93,725	3,182	(10,000)	-	86,907
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment Income	258,385	340,837	16,573	63,030	678,825
NET INCREASE IN CASH AND CASH EQUIVALENTS	383,371	1,012,905	-	(25,450)	1,370,826
Cash and Cash Equivalents - Beginning of Year	6,308,757	7,850,508	-	1,063,440	15,222,705
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 6,692,128	$ 8,863,413	$ -	$ 1,037,990	$ 16,593,531

See accompanying Notes to Basic Financial Statements.

CITY OF HERMANTOWN
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2025

	Business-Type Activities Enterprise Fund				
	Water Utility Funds	Sewage Disposal Fund	Storm Water Fund	Street Lighting Nonmajor Enterprise Funds	Total Enterprise Funds
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating Income (Loss)	$ (7,017)	$ 175,322	$ 184,709	$ 117,693	$ 470,707
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Depreciation	271,860	545,704	43,219	-	860,783
(Increase) Decrease in Assets:					
Accounts Receivable	(86,030)	(38,305)	2,003	(27,366)	(149,698)
Special Assessments Receivable	-	(12,375)		-	(12,375)
Prepaid Expenses	80,370	8,325	(188)	-	88,507
Deferred Outflows	(12,547)	(9,807)	(5,290)	-	(27,644)
Increase (Decrease) in Liabilities:					
Accounts Payable	52,567	14,602	(45,815)	1,293	22,647
Wages and Related Liabilities	2,112	1,478	1,232	-	4,822
Due to Other Funds	-	4,261	78,072	-	82,333
Deposits	9,380	-		-	9,380
Compensated Absences Payable	6,916	5,778	2,759	-	15,453
Net Pension Liability	(7,807)	(7,070)	(3,189)	-	(18,066)
Total OPEB Liability	(69,435)	(52,464)	(29,701)	-	(151,600)
Deferred Inflows	(43,295)	(8,777)	(4,250)	-	(56,322)
Total Adjustments	204,091	451,350	38,852	(26,073)	668,220
Net Cash Provided by Operating Activities	$ 197,074	$ 626,672	$ 223,561	$ 91,620	$ 1,138,927
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES					
Capital Contributions	$ 130,764	$ -	$ 767,944	$ -	$ 898,708

See accompanying Notes to Basic Financial Statements.

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.

B. Government-Wide Financial Statements

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Fund Financial Statements

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

The funds of the financial reporting entity are described below:

Governmental Funds

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

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

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

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

Proprietary Funds

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

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Fund Financial Statements (Continued)

Major Governmental Funds (Continued)

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.

Storm Water Fund – Accounts for the activity of providing storm water services to the public.

D. Measurement Focus and Basis of Accounting

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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

E. Assets, Liabilities, and Equity

Cash and Cash Equivalents

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

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

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Equity (Continued)

Property Taxes

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

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

Special Assessments

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

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, 2025, are recorded as prepaid items. Prepaid items are reported using the consumption method and recorded as expenditures/expenses at the time of consumption.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Equity (Continued)

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 and Other 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.

Other Assets consist of the hockey arena project constructed for the purpose of transferring the asset to other government entity upon completion. The assets are recorded at cost. Construction in progress is not depreciated.
Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Seven years have been recognized and remaining unearned revenue is $1,300,000 as of the end of the year. Unearned revenues for the City also includes a $1,600,000 naming rights agreement for the Hermantown Ice Arena that is to be recognized as revenue over the 20-year term of the agreement. A portion of this agreement is included in unearned revenue in the amount of $75,000, while the remainder is a deferred inflow.

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 compensated absences reported in the government-wide and proprietary fund statements consists of leave that has not been used that is attributable to services already rendered, accumulates and is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. The liability also includes amounts for leave that has been used for time off but has not yet been paid in cash or settled through noncash means and certain other types of leave.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Pensions

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

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources, and expense associated with the City's requirement to contribute to the Hermantown Fire Relief Association Plan, information about the plan's fiduciary net position and additions to/deductions from the determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

J. Other Postemployment Benefits (OPEB)

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

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Deferred Outflows/Inflows of Resources (Continued)

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, naming rights agreements 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.

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

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, 2025, the unassigned fund balance for the General Fund was 89.58% of the subsequent year’s budgeted expenditures, or $8,839,375.

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

<u>Budgetary Information</u>

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.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Stewardship, Compliance, and Accountability (Continued)

Budgetary Information (Continued)

Expenditures exceed budgeted amounts in the following fund at December 31, 2025:

	Final Budget	Actual Expenditures	Excess
Essentia Wellness Center:			
Special Revenue Fund	$ 304,514	$ 333,568	$ 29,054

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, 2025, 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.

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, 2025, the City had an investment in the 4M Fund in the amount of $16,693,447.

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, 2025, 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, 2025, the City had the following investments:

		Maturities			
Investment Type	Total Value	Less Than 1 Year	1-5 Years	Over 5 Years	No Maturity
Federal Home Loan Bank	$ 1,092,740	$ -	$ 1,092,740	$ -	$ -
Other GSE-Issued Securities	940,080	249,618	443,285	247,177	-
U.S. Treasury Notes	6,519,425	-	5,391,022	1,128,403	-
Negotiable CDs	20,255,108	8,121,034	12,134,074	-	-
Municipal Bonds	4,818,210	401,584	3,359,152	1,057,474	-
Money Market	830,660	-	-	-	830,660
External Investment Pool	16,693,447	-	-	-	16,693,447
Total Investments	$ 51,149,670	$ 8,772,236	$ 22,420,273	$ 2,433,054	$ 17,524,107

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.

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

The following chart summarizes the ratings for the City's investments as rated by Standard and Poor's as of December 31, 2025:

	Credit Rating	Value	% of total Portfolio
U.S. Treasury Notes	AA1	$ 6,519,425	12.7%
Federal Home Loan Bank	AA1	1,092,740	2.1%
Other GSE-Issued Securities	AA1	940,080	1.8%
Negotiable CDs	N/R	20,255,108	39.6%
Municipal Bonds	AA1 - A1	4,818,210	9.4%
Money Market	N/R	830,660	1.6%
External Investment Pool	AAAm	16,693,447	32.6%
Total		$ 51,149,670	100.0%

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, 2025:

		Fair Value Measurement Using		
	Total	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:				
Federal Home Loan Bank	$ 1,092,740	$ -	$ 1,092,740	$ -
Other GSE-Issued Securities	940,080	-	940,080	-
Negotiable CDs	12,134,074	-	12,134,074	-
U.S. Treasury Notes	6,519,425	6,519,425	-	-
Municipal Bonds	4,818,210	-	4,818,210	-
Total	25,504,529	$ 6,519,425	$ 18,985,104	$ -
Investments Measured at Amortized Cost	25,645,141			
Total Investments	$ 51,149,670			

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2025:

	Total	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
External Investment Pool - 4M	$ 16,693,447	$ -	None	14 Days

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

Cash on Hand	$ 700
Deposits	4,420,266
Investments	51,149,670
Total Deposits and Investments	$ 55,570,636

Presented in the financial statements as follows:

Primary Government:	
Cash and Investments	$ 55,570,636

NOTE 3 RECEIVABLES

Significant receivable balances not expected to be collected within one year of December 31, 2025 are as follows:

	Governmental Activities	Business-Type Activities
Taxes Receivable	$ 72,232	$ -
Special Assessments	4,912,439	187,597
Lease Receivables	886,314	19,619
Contracts Receivable	2,652,273	8,109
Total	$ 8,523,258	$ 215,325

NOTE 4 CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2025 was as follows:

	Balance 12/31/2024	Additions	Deletions	Transfer	Balance 12/31/2025
Governmental Activities:					
Other Assets:					
Construction in Progress - Held for Others	$ 7,374,078	$ 16,875,604	$ -	$ -	24,249,682
Capital Assets Not Being Depreciated:					
Land	3,208,497	633,982	-	-	3,842,479
Construction in Progress	11,516,250	1,742,489	(10,413,117)	(898,708)	1,946,914
Total Capital Assets Not Being Depreciated	14,724,747	2,376,471	(10,413,117)	(898,708)	5,789,393
Capital Assets Being Depreciated:					
Land Improvements	3,329,551	5,107,250	-	-	8,436,801
Buildings	37,202,604	1,301,215	-	-	38,503,819
Equipment and Vehicles	5,674,787	521,481	(54,378)	-	6,141,890
Infrastructure	46,122,947	4,750,570	-	-	50,873,517
Total Capital Assets Being Depreciated	92,329,889	11,680,516	(54,378)	-	103,956,027
Right-to-Use Lease Assets:					
Equipment	292,868	-	(3,953)	-	288,915
Total Right-to-Use Lease Assets	292,868	-	(3,953)	-	288,915
Less Accumulated Depreciation:					
Land Improvements	1,485,132	79,644	-	-	1,564,776
Buildings	8,712,595	950,408	-	-	9,663,003
Equipment and Vehicles	3,314,631	362,701	(35,840)	-	3,641,492
Infrastructure	27,980,576	1,121,188	-	-	29,101,764
Less Accumulated Amortization:					
Right-to-Use Lease Asset - Equipment	175,819	58,502	(3,953)	-	230,368
Total Accumulated Depreciation/Amortization	41,668,753	2,572,443	(39,793)	-	44,201,403
Total Capital Assets Being Depreciated/Amortized, Net	50,954,004	9,108,073	(18,538)	-	60,043,539
Governmental Activities Other Assets and Capital Assets, Net	$ 73,052,829	$ 28,360,148	$ (10,431,655)	$ (898,708)	$ 90,082,614

NOTE 4 CAPITAL ASSETS (CONTINUED)

	Balance 12/31/2024	Additions	Deletions	Transfer	Balance 12/31/2025
Business-Type Activities:					
Capital Assets Not Being Depreciated:					
Construction in Progress	$ 257,709	$ 10,000	$ -	$ (127,554)	$ 140,155
Land and Permanent Easements	607,514	-	-	-	607,514
Total Capital Assets Not Being Depreciated	865,223	10,000	-	(127,554)	747,669
Capital Assets Being Depreciated:					
Buildings and Infrastructure	52,969,909	-	-	1,026,262	53,996,171
Equipment	1,753,090	-	-	-	1,753,090
Total Capital Assets Being Depreciated	54,722,999	-	-	1,026,262	55,749,261
Less Accumulated Depreciation:					
Buildings and Infrastructure	13,740,046	802,959	-	-	14,543,005
Equipment	889,847	57,823	-	-	947,670
Total Accumulated Depreciation	14,629,893	860,782	-	-	15,490,675
Total Capital Assets Being Depreciated, Net	40,093,106	(860,782)	-	1,026,262	40,258,586
Business-Type Activities Capital Assets, Net	$ 40,958,329	$ (850,782)	$ -	$ 898,708	$ 41,006,255

Depreciation expense and amortization expense was charged to functions/programs of the City as follows at December 31, 2025:

Governmental Activities:	
General Government	$ 181,724
Public Safety	398,131
Public Works	1,270,536
Community and Economic Development	4,292
Culture and Recreation	717,760
Total Governmental Activities Depreciation and Amortization Expense	$ 2,572,443
Business-Type Activities:	
Water Utility	$ 271,860
Sewage Disposal	545,704
Storm Water	43,219
Total Business-Type Activities Depreciation Expense	$ 860,783

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, noncancelable lease agreements. These leases expire in fiscal year 2026 and 2028. During the year ended December 31, 2025, the City recognized $35,455 and $4,411 in lease revenue and interest revenue, respectively, pursuant to these contracts.

NOTE 5 LEASE RECEIVABLES (CONTINUED)

The City, acting as a lessor, leases certain real property on which billboards are installed under long-term, noncancelable lease agreements. This lease expires in fiscal year 2029. During the year ended December 31, 2025, the City recognized $1,501 and $241 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, noncancelable lease agreement. This lease expires in fiscal year 2029. Another lease was terminated during fiscal year 2025. During the year ended December 31, 2025, the City recognized $204,485 and $35,126 in lease revenue and interest revenue, pursuant to these contracts. The termination of a lease resulted in termination of lease receivable in the amount of $79,458 and deferred inflow of resources in the amount of $70,246.

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

	Long-Term Leases Receivable	
Year Ending December 31,	Principal	Interest
2026	$ 251,965	$ 29,271
2027	247,445	19,957
2028	227,594	10,624
2029	178,929	2,241
Total	$ 905,933	$ 62,093

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

	Balance 12/31/2024	Additions	Retirements	Balance 12/31/2025	Principal Due Within One Year
Governmental Activities:					
Long-Term Lease Receivables:					
Billboards	$ 7,084	$ -	$ 1,617	$ 5,467	$ 1,717
Cell Tower	131,189	-	47,041	84,148	50,785
Buildings	1,092,005	-	275,687	816,318	199,463
Total	$ 1,230,278	$ -	$ 324,345	$ 905,933	$ 251,965

NOTE 6 LONG-TERM OBLIGATIONS

The City had the following long-term obligations at December 31, 2025:

General Obligation Bonds	Amount
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.	$ 185,000
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.	380,000
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.	675,000
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.	610,000
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.	1,535,000
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.	6,040,000
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.	6,880,000
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.	1,890,000
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.	2,920,000

NOTE 6 LONG-TERM OBLIGATIONS (CONTINUED)

General Obligation Bonds (Continued)	Amount
General Obligation Improvement and Refunding Bonds, Series 2021A were issued at a issued at par value of $3,860,000, have an interest rate of 2.0% - 1.150%, and mature in 2036.	$ 2,950,000
General Obligation Improvement Bonds, Series 2023A were issued at a issued at par value of $1,505,000, have an interest rate of 4.0% - 5.0%, and mature in 2039.	1,435,000
General Obligation Improvement Bonds, Series 2024A were issued at a par value of $8,745,000, have an interest rate of 4.0% - 5.0%, and mature in 2044.	8,745,000
General Obligation Improvement Bonds, Series 2024B were issued at a par value of $16,225,000, have an interest rate of 4.0%, and mature in 2044.	16,225,000
Total General Obligation Bonds	$ 50,470,000

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

	Balance 12/31/2024	Additions	Reductions	Balance 12/31/2025	Amount Due Within One Year
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	$ 53,210,000	$ -	$ 2,740,000	$ 50,470,000	$ 3,300,000
Leases Payable	123,831	-	60,567	63,264	62,107
Premiums (Discounts):					
Unamortized Bond Discount	(551)	-	(411)	(140)	(140)
Unamortized Bond Premium	2,358,701	-	166,472	2,192,229	180,268
Subtotal	55,691,981	-	2,966,628	52,725,353	3,542,235
Compensated Absences	853,526	-	69,538	783,988	391,994
Total Long-Term Liabilities	$ 56,545,507	$ -	$ 3,036,166	$ 53,509,341	$ 3,934,229
Business-Type Activities:					
Compensated Absences	$ 95,743	$ 15,453	$ -	$ 111,196	$ 55,598
Total Long-Term Liabilities	$ 95,743	$ 15,453	$ -	$ 111,196	$ 55,598

The change in compensated absence liability is presented as a net change.

NOTE 6 LONG-TERM OBLIGATIONS (CONTINUED)

Annual requirements to amortize all outstanding obligations at December 31, 2025 are as follows:

	General Obligation Bonds		Leases Payable	
Year Ending December 31,	Principal	Interest	Principal	Interest
2026	$ 3,300,000	$ 1,760,529	$ 62,107	$ 278
2027	2,850,000	1,647,959	1,157	22
2028	2,975,000	1,541,459	-	-
2029	2,930,000	1,439,034	-	-
2030	2,990,000	1,339,659	-	-
2031 - 2035	15,510,000	5,184,399	-	-
2036 - 2040	14,215,000	2,398,258	-	-
2041 - 2044	5,700,000	467,600	-	-
Total	$ 50,470,000	$ 15,778,897	$ 63,264	$ 300

General Obligation bonds are paid from Debt Service Funds.

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, 2025 are as follows:

Enterprise	Year of Issue	Outstanding Balance 12/31/2025
Saints-Hilltoppers Arena Project 2010	2010	$ 165,259
Marshall School 2011	2011	131,502
Total		$ 296,761

NOTE 8 INTERFUND TRANSACTIONS

The composition of interfund balances as of December 31, 2025 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.

	Due From	Due To
Governmental Funds:		
City Sales Tax Fund	$ 914,437	$ -
Community Recreation Sales Tax	1,529,178	-
Capital Project Fund (by Project/Department):		
Munger Trail Fund	-	1,529,178
Fichtner Field	-	577,457
Total Governmental Funds	$ 2,443,615	$ 2,106,635
Proprietary Funds:		
Storm Water Fund	$ -	$ 336,980
Totals	$ 2,443,615	$ 2,443,615

Advances to/from other funds:

	Advance To	Advance From
Governmental Funds:		
Capital Projects Fund - TIF District #1	$ -	$ 450,000
Proprietary Funds:		
Nonmajor Enterprise Funds - Street Lighting Fund	450,000	-
Total	$ 450,000	$ 450,000

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

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:

NOTE 8 INTERFUND TRANSACTIONS (CONTINUED)

Interfund Transfers (Continued)

In the year ended December 31, 2025, the City made the following one-time transfers, which are included in the amounts presented below:

	Transfer In	Transfer Out
Governmental Funds:		
General Fund	$ -	$ 646,023
City Sales Tax Fund	-	2,475,376
Debt Service Fund (by Issuance):		
G.O. Improvement Bonds, Series 2014A	65,000	-
G.O. Improvement Bonds, Series 2020A	40,110	-
G.O. Improvement Bonds, Series 2012A	97,540	-
G.O. Refunding Bonds, Series 2016A	217,723	-
G.O. Refunding Bonds, Series 2016B	698,807	-
G.O. Tax Abatement Bonds, Series 2018B	517,191	-
G.O. Tax Abatement Bonds, Series 2019A	651,820	-
G.O. Improvement Bonds, Series 2020B	291,112	-
G.O. Improvement Bonds, Series 2021A	18,790	-
G.O. Improvement Bonds, Series 2024A	330,698	750,000
G.O. Improvement Bonds, Series 2024B	890,276	150,000
Capital Projects Fund (by Project/Department):		
General Capital Projects	685,000	-
Municipal Building Reserve	50,000	-
Hockey Arena	150,000	-
Fichtner Field	1,041,780	-
Special Assessment/Road Improvement Fund	767,944	-
Municipal State Aid Streets Fund	5,023	-
Nonmajor Governmental Funds:		
American Rescue Plan Fund	-	11,680
Housing Trust Fund	100,000	-
Park Dedication	50,000	-
Community Recreation Sales Tax Fund	-	1,220,974
Total Governmental Funds	6,668,814	5,254,053
Proprietary Funds:		
Water Utility Fund	6,000	246,074
Sewage Disposal Fund	-	50,528
Storm Water Fund		844,059
Nonmajor Proprietary Funds:		
Street Lighting Fund	-	280,100
Total Proprietary Funds	6,000	1,420,761
Total	$ 6,674,814	$ 6,674,814

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.

NOTE 9 FUND BALANCE/NET POSITION

Fund balance was nonspendable for the following purposes at December 31, 2025:

Prepaid Items:	
Governmental Funds:	
General Fund	$ 121,530
Essentia Wellness Center Special Revenue Fund	16,977
Hermantown Economic Development Authority Fund	55
Cable Television Fund	8
Total Nonspendable	$ 138,570

Governmental net position and fund balances were restricted for the following purposes at December 31, 2025:

	Net Position	Fund Balance
Debt Service Funds	$ 9,493,437	$ 6,024,381
General Fund	1,733	1,733
City Sales Tax Fund - Public Works	12,450,757	12,084,105
Community Recreation Sales Tax Fund - Recreation	4,762,975	4,579,649
Essentia Wellness Center Special Revenue Fund - Wellness	1,007,539	1,007,539
Hermantown Economic Development Authority	1,362	-
Police Program Fund - Public Safety	691,349	691,349
Housing Trust Fund	23,408	23,408
Park Dedication Fund - Recreation	66,000	66,000
Soccer Association Fund - Recreation	73,168	73,168
Total Restricted	$ 28,571,728	$ 24,551,332

Fund balances were committed for the following purposes at December 31, 2025:

Other Governmental Funds:	
Economic Development	$ 579,395
Park Improvements	128,014
Wetland Restoration	10,964
Cable TV	479,312
Debt Service	346,106
Total Committed	$ 1,543,791

Fund balances were assigned for the following purposes at December 31, 2025:

General Capital Projects	$ 1,382,893
Essentia Wellness Center Capital Projects Fund	277,871
Municipal Building Reserve	295,574
HEDA Fleet Projects	100,484
Total Assigned	$ 3,803,414

NOTE 9 FUND BALANCE/NET POSITION (CONTINUED)

The following funds had an unassigned fund balance (deficit) at December 31, 2025:

Capital Projects Fund (by Project/Department):	
Munger Trail	$ (1,590,665)
Fichtner Field	(577,457)
TIF District 1 Improvement	(403,578)
Municipal State Aid Streets	(653,262)
Pillars Abatement	(738)
Total	$ (3,225,700)

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). These plan provisions are established and administered according to Minnesota Statutes chapters 353, 353D, 353E, 353G, and 356. Minnesota Statutes chapter 356 defines each plan’s financial reporting requirements. PERA’s defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

1. General Employees Retirement Plan (General Plan)
Membership in the General Plan includes employees of counties, cities, townships, schools in non-certified positions, and other governmental entities whose revenues are derived from taxation, fees, or assessments. Plan membership is required for any employee who is expected to earn more than $425 in a month, unless the employee meets exclusion criteria.

2. Public Employees Police and Fire Plan
Membership in the Police & Fire Plan includes full-time, licensed police officers and firefighters who meet the membership criteria defined in Minnesota Statutes section 353.64 and who are not earning service credit in any other PERA retirement plan or a local relief association for the same service. Employers can provide Police & Fire Plan coverage for part-time positions and certain other public safety positions by submitting a resolution adopted by the entity’s governing body. The resolution must state that the position meets plan requirements.

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. When a member is “vested,” they have earned enough service credit to receive a lifetime monthly benefit after leaving public service and reaching an eligible retirement age. Members who retire at or over their Social Security full retirement age with at least one year of service qualify for a retirement benefit.

1. General Employees Retirement Plan Benefits

General Employees Plan requires three years of service to vest. 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 General Plan members. Members hired prior to July 1, 1989, receive the higher of the Step or Level formulas. Only the Level formula is used for members hired after June 30, 1989. Under the Step formula, General Plan members receive 1.2% of the highest average salary for each of the first 10 years of service and 1.7% for each additional year. Under the Level formula, General Plan members receive 1.7% of highest average salary for all years of service. For members hired prior to July 1, 1989 a full retirement benefit is available when age plus years of service equal 90 and normal retirement age is 65. Members can receive a reduced requirement benefit as early as age 55 if they have three or more years of service. Early retirement benefits are reduced by .25% for each month under age 65. Members with 30 or more years of service can retire at any age with a reduction of .25% for each month the member is younger than age 62. The Level formula allows General Plan members to receive a full retirement benefit at age 65 if they were first hired before July 1, 1989 or at age 66 if they were hired on or after July 1, 1989. Early retirement begins at age 55 with an actuarial reduction applied to the benefit.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. The 2025 annual increase was 1.25%. 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 prorated increase.

NOTE 10 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. Police and Fire Plan Benefits

Benefits for Police and Fire Plan members hired before July 1, 2010, are vested after three years of service. Members hired on or after July 1, 2010, are 50% vested after five years of service and 100% vested after ten years. After five years, vesting increase by 10% each full year of service until members are 100% vested after ten years. Police and Fire Plan members receive 3 percent of highest average salary for all years of service. Police and Fire Plan members receive a full retirement benefit when they are age 55 and vested, or when their age plus their years of service equals 90 or greater if they were first hired before July 1, 1989. Early retirement starts at age 50, and early retirement benefits are reduced by 0.417% each month members are younger than age 55.

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

C. Contributions

Minnesota Statutes chapters 353, 353E, 353G, and 356 set 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 2025 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, 2025, were $167,398. 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 2025 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, 2025, were $406,792. The City’s contributions were equal to the required contributions as set by state statute.

NOTE 10 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2025, the City reported a liability of $803,851 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 $19,391.

The City's Proportionate Share of the Net Pension Liability	$ 803,851
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the City	19,391
Total	$ 823,242

The net pension liability was measured as of June 30, 2025, 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, 2024 through June 30, 2025, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0243 percent at the end of the measurement period and 0.0217 percent for the beginning of the period.

For the year ended December 31, 2025, the City recognized pension expense of $12,725 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional $2,974 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, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	$ 76,589	$ -
Effect of Changes in Assumptions	19,368	184,963
Net Difference Between Projected and Actual Investment Earnings on Plan Investments	-	319,860
Changes in Proportion	119,202	11,874
Contributions Subsequent to Measurement Period	87,577	-
Total	$ 302,736	$ 516,697

NOTE 10 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. General Employees Fund Pension Costs (Continued)

A total of $87,577 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, 2026. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amount
2026	$ (50,543)
2027	(120,467)
2028	(73,389)
2029	(57,139)
Total	$ (301,538)

2. Police and Fire Fund Pension Costs

At December 31, 2025, the City reported a liability of $1,618,298 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2025, 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, 2024 through June 30, 2025, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.1381 percent at the end of the measurement period and 0.1351 percent for the beginning of the period.

NOTE 10 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs (Continued)

The State of Minnesota contributed $18 million to the Police and Fire Fund in the plan fiscal year ended June 30, 2025. 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 aid was paid on October 1, 2025. The direct state aid payment will increase by $17.7 million which was paid on October 1, 2025. Thereafter, by October 1 of each year, the state will pay $26.7 million to the Police and Fire Fund until the fund is 110% funded for a minimum of three consecutive years (on an actuarial value of assets basis). The $9 million in supplemental state aid will continue until the fund and the State Patrol Plan (administered by the Minnesota State Retirement System) are 100% funded for three consecutive years (on an actuarial value of assets basis). The State of Minnesota's proportionate share of the net pension liability associated with the City totaled $56,098.

The City's Proportionate Share of the Net Pension Liability	$	1,618,298
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the City		56,098
Total	$	1,674,396

For the year ended December 31, 2025, the City recognized pension expense of $446,327 for its proportionate share of the Police and Fire Plan's pension expense. The City recognized $27,123 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 special funding situation.

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 because this contribution was not considered to meet the definition of a special funding situation. The City recognized $36,878 for the year ended December 31, 2025 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.

NOTE 10 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs (Continued)

At December 31, 2025, 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	$ 747,705	$ -
Effect of Changes in Assumptions	1,227,189	2,027,660
Net Difference Between Projected and Actual Investment Earnings on Plan Investments	-	722,269
Changes in Proportion	209,617	-
Contributions Paid to PERA Subsequent to the Measurement Date	223,597	-
Total	$ 2,408,108	$ 2,749,929

A total of $223,597 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, 2026.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amount
2026	$ 436,848
2027	(304,236)
2028	(743,204)
2029	(6,002)
2030	51,176
Total	$ (565,418)

NOTE 10 DEFINED BENEFIT PENSION PLANS (CONTINUED)

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	100.0 %	

F. Actuarial Methods and Assumptions

The total pension liability for each of the cost-sharing defined benefit plans was determined by an actuarial valuation as of June 30, 2025, using the entry age normal actuarial cost method. The long-term rate of return on pension plan investments used to determine the total liability is 7 percent. The 7 percent assumption is based on a review of inflation and investment return assumptions from a number of national investment consulting firms. The review provided a range of investment return rates considered reasonable by the actuary. An investment return of 7 percent is within that range.

- Inflation is assumed to be 2.25 percent for the General Employees Plan and Police and Fire Plan.
- Benefit increases after retirement are assumed to be 1.50 percent for the General Employees Plan and 1 percent for the Police and Fire Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 11.5 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 10.75 percent after one year of service to 3.0 percent after 23 years of service.

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

NOTE 10 DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. Actuarial Assumptions (Continued)

Actuarial assumptions for the General Employees Plan are reviewed every four years. The General Employees Plan was last reviewed in 2022. The assumption changes were adopted by the board and became effective with the July 1, 2023 actuarial valuation. The Police & Fire were reviewed in 2024. The assumption changes were adopted by the board and became effective with the July 1, 2025 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2025:

General Employees Fund

Changes in Actuarial Assumptions:

- The combined service annuity loading factors increased from 15% to 19% for vested terminated members and from 3% to 44% for non-vested, terminated members.
- The assumed post-retirement benefit increase changed from 1.25% to 1.5%.

Changes in Plan Provisions:

- The post-retirement benefit increase formula changed to 100% of the Social Security annual increase, between 1% and 1.75% , beginning January 1, 2026. If the funded ratio (on a market value of assets basis) is less than 85% for the last two consecutive annual valuations or is less than 80% in the most recent actuarial valuation, the maximum is reduced to 1.5%. Previously, the benefit increase was 50% of the Social Security annual increase, between 1% and 1.5%.
- The 1% additional employer contribution is eliminated when the plan reaches 98% funded status (on an actuarial value of assets basis); this contribution was previously scheduled to stop when the plan reached 100% funded status.

Police and Fire Fund

Changes in Actuarial Assumptions:

- Assumed rates of salary increases were reduced slightly.
- Assumed rates of retirement were adjusted, resulting in an overall increase in unreduced (full) retirements and an overall increase in reduced (early) retirements.
- Assumed rates of withdrawal were modified; the new rates will increase predicted terminations, especially in the first few years of employment.
- Assumed rates of disabled retirement were significantly increased, especially for ages over age 30.
- Continued used of Pub-2010 Public Safety Mortality Table with rates adjusted to better fit observed experience.
- Percent married assumption for female retirees lowered from 70% to 65%.
- Minor changes were made to form of payment assumptions for retirees.
- Minor changes were made to assumptions made with respect to missing participant data.
- The combined service annuity load changed from 33% to 13% for vested, terminated members and from 2% to 38% for non-vested, terminated members.

NOTE 10 DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. Actuarial Assumptions (Continued)

Police and Fire Fund (Continued)

Changes in Plan Provisions:

- The period of time needed for benefit recipients to receive their first benefit increase was reduced by one year (from 36 months to 24 months for a full increase).
- The January 1, 2026 benefit increase changed from 1% to 3%; subsequent January 1 increases will be 1%.
- The threshold to end the $9 million annual state aid contribution changed from the earlier of July 1, 2048 or 90% funded for both PERA Police & Fire and MSRS State Patrol for three consecutive years to 100% funded for both PERA Police & Fire and MSRS State Patrol for three consecutive years (on an actuarial value of assets basis).
- The threshold to end the additional $9 million annual state aid contribution changed from the earlier of July 1, 20248 or 100% funded for a minimum of three consecutive years to 110% funded for a minimum of three consecutive years (on an actuarial value of assets basis).
- An additional $17.7 million in direct state aid will be paid annually each October 1 beginning October 1, 2025 through June 30, 2048.
- Join and survivor actuarial equivalent factors were updated to reflect changes in assumptions.

G. Discount Rate

The discount rate used to measure the total pension liability in 2025 was 7.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees, Police and Fire were projected to be available to make all projected future benefit payments of current plan members. 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.

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 GERF Net Pension Liability	$ 1,952,429	$ 803,851	$ (127,903)

	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	$ 4,240,284	$ 1,618,298	$ (534,766)

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.

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.

NOTE 11 PUBLIC EMPLOYEES DEFINED CONTRIBUTION PLAN (CONTINUED)

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 2025 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rates
$ 1,832	$ 1,832	5%	5%	5%

NOTE 12 VOLUNTEER FIRE DEPARTMENT DEFINED BENEFIT PENSION PLAN

Plan Description

The Hermantown Volunteer Fire Department participates in the Statewide Volunteer Firefighter Retirement Plan (Volunteer Firefighter Plan accounted for in the Volunteer Firefighter Fund), an agent multiemployer lump-sum defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The Volunteer Firefighter Plan covers volunteer firefighters with municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of the December 31, 2024 valuation date, the plan covered 24 active firefighters and 0 vested terminated firefighters whose pension benefits are deferred. The plan is established and administered in accordance with Minnesota Statutes, Chapter 353 G.

Benefits Provided

The Volunteer Firefighter Plan provides retirement, death, and supplemental benefits to covered firefighters and survivors. Benefits are paid based on the number of years of service multiplied by a benefit level approved by the City. Members are eligible for a lump-sum retirement benefit at 50 years of age with either five or ten years of service, depending on the vesting schedule selected. Plan provisions include a pro-rated vesting schedule that increases from 5 years at 40 percent through 20 years at 100 percent.

Contributions

The Volunteer Firefighter Plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in *Minnesota Statutes*, and voluntary City contributions. The State of Minnesota contributed $87,937 in fire state aid to the fund for the year ended December 31, 2024.

NOTE 13 FIRE RELIEF ASSOCIATION

Pension Costs

At December 31, 2025, the City reported a net pension asset of $37,112 for the Volunteer Firefighter Fund. The net pension asset was measured as of December 31, 2024. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the fire department. The following table presents the changes in net pension liability during the year.

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a -b)
Beginning Balance 12/31/23	$ -	$ -	$ -
Changes for the Year:			
Service Cost	47,262	-	47,262
Interest on Pension Liability	3,006	-	3,006
Projected Investment Earnings	-	2,794	(2,794)
Contributions (State)	-	88,664	(88,664)
Asset (Gain) Loss	-	(2,878)	2,878
Benefit Payouts	5,661	5,661	-
Administrative Costs	-	(1,200)	1,200
Net Changes	55,929	93,041	(37,112)
Balance End of Year 12/31/24	$ 55,929	$ 93,041	$ (37,112)

For the year ended December 31, 2025, the City recognized pension expense of $49,250

At December 31, 2025, the City reported deferred inflows of resources and deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	$ -	$ -
Effect of Changes in Assumptions	-	-
Net Difference Between Projected and Actual Investment Earnings on Plan Investments	2,302	-
Changes in Proportion	-	-
Contributions Paid to PERA Subsequent to the Measurement Date	104,299	-
Total	$ 106,601	$ -

NOTE 13 FIRE RELIEF ASSOCIATION (CONTINUED)

Pension Costs (Continued)

The City was not statutorily required to make contributions to the Association subsequent to the measurement date, but it did record the State fire aid as both revenues and expenditures passed through to the Association. Therefore, $104,299 of deferred outflows of resources for contributions subsequent to the measurement date will be recognized as a pension expense in the year ended December 31, 2026. Other amounts reported as deferred outflows and inflows of resources related to the Association's pension will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amount
2026	$ 576
2027	576
2028	576
2029	574
2030	-
Total	$ 2,302

Actuarial Assumptions

The total pension liability at December 31, 2024, was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

- Retirement eligibility at the later of age 50 or when fully vested
- Investment rate of return of 6.0 percent

Discount Rate

The discount rate used to measure the total pension liability was six percent. The projection of cash flows used to determine the discount rate assumed that contributions to the Volunteer Firefighter Fund will be made at a rate equal to the actuarially determined contribution rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability (Asset) Sensitivity

The following presents the City's net pension asset for the Volunteer Firefighter Fund, calculated using the assumed discount rate as well as what the City's net pension asset would be if it were calculated using a discount rate one percent lower or one percent higher than the current discount rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
Discount Rate	5.00%	6.00%	7.00%
City's Proportionate Share of the FRA Net Pension Liability (Asset)	$ (30,776)	$ (37,112)	$ (42,907)

NOTE 13 FIRE RELIEF ASSOCIATION (CONTINUED)

Plan Investments – Investment Policy

The Minnesota State Board of Investment (SBI) is established by Article XI of the Minnesota Constitution to invest all state funds. Its membership as specified in the Constitution is comprised of the governor (who is designated as chair of the board), state auditor, secretary of state and state attorney general.

All investments undertaken by the SBI are governed by the prudent person rule and other standards codified in Minnesota Statutes, Chapter 11A and Chapter 353G.

Within the requirements defined by state law, the SBI, with assistance of the SBI staff and the Investment Advisory Council, establishes investment policy for all funds under its control. These investments policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure and specific performance standards. Studies guide the on-going management of the funds and are updated periodically.

Plan Investments – Asset Allocation

To match the long-term nature of the pension obligations, the SBI maintains a strategic asset allocation for the Volunteer Firefighter Plan that includes allocations to domestic equity, international equity, bonds, and cash equivalents. The long-term target asset allocation and long-term expected real rate of return is the following:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	35.0 %	5.10%
International Equity	15.0	5.30%
Bonds	45.0	0.75%
Unallocated Cash	5.0	0.00%
Total	100.0 %	

The six percent long-term expected rate of return on pension plan investments was determined using a building-block method. Best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using both long-term historical returns and long-term capital market expectations from a number of investment management and consulting organizations. The asset class estimates and the target allocations were then combined to produce a geometric, long-term expected real rate of return for the portfolio. Inflation expectations were applied to derive the nominal rate of return for the portfolio.

Description of Significant Investment Policy Changes

The SBI made no significant changes to their investment policy during fiscal year 2024 for the Volunteer Firefighter Fund.

NOTE 13 FIRE RELIEF ASSOCIATION (CONTINUED)

Plan's Fiduciary Net Position

Detailed information about the Volunteer Firefighter Fund's fiduciary net position as of December 31, 2024, is available in separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained at www.mnpera.org.

NOTE 14 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 42 active plan members and 2 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, 2025 was $1,295,700. The total OPEB liability was measured as of December 31, 2024 and was determined by an actuarial valuation as of December 31, 2024. The total OPEB liability was determined by the use of the alternative measurement method as of that date. The total OPEB liability was determined using the following assumptions and other inputs, applied to all periods in the measurement, unless otherwise specified:

Inflation	2.50% per year
Salary Increases	N/A
Healthcare Cost Trend Rate	Beginning at 8.10% with an ultimate rate of 3.90%
Investment Rate of Return	N/A
Mortality Rate	Pub-2010 Mortality Tables with projected mortality improvements based on scale MP-2021, and other adjustments.

The 4.08% discount rate used to measure the total OPEB liability was determined by the actuary using the Bond-Buyer 20-Bond GO Index rate for 20-year, tax exempt municipal bonds. This rate was updated from the 3.77% used in the prior measurement date.

NOTE 14 POSTEMPLOYMENT HEALTH CARE PLAN (CONTINUED)

OPEB Liability (Continued)

Changes in the total OPEB liability for the year ended December 31, 2025 are as follows:

Beginning Balance	$ 2,110,173
Changes for the Year:	
Service Cost	34,466
Interest	79,832
Differences between Expected and Actual Experience	(874,114)
Changes of Assumptions	(513)
Benefit Payments	(54,144)
Net Changes	(814,473)
Ending Balance	$ 1,295,700

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	5.08%	$ 1,156,870
Current Discount Rate	4.08%	1,295,700
1% Lower	3.08%	1,460,610

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	9.10%	$ 1,461,842
Current Discount Rate	8.10%	1,295,700
1% Lower	7.10%	1,154,638

For the year ended December 31, 2025, the City recognized OPEB expense (benefit) of $(760,329). The City's benefits paid subsequent to the measurement date of $49,918, 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, 2025.

NOTE 15 COMPENSATED ABSENCES

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Upon retirement, in accordance with various employment and union contracts, the value of the qualifying banked sick hours will be submitted as a Health Care Savings Plan (HCSP) contribution to the Minnesota State Retirement System (MSRS) to be used to pay the employee's health insurance premiums. The year-end accrued sick leave and accrued vacation balance increased by $15,453 in the proprietary funds and increased by $69,539 in the governmental funds. As of December 31, 2025, nine 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, 2025, in the amount of $895,186. Any management employee, LELS, Operating Engineers Local No. 49 or AFSCME 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, LELS, and Operating Engineers Local No. 49 and 25% for AFSCMEs, 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. The City paid $17,180 to the MSRS for this employee benefit in 2025.

NOTE 16 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.

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 2025, the City paid the local business $138,733 related to this agreement. As of December 31, 2025, the City's remaining commitment to the local business is $300,680.

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, 2025, the City generated tax increment revenue of $173,946 and made payments of $0, on the note. There is no outstanding balance of this note at year-end.

NOTE 17 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 18 ACCOUNTING CHANGES AND ERROR CORRECTIONS

A. Changes to or within Financial Reporting Entity

Change in Fund Presentation from Nonmajor to Major

The Community Recreation Sales Tax fund previously met the criteria to be reported as a major governmental fund. However, effective January 1, 2025, the fund no longer met the criteria to be reported as a major fund and is reported as a nonmajor governmental fund for the fiscal year ended December 31, 2025. The effect of that change to or within the financial reporting entity is shown in the table below.

	Funds	
	Nonmajor Governmental Funds	Community Recreation Sales Tax Fund
December 31, 2024, As Previously Reported	$ 2,146,833	$ 3,574,563
Adjustment	3,574,563	(3,574,563)
December 31, 2024, As Adjusted	$ 5,721,396	$ -

NOTE 19 CONSTRUCTION COMMITMENTS

At December 31, 2025, the City had construction projects in progress. The commitments related to the remaining contract balances are summarized as follows:

Project	Certified Cost	Incurred to Date	Remaining Committed
Trail - Community Recreation Initiative	$ 2,963,228	$ 439,986	$ 2,523,241
Hockey Arena - Community Recreation Initiative	13,771,410	13,273,081	498,329
Fictner Field - Community Recreation Initiative	4,585,934	4,585,934	-
Total	$ 21,320,572	$ 18,299,001	$ 3,021,571

NOTE 20 CONTINGENCIES

The City participates in various federal and state grant programs, which are subject to program compliance audits. Accordingly, the City compliance with applicable grant requirements will be established at a future date. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the City anticipates such amounts, if any, will be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the City.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HERMANTOWN
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
YEAR ENDED DECEMBER 31, 2025

	Budget Original	Budget Final	Actual	Variance Over (Under)
REVENUES				
Taxes	$ 7,871,730	$ 7,871,730	$ 8,292,786	$ 421,056
Franchise Fees	16,500	16,500	16,500	-
Licenses and Permits	200,000	200,000	408,505	208,505
Intergovernmental	577,833	577,833	938,107	360,274
Charges for Services	125,898	125,898	135,365	9,467
Fines and Forfeitures	44,515	44,515	51,638	7,123
Investment Income	10,000	10,000	343,139	333,139
Miscellaneous	44,441	44,441	94,486	50,045
Total Revenues	8,890,917	8,890,917	10,280,526	1,389,609
EXPENDITURES				
Current:				
General Government	1,458,529	1,458,529	1,430,027	(28,502)
Public Safety	4,711,973	4,911,973	5,005,502	93,529
Streets and Highways	1,077,489	1,077,489	899,053	(178,436)
Community and Economic Development	444,733	444,733	427,963	(16,770)
Culture and Recreation	193,105	193,105	250,416	57,311
Capital Outlay	173,600	438,600	1,283,267	844,667
Contingency	190,588	840,588	-	(840,588)
Debt Service:				
Principal	-	-	2,021	2,021
Total Expenditures	8,250,017	9,365,017	9,298,249	(66,768)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	640,900	(474,100)	982,277	1,456,377
OTHER FINANCING SOURCES (USES)				
Insurance Recoveries	100	100	15,150	15,050
Transfer Out	(641,000)	(641,000)	(646,023)	(5,023)
Sales of Capital Assets	-	-	9,000	9,000
Net Other Financing Sources (Uses)	(640,900)	(640,900)	(621,873)	19,027
NET CHANGE IN FUND BALANCE	$ -	$ (1,115,000)	360,404	$ 1,475,404
Fund Balance - Beginning of Year			8,152,234	
FUND BALANCE - END OF YEAR			$ 8,512,638	

CITY OF HERMANTOWN
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – CITY SALES TAX FUND
YEAR ENDED DECEMBER 31, 2025

	Budget Original	Budget Final	Actual	Variance Over (Under)
REVENUES				
Taxes:				
Sales Taxes	$ 3,700,000	$ 3,700,000	$ 4,150,365	$ 450,365
Investment Income	50,000	50,000	457,160	407,160
Total Revenues	3,750,000	3,750,000	4,607,525	857,525
EXPENDITURES				
Current:				
General Government	-	-	40,246	40,246
Capital Outlay	2,470,000	2,470,000	130,616	(2,339,384)
Total Expenditures	2,470,000	2,470,000	170,862	(2,339,384)
EXCESS OF REVENUES OVER EXPENDITURES	1,280,000	1,280,000	4,436,663	3,196,909
OTHER FINANCING USES				
Transfer Out	(2,475,376)	(2,475,376)	(2,475,376)	-
NET CHANGE IN FUND BALANCE	$ (1,195,376)	$ (1,195,376)	1,961,287	$ 3,196,909
Fund Balance - Beginning of Year			10,122,818	
FUND BALANCE - END OF YEAR			$ 12,084,105	

CITY OF HERMANTOWN
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – ESSENTIAL WELLNESS CENTER PECIAL REVENUE FUND
YEAR ENDED, DECEMBER 31, 2025

	Budget Original	Budget Final	Actual	Variance Over (Under)
REVENUES				
Investment Income	$ -	$ -	$ 33,747	$ 33,747
Charges for Services	334,514	334,514	308,905	(25,609)
Miscellaneous	-	-	182,570	182,570
Total Revenues	334,514	334,514	525,222	190,708
EXPENDITURES				
Current:				
Culture and Recreation	234,514	304,514	316,976	12,462
Capital Outlay	-	-	16,592	16,592
Total Expenditures	234,514	304,514	333,568	29,054
NET CHANGE IN FUND BALANCE	$ 100,000	$ 30,000	191,654	$ 161,654
Fund Balance - Beginning of Year			832,862	
FUND BALANCE - END OF YEAR			$ 1,024,516	

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

Measurement Date	December 31, 2024	December 31, 2023	December 31, 2022	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017
Total OPEB Liability:								
Service Cost	$ 34,466	$ 31,870	$ 56,720	$ 53,440	$ 64,111	$ 51,512	$ 84,347	$ 74,039
Interest	79,832	80,959	32,734	34,185	45,895	51,803	27,530	27,316
Difference Between Expected and Actual Experience	(874,114)	3,203	1,076,825	1,807	295,378	-	435,708	-
Changes in Assumptions	(513)	66,388	(848,421)	38,322	(303,730)	204,459	93,012	34,433
Benefit Payments	(54,144)	(78,709)	(67,369)	(55,208)	(46,067)	(49,434)	(36,958)	(25,701)
Total Changes	(814,473)	103,711	250,489	72,546	55,587	258,340	603,639	110,087
Total OPEB Liability - Beginning	2,110,173	2,006,462	1,755,973	1,683,427	1,627,840	1,369,500	765,861	655,774
Total OPEB Liability - Ending	$ 1,295,700	$ 2,110,173	$ 2,006,462	$ 1,755,973	$ 1,683,427	$ 1,627,840	$ 1,369,500	$ 765,861
Covered Employee Payroll	$ 3,897,595	$ 3,280,431	$ 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	33.2%	64.3%	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, 2024

- The discount rate was changed from 3.77% to 4.08% 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 and new plan offerings.
- Withdrawal, mortality, and salary increase rates were updated from the rates used in the 7/1/2022 PERA General Employees Plan valuation to the rates used in the 2023 experience study.
- The percent of employees currently electing coverage assumed to elect coverage at retirement changed from 30% to 20% to reflect recent plan experience.

Measurement Date: December 31, 2023

- The discount rate was changed from 4.05% to 3.77% based on updated 20-year municipal bond rates.
- There were no changes in demographic and other assumptions.

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

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 July 1, 2020 PERA General Employees Plan and July 1, 2020 PERA Police & Fire Plan valuations to the rates used in the July 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.

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 July 1, 2018 PERA General Employees Plan and July 1, 2018 PERA Police & Fire Plan valuations to the rates used in the July 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, 2025

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, 2025	0.0243%	$ 803,851	$ 19,391	$ 823,242	$ 2,202,893	37.4%	90.8%
June 30, 2024	0.0217%	802,891	20,761	823,652	1,837,120	44.8%	89.1%
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%

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, 2025	$ 167,398	$ 167,398	$ -	$ 2,231,973	7.50%
December 31, 2024	161,793	161,793	-	2,157,240	7.50%
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%

2025 Changes

Changes in Actuarial Assumptions

- The combined service annuity loading factors increased from 15% to 19% for vested terminated members and from 3% to 44% for non-vested, terminated members.
- The assumed post-retirement benefit increase changed from 1.25% to 1.5%.

Changes in Plan Provisions

- The post-retirement benefit increase formula changed to 100% of the Social Security annual increase, between 1% and 1.75% , beginning January 1, 2026. If the funded ratio (on a market value of assets basis) is less than 85% for the last two consecutive annual valuations or is less than 80% in the most recent actuarial valuation, the maximum is reduced to 1.5%. Previously, the benefit increase was 50% of the Social Security annual increase, between 1% and 1.5%.
- The 1% additional employer contribution is eliminated when the plan reaches 98% funded status (on an actuarial value of assets basis); this contribution was previously scheduled to stop when the plan reached 100% funded status.

2024 Changes

Changes in Actuarial Assumptions:

- Rates of merit and seniority were adjusted, resulting in slightly higher rates.
- Assumed rates of retirement were adjusted as follows: increase the rate of assumed unreduced retirements, slight adjustments to Rule of 90 retirement rates, and slight adjustments to early retirement rates for Tier1 and Tier 2 members.
- Minor increase in assumed withdrawals for males and females.
- Lower rates of disability.
- Continued use of Pub-2010 general mortality table with slight rate adjustments as recommended in the most recent experience study.
- Minor changes to form of payment assumptions for male and female retirees.
- Minor changes to assumptions made with respect to missing participant data.

Changes in Plan Provisions:

- The workers' compensation offset for disability benefit was eliminated. The actuarial equivalent factors updated to reflect the changes in assumptions.

2023 Changes

Changes in Actuarial Assumptions:

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

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.

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 percent 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 percent Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100 percent 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 percent for the period July 1, 2020 through December 31, 2023 and 0.0 percent 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 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

Changes in Plan Provisions:

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

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

2016 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

CITY OF HERMANTOWN
INFORMATION ABOUT THE CITY'S NET PENSION LIABILITY (CONTINUED)
YEAR ENDED DECEMBER 31, 2025

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, 2025	0.1381%	$ 1,618,298	$ 56,098	$ 1,674,396	$ 2,094,818	79.9%	91.8%
June 30, 2024	0.1351%	1,776,754	67,729	1,844,483	1,835,159	100.5%	90.2%
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	116.7%	87.2%
June 30, 2019	0.1203%	1,280,715	-	1,280,715	1,298,494	98.6%	89.3%
June 30, 2018	0.1150%	1,225,782	-	1,225,782	1,211,962	101.1%	88.8%
June 30, 2017	0.1210%	1,633,644	-	1,633,644	1,243,764	131.3%	85.4%
June 30, 2016	0.1220%	4,896,072	-	4,896,072	1,151,242	425.3%	63.9%

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, 2025	$ 406,792	$ 406,792	$ -	$ 2,298,260	17.70%
December 31, 2024	367,771	367,771	-	2,077,802	17.70%
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%

2025 Changes

Changes in Actuarial Assumptions

- Assumed rates of salary increases were reduced slightly.
- Assumed rates of retirement were adjusted, resulting in an overall increase in unreduced (full) retirements and an overall increase in reduced (early) retirements.
- Assumed rates of withdrawal were modified; the new rates will increase predicted terminations, especially in the first few years of employment.
- Assumed rates of disabled retirement were significantly increased, especially for ages over age 30.
- Continued used of Pub-2010 Public Safety Mortality Table with rates adjusted to better fit observed experience.
- Percent married assumption for female retirees lowered from 70% to 65%.
- Minor changes were made to form of payment assumptions for retirees.
- Minor changes were made to assumptions made with respect to missing participant data.
- The combined service annuity load changed from 33% to 13% for vested, terminated members and from 2% to 38% for non-vested, terminated members.

Changes in Plan Provisions

- The period of time needed for benefit recipients to receive their first benefit increase was reduced by one year (from 36 months to 24 months for a full increase).
- The January 1, 2026 benefit increase changed from 1% to 3%; subsequent January 1 increases will be 1%.
- The threshold to end the $9 million annual state aid contribution changed from the earlier of July 1, 2048 or 90% funded for both PERA Police & Fire and MSRS State Patrol for three consecutive years to 100% funded for both PERA Police & Fire and MSRS State Patrol for three consecutive years (on an actuarial value of assets basis).
- The threshold to end the additional $9 million annual state aid contribution changed from the earlier of July 1, 20248 or 100% funded for a minimum of three consecutive years to 110% funded for a minimum of three consecutive years (on an actuarial value of assets basis).
- An additional $17.7 million in direct state aid will be paid annually each October 1 beginning October 1, 2025 through June 30, 2048.
- Join and survivor actuarial equivalent factors were updated to reflect changes in assumptions.

2024 Changes

Changes in Actuarial Assumptions:

- There were no changes in actuarial assumptions since the prior valuation.

Changes in Plan Provisions:

- The State contribution of $9.0 million per year will continue until the earlier of 1) both the Police & Fire Plan and the State Patrol Retirement Fund attain 90% funded status for three consecutive years (on an actuarial value of assets basis) or 2) July 1, 2048. The contribution was previously due to expire after attaining a 90% funded status for one year.
- The additional $9.0 million contribution will continue until the Police & Fire Plan is fully funded for a minimum of three consecutive years on an actuarial value of assets basis, or July 1, 2048, whichever is earlier. This contribution was previously due to expire upon attainment of fully funded status on an actuarial value of assets basis for one year (or July 1, 2048 if earlier).

2023 Changes

Changes in Actuarial Assumptions:

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

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.

2022 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

2021 Changes

Changes in Actuarial Assumptions:

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

2021 Changes (Continued)

Changes in Actuarial Assumptions (Continued):

- Assumed percent married for active female members was changed from 60% to 70%. Minor changes to form of payment assumptions were applied.

Changes in Plan Provisions:

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

2020 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

2019 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

2018 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

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 percent lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30 percent for vested and nonvested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent 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 percent 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%.

2017 Changes (Continued)

Changes in Actuarial Assumptions (Continued):

- 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 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.
- The Single Discount Rate was changed from 5.60 percent per annum to 7.50 percent per annum.

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

2016 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

CITY OF HERMANTOWN
SCHEDULE OF CHANGES IN THE HERMANTOWN FIRE RELIEF ASSOCIATION'S NET PENSION LIABILITY (ASSET)
YEAR ENDED DECEMBER 31, 2025

	2024
Total Pension Asset	
Service Cost	$ 47,262
Interest	3,006
Benefit Payments, Including Member Contribution Refunds	5,661
Net Change in Total Pension Liability	55,929
Total Pension Liability - Beginning	-
Total Pension Liability - Ending (a)	55,929
Plan Fiduciary Net Position	
Municipal Contributions - State Aids	88,664
Net Investment Income	(84)
Benefit Payments	5,661
Administrative Expenses	(1,200)
Net Change in Fiduciary Net Position	93,041
Fiduciary Net Position - Beginning	-
Fiduciary Net Position - Ending (b)	93,041
Association's Net Pension Liability/(Asset) - Ending (a) - (b)	$ (37,112)
Fiduciary Net Position as a Percentage of the Total Pension Liability	166.36%
Covered Payroll	N/A
Net Pension Liability/(Asset) as a Percentage of Covered Payroll	N/A

This table will eventually include ten years of activity as information becomes available.

CITY OF HERMANTOWN
SCHEDULE OF CHANGES IN THE HERMANTOWN FIRE RELIEF ASSOCIATION'S NET PENSION LIABILITY (ASSET)
YEAR ENDED DECEMBER 31, 2025

Notes to Schedule of Changes in the Hermantown Fire Relief Association's Net Pension Liability (Asset):

There were no changes in actuarial assumptions or plan provisions in the 2024 valuation.

CITY OF HERMANTOWN
SCHEDULE OF CHANGES IN THE HERMANTOWN FIRE RELIEF ASSOCIATION'S NET PENSION LIABILITY (ASSET)
YEAR ENDED DECEMBER 31, 2025

	2024
Statutorily Required Contribution	$ -
Contributions in Relation to the Statutory Required Contribution	-
Contribution Deficiency (Excess)	$ -

This table will eventually include ten years of activity as information becomes available.

SUPPLEMENTARY INFORMATION

CITY OF HERMANTOWN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2025

	Special Revenue Funds									
	Hermantown Economic Development Authority Fund	Housing Trust Fund	Park Dedication Fund	Hermantown Wetland Mitigation Fund	American Rescue Plan Fund	Police / Fire Program Fund	Cable Television Fund	Soccer Fund	Community Recreation Sales Tax Fund	Total Nonmajor Governmental Funds
ASSETS										
Cash and Investments	$ 1,888,160	$ 41,530	$ 199,014	$ 10,964	$ -	$ 690,198	$ 472,330	$ 73,168	$ 2,678,686	$ 6,054,050
Accounts Receivable	20,458	-	-	-	-	1,151	5,561	-	540,160	567,330
Interest Receivable	7,449	-	-	-	-	-	1,863	-	16,601	25,913
Delinquent Taxes Receivable	2,797	-	-	-	-	-	-	-	-	2,797
Prepaid Items	55	-	-	-	-	-	8	-	-	63
Due from Other Funds	-	-	-	-	-	-	-	-	1,529,178	1,529,178
Total Assets	$ 1,918,919	$ 41,530	$ 199,014	$ 10,964	$ -	$ 691,349	$ 479,762	$ 73,168	$ 4,764,625	$ 8,179,331
LIABILITIES										
Accrued Wages and Related Liabilities	$ 2,255	$ -	$ -	$ -	$ -	$ -	$ 200	$ -	$ -	$ 2,455
Accounts Payable	26,925	18,122	-	-	-	-	242	-	1,650	46,939
Deposits Payable	1,308,927	-	5,000	-	-	-	-	-	-	1,313,927
Total Liabilities	1,338,107	18,122	5,000	-	-	-	442	-	1,650	1,363,321
DEFERRED INFLOWS OF RESOURCES										
Unavailable - Delinquent Property Tax	1,362	-	-	-	-	-	-	-	-	1,362
Deferred Inflows - Other	-	-	-	-	-	-	-	-	183,326	183,326
Total Deferred Inflow of Resources	1,362	-	-	-	-	-	-	-	183,326	184,688
FUND BALANCE (DEFICIT)										
Nonspendable	55	-	-	-	-	-	8	-	-	63
Restricted	-	23,408	66,000	-	-	691,349	-	73,168	4,579,649	5,433,574
Committed	579,395	-	128,014	10,964	-	-	479,312	-	-	1,197,685
Total Fund Balance (Deficit)	579,450	23,408	194,014	10,964	-	691,349	479,320	73,168	4,579,649	6,631,322
Total Liabilities, Deferred Inflows of Resources, and Fund Balance (Deficit)	$ 1,918,919	$ 41,530	$ 199,014	$ 10,964	$ -	$ 691,349	$ 479,762	$ 73,168	$ 4,764,625	$ 8,179,331

CITY OF HERMANTOWN
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2025

	Special Revenue Funds									
	Hermantown Economic Development Authority Fund	Housing Trust Fund	Park Dedication Fund	Hermantown Wetland Mitigation Fund	American Rescue Plan Fund	Police / Fire Program Fund	Cable Television Fund	Soccer Fund	Community Recreation Sales Tax Fund	Total Nonmajor Governmental Funds
REVENUES										
Taxes	$ 165,152	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,075,182	$ 2,240,334
Franchise Fees	-	-	-	-	-	-	24,828	-	-	24,828
Licenses and Permits	-	-	48,450	-	-	-	-	-	-	48,450
Intergovernmental	-	21,531	-	-	-	20,000	-	-	-	41,531
Charges for Services	116,462	-	-	-	-	-	-	-	-	116,462
Fines and Forfeitures	-	-	-	-	-	200	-	-	-	200
Investment Income	78,477	-	-	-	-	-	19,092	-	171,001	268,570
Miscellaneous	23,228	-	900	-	11,680	2,349	-	-	-	38,157
Total Revenues	383,319	21,531	49,350	-	11,680	22,549	43,920	-	2,246,183	2,778,532
EXPENDITURES										
Current:										
General Government	-	-	-	-	-	-	-	-	20,123	20,123
Public Safety	-	-	-	-	-	38,525	-	-	-	38,525
Community and Economic Development	493,487	208,921	-	-	-	-	-	-	-	702,408
Culture and Recreation	-	-	-	-	-	-	24,896	-	-	24,896
Total Expenditures	493,487	208,921	-	-	-	38,525	24,896	-	20,123	785,952
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(110,168)	(187,390)	49,350	-	11,680	(15,976)	19,024	-	2,226,060	1,992,580
OTHER FINANCING SOURCES (USES)										
Transfer In	-	100,000	50,000	-	-	-	-	-	-	150,000
Transfer Out	-	-	-	-	(11,680)	-	-	-	(1,220,974)	(1,232,654)
Net Other Financing Sources (Uses)	-	100,000	50,000	-	(11,680)	-	-	-	(1,220,974)	(1,082,654)
NET CHANGE IN FUND BALANCE	(110,168)	(87,390)	99,350	-	-	(15,976)	19,024	-	1,005,086	909,926
Fund Balance - Beginning of Year	689,618	110,798	94,664	10,964	-	707,325	460,296	73,168	-	2,146,833
Changes to or within Financial Reporting Entity - See Note 17	-	-	-	-	-	-	-	-	3,574,563	3,574,563
Fund Balance - Beginning, As Adjusted	689,618	110,798	94,664	10,964	-	707,325	460,296	73,168	3,574,563	5,721,396
FUND BALANCE - END OF YEAR	$ 579,450	$ 23,408	$ 194,014	$ 10,964	$ -	$ 691,349	$ 479,320	$ 73,168	$ 4,579,649	$ 6,631,322

CITY OF HERMANTOWN
COMBINING BALANCE SHEET
DEBT SERVICE FUND – BY ISSUANCE
DECEMBER 31, 2025

	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 Investments	$ 38,481	$ 251,086	$ 434,961	$ 128,198	$ 617,057	$ 222,184
Interest Receivable	-	-	-	-	-	-
Delinquent Taxes Receivable	7	-	-	-	-	2,468
Special Assessments Receivable	-	130,156	793,577	192,126	-	-
Total Assets	$ 38,488	$ 381,242	$ 1,228,538	$ 320,324	$ 617,057	$ 224,652
DEFERRED INFLOWS OF RESOURCES						
Unavailable Delinquent Property Tax	7	-	-	-	-	1,208
Unavailable Special Assessments	-	130,156	793,578	191,999	-	-
Total Deferred Inflow of Resources	7	130,156	793,578	191,999	-	1,208
FUND BALANCE (DEFICIT)						
Restricted	38,481	251,086	434,960	128,325	617,057	223,444
Committed	-	-	-	-	-	-
Total Fund Balance (Deficit)	38,481	251,086	434,960	128,325	617,057	223,444
Total Liabilities, Deferred Inflows of Resources, and Fund Balance (Deficit)	$ 38,488	$ 381,242	$ 1,228,538	$ 320,324	$ 617,057	$ 224,652

CITY OF HERMANTOWN
COMBINING BALANCE SHEET (CONTINUED)
DEBT SERVICE FUND – BY ISSUANCE
DECEMBER 31, 2025

	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	G.O. Improvement Bonds Series 2024A Fund	G.O. Improvement Bonds Series 2024B Fund	Special Assessment Deficiency Fund	Total Debt Service Fund
ASSETS										
Cash and Investments	$ 594,901	$ 230,715	$ 524,279	$ 119,165	$ 1,628,058	$ 163,735	$ 583,965	$ 476,430	$ 344,745	$ 6,357,960
Interest Receivable	-	-	-	-	-	-	-	-	1,360	1,360
Delinquent Taxes Receivable	861	-	1,066	-	682	1,731	4,353	-	-	11,168
Special Assessments Receivable	-	-	708,952	-	1,147,595	301,770	667,400	-	347,885	4,289,461
Total Assets	$ 595,762	$ 230,715	$ 1,234,297	$ 119,165	$ 2,776,335	$ 467,236	$ 1,255,718	$ 476,430	$ 693,990	$ 10,659,949
DEFERRED INFLOWS OF RESOURCES										
Unavailable Delinquent Property Tax	424	-	-	-	-	-	-	-	-	1,639
Unavailable Special Assessments	-	-	708,539	-	1,143,909	302,618	669,140	-	347,884	4,287,823
Total Deferred Inflow of Resources	424	-	708,539	-	1,143,909	302,618	669,140	-	347,884	4,289,462
FUND BALANCE (DEFICIT)										
Restricted	595,338	230,715	525,758	119,165	1,632,426	164,618	586,578	476,430	-	6,024,381
Committed	-	-	-	-	-	-	-	-	346,106	346,106
Total Fund Balance (Deficit)	595,338	230,715	525,758	119,165	1,632,426	164,618	586,578	476,430	346,106	6,370,487
Total Liabilities, Deferred Inflows of Resources, and Fund Balance (Deficit)	$ 595,762	$ 230,715	$ 1,234,297	$ 119,165	$ 2,776,335	$ 467,236	$ 1,255,718	$ 476,430	$ 693,990	$ 10,659,949

CITY OF HERMANTOWN
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
DEBT SERVICE FUND – BY ISSUANCE
YEAR ENDED DECEMBER 31, 2025

	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
REVENUES						
Taxes	$ 17	$ -	$ -	$ 110	$ -	$ 144,973
Special Assessments	-	47,601	75,990	24,292	-	-
Charges for Services	-	-	-	-	-	-
Investment Income	-	-	-	-	-	-
Total Revenues	17	47,601	75,990	24,402	-	144,973
EXPENDITURES						
Current:						
General Government	-	-	-	-	-	-
Debt Service:						
Principal	-	180,000	115,000	355,000	595,000	85,000
Interest and Fiscal Charges	-	7,323	14,037	17,863	28,039	50,314
Total Expenditures	-	187,323	129,037	372,863	623,039	135,314
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	17	(139,722)	(53,047)	(348,461)	(623,039)	9,659
OTHER FINANCING SOURCES (USES)						
Transfer In	-	97,540	65,000	217,723	698,807	-
Transfer Out	-	-	-	-	-	-
Net Other Financing Sources (Uses)	-	97,540	65,000	217,723	698,807	-
NET CHANGE IN FUND BALANCE	17	(42,182)	11,953	(130,738)	75,768	9,659
Fund Balance - Beginning of Year	38,464	293,268	423,007	259,063	541,289	213,785
FUND BALANCE - END OF YEAR	$ 38,481	$ 251,086	$ 434,960	$ 128,325	$ 617,057	$ 223,444

CITY OF HERMANTOWN
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES (CONTINUED)
DEBT SERVICE FUND – BY ISSUANCE
YEAR ENDED DECEMBER 31, 2025

	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	G.O. Improvement Bonds Series 2024A Fund	G.O. Improvement Bonds Series 2024B Fund	Special Assessment Deficiency Fund	Total Debt Service Fund
REVENUES										
Taxes	$ 50,255	$ -	$ 62,734	$ -	$ 39,984	$ 101,524	$ 301,194	$ -	$ -	$ 700,791
Special Assessments	-	-	100,580	-	145,242	39,750	272,600	-	15,523	721,578
Charges for Services	-	-	-	-	-	-	750,000	-	-	750,000
Investment Income	-	-	-	-	-	-	-	-	13,891	13,891
Total Revenues	50,255	-	163,314	-	185,226	141,274	1,323,794	-	29,414	2,186,260
EXPENDITURES										
Current:										
General Government	-	-	-	-	-	-	-	-	590	590
Debt Service:										
Principal	330,000	370,000	170,000	205,000	265,000	70,000	-	-	-	2,740,000
Interest and Fiscal Charges	207,888	240,845	51,313	74,139	52,817	65,062	453,350	588,519	-	1,851,509
Total Expenditures	537,888	610,845	221,313	279,139	317,817	135,062	453,350	588,519	590	4,592,099
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(487,633)	(610,845)	(57,999)	(279,139)	(132,591)	6,212	870,444	(588,519)	28,824	(2,405,839)
OTHER FINANCING SOURCES (USES)										
Transfer In	517,191	651,820	40,110	291,112	18,790	-	330,698	890,276	-	3,819,067
Transfer Out	-	-	-	-	-	-	(750,000)	(150,000)	-	(900,000)
Net Other Financing Sources (Uses)	517,191	651,820	40,110	291,112	18,790	-	(419,302)	740,276	-	2,919,067
NET CHANGE IN FUND BALANCE	29,558	40,975	(17,889)	11,973	(113,801)	6,212	451,142	151,757	28,824	513,228
Fund Balance - Beginning of Year	565,780	189,740	543,647	107,192	1,746,227	158,406	135,436	324,673	317,282	5,857,259
FUND BALANCE - END OF YEAR	$ 595,338	$ 230,715	$ 525,758	$ 119,165	$ 1,632,426	$ 164,618	$ 586,578	$ 476,430	$ 346,106	$ 6,370,487

CITY OF HERMANTOWN
COMBINING BALANCE SHEET
CAPITAL PROJECT FUND – BY PROJECT
DECEMBER 31, 2025

	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 Investments	$ 1,390,859	$ 303,224	$ 277,871	$ -	$ 1,980,869
Accounts Receivable	-	-	-	-	15,980
Contracts Receivable	-	-	-	-	2,652,273
Due from Other Governments	-	-	-	-	123,716
Special Assessments Receivable	-	-	-	-	-
Total Assets	$ 1,390,859	$ 303,224	$ 277,871	$ -	$ 4,772,838
LIABILITIES					
Accounts Payable	$ 7,966	$ 7,650	$ -	$ 61,487	$ 1,400,277
Due to Other Funds	-	-	-	1,529,178	-
Advance from Other Funds	-	-	-	-	-
Unearned Revenue	-	-	-	-	75,000
Total Liabilities	7,966	7,650	-	1,590,665	1,475,277
DEFERRED INFLOWS OF RESOURCES					
Unavailable Special Assessments	-	-	-	-	-
Unavailable Naming Rights	-	-	-	-	1,050,000
Unavailable Revenue - Other	-	-	-	-	1,725,989
Total Deferred Inflow of Resources	-	-	-	-	2,775,989
FUND BALANCE (DEFICIT)					
Assigned	1,382,893	295,574	277,871	-	521,572
Unassigned (Deficit)	-	-	-	(1,590,665)	-
Total Fund Balance (Deficit)	1,382,893	295,574	277,871	(1,590,665)	521,572
Total Liabilities, Deferred Inflows of Resources, and Fund Balance (Deficit)	$ 1,390,859	$ 303,224	$ 277,871	$ -	$ 4,772,838

CITY OF HERMANTOWN
COMBINING BALANCE SHEET
CAPITAL PROJECT FUND – BY PROJECT (CONTINUED)
DECEMBER 31, 2025

	Capital Project Funds						
	Fichtner Field	TIF District 1 Improvement Fund	HEDA Fleet Projects Fund	Municipal State Aid Streets Fund	Special Assessment Projects Fund	Pillars Abatement Fund	Total Capital Project Fund
ASSETS							
Cash and Investments	$ -	$ 46,422	$ 100,484	$ -	$ 1,269,341	$ 330	$ 5,369,400
Accounts Receivable	-	-	-	-	-	-	15,980
Contracts Receivable	-	-	-	-	-	-	2,652,273
Due from Other Governments	-	-	-	-	-	-	123,716
Special Assessments Receivable	-	-	-	-	626,514	-	626,514
Total Assets	$ -	$ 46,422	$ 100,484	$ -	$ 1,895,855	$ 330	$ 8,787,883
LIABILITIES							
Accounts Payable	$ -	$ -	$ -	$ -	$ 46,219	$ 1,068	$ 1,524,667
Due to Other Funds	577,457	-	-	-	-	-	2,106,635
Advance from Other Funds	-	450,000	-	-	-	-	450,000
Unearned Revenue	-	-	-	-	-	-	75,000
Total Liabilities	577,457	450,000	-	-	46,219	1,068	4,156,302
DEFERRED INFLOWS OF RESOURCES							
Unavailable Special Assessments	-	-	-	-	624,616	-	624,616
Unavailable Naming Rights	-	-	-	-	-	-	1,050,000
Unavailable Revenue - Other	-	-	-	653,262	-	-	2,379,251
Total Deferred Inflow of Resources	-	-	-	653,262	624,616	-	4,053,867
FUND BALANCE (DEFICIT)							
Assigned	-	-	100,484	-	1,225,020	-	3,803,414
Unassigned (Deficit)	(577,457)	(403,578)	-	(653,262)	-	(738)	(3,225,700)
Total Fund Balance (Deficit)	(577,457)	(403,578)	100,484	(653,262)	1,225,020	(738)	577,714
Total Liabilities, Deferred Inflows of Resources, and Fund Balance (Deficit)	$ -	$ 46,422	$ 100,484	$ -	$ 1,895,855	$ 330	$ 8,787,883

CITY OF HERMANTOWN
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
CAPITAL PROJECT FUND – BY PROJECT
YEAR ENDED DECEMBER 31, 2025

	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	-	-	-	-	7,351,284
Charges for Services	-	-	-	-	150,000
Investment Income	-	-	-	-	182,058
Miscellaneous	-	-	-	-	9,161
Total Revenues	-	-	-	-	7,692,503
EXPENDITURES					
Current:					
General Government	-	7,650	-	-	-
Development	-	-	-	79,225	-
Capital Outlay	422,096	-	-	723,522	16,875,605
Debt Service:					
Principal	58,546	-	-	-	-
Interest and Fiscal Charges	-	-	-	-	11,004
Total Expenditures	480,642	7,650	-	802,747	16,886,609
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(480,642)	(7,650)	-	(802,747)	(9,194,106)
OTHER FINANCING SOURCES (USES)					
Transfer In	685,000	50,000	-	-	150,000
NET CHANGE IN FUND BALANCE	204,358	42,350	-	(802,747)	(9,044,106)
Fund Balance (Deficit) - Beginning of Year	1,178,535	253,224	277,871	(787,918)	9,565,678
FUND BALANCE (DEFICIT) - END OF YEAR	$ 1,382,893	$ 295,574	$ 277,871	$ (1,590,665)	$ 521,572

CITY OF HERMANTOWN
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES (CONTINUED)
CAPITAL PROJECT FUND – BY PROJECT
YEAR ENDED DECEMBER 31, 2025

	Capital Project Funds						
	Fichtner Field	TIF District 1 Improvement Fund	HEDA Fleet Projects Fund	Municipal State Aid Streets Fund	Special Assessment Projects Fund	Pillars Abatement Fund	Total Capital Project Fund
REVENUES							
Taxes	$ -	$ 173,319	$ 138,733	$ -	$ -	$ 95,823	$ 407,875
Special Assessments	-	-	-	-	64,169	-	64,169
Intergovernmental	-	-	-	(496,229)	37,500	-	6,892,555
Charges for Services	-	-	-	-	-	-	150,000
Investment Income	24,173	-	-	-	20,593	-	226,824
Miscellaneous	798	-	-	-	-	-	9,959
Total Revenues	24,971	173,319	138,733	(496,229)	122,262	95,823	7,751,382
EXPENDITURES							
Current:							
General Government	-	-	-	-	-	-	7,650
Development	-	14,454	18,449	-	-	96,561	208,689
Capital Outlay	436,228	28,055	120,284	2,790	484,512	-	19,093,092
Debt Service:							
Principal	-	-	-	-	-	-	58,546
Interest and Fiscal Charges	1,325	18,000	-	-	1,128	-	31,457
Total Expenditures	437,553	60,509	138,733	2,790	485,640	96,561	19,399,434
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(412,582)	112,810	-	(499,019)	(363,378)	(738)	(11,648,052)
OTHER FINANCING SOURCES (USES)							
Transfer In	1,041,780	-	-	5,023	767,944	-	2,699,747
NET CHANGE IN FUND BALANCE	629,198	112,810	-	(493,996)	404,566	(738)	(8,948,305)
Fund Balance (Deficit) - Beginning of Year	(1,206,655)	(516,388)	100,484	(159,266)	820,454	-	9,526,019
FUND BALANCE (DEFICIT) - END OF YEAR	$ (577,457)	$ (403,578)	$ 100,484	$ (653,262)	$ 1,225,020	$ (738)	$ 577,714

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 Mayor and Members of the 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, 2025, 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 28, 2026.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified.

We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2025-001 that we consider to be a material weakness.

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.

City of Hermantown's Response to Finding

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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

CliftonLarsonAllen LLP

Minneapolis, Minnesota
May 28, 2026

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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable City Council
City of Hermantown
Hermantown, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to 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, 2025, 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 28, 2026.

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

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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
May 28, 2026

CITY OF HERMANTOWN
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2025

Section I – Financial Statement Findings

Finding 2025-001: Financial Statement Preparation

Material Weakness in Internal Control over Financial Reporting

Criteria: Management is responsible for establishing and maintaining internal control over financial reporting, including controls to ensure the financial statements are complete, accurate, and in accordance with accounting principles generally accepted in the United States of America (GAAP). This includes a sufficiently detailed review of financial statements and disclosures, even when external assistance is utilized.

Condition: During our audit, we noted that the City does not have effective internal controls in place over the review of the annual financial statements and related disclosures. While the financial statements were prepared with the assistance of the external auditors, management's review was not performed at a level of precision sufficient to identify material misstatements and omissions. As a result, material errors were identified during the audit that required correction and reissuance of the financial statements.

Cause: The deficiency is due to limited internal resources and expertise to perform a detailed and effective review of financial statements in accordance with GAAP, particularly for complex disclosures and reporting requirements.

Effect: Due to the lack of an effective review control, there is a reasonable possibility that material misstatements in the financial statements may occur and not be prevented, or detected and corrected, on a timely basis.

Recommendation: We recommend that management enhance its internal control structure over financial reporting by implementing a more robust and detailed review process over the financial statements and related disclosures. This should include the use of a comprehensive disclosure checklist to ensure completeness and accuracy, as well as assigning review responsibilities to personnel with sufficient knowledge and training in GAAP.

Views of Responsible Officials: Management agrees with the finding and acknowledges the importance of strengthening the review process over financial statements and disclosures.

Corrective Action Plan: Management agrees with the finding and plans to strengthen internal controls over financial reporting by establishing a formal, documented review process for the annual financial statements and disclosures, including the use of a disclosure checklist to support completeness and accuracy.

Section II – Minnesota Legal Compliance

Our audit did not disclose any matters required to be reported in accordance with Minnesota statues.