

Management Report

for

City of Plymouth  
Hennepin County, Minnesota

December 31, 2020

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PRINCIPALS

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To the City Council and Management  
City of Plymouth, Minnesota

We have prepared this management report in conjunction with our audit of the City of Plymouth, Minnesota's (the City) financial statements for the year ended December 31, 2020. We have organized this report into the following sections:

- Audit Summary
- Governmental Funds Overview
- Enterprise Funds Overview
- Government-Wide Financial Statements
- Legislative Updates
- Accounting and Auditing Updates

We would be pleased to further discuss any of the information contained in this report or any other concerns that you would like us to address. We would also like to express our thanks for the courtesy and assistance extended to us during the course of our audit.

The purpose of this report is solely to provide those charged with governance of the City, management, and those who have responsibility for oversight of the financial reporting process comments resulting from our audit process and information relevant to city finances in Minnesota. Accordingly, this report is not suitable for any other purpose.

*Malloy, Montague, Karnowski, Radosevich & Co., P.A.*

Minneapolis, Minnesota  
June 21, 2021

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## AUDIT SUMMARY

The following is a summary of our audit work, key conclusions, and other information that we consider important or that is required to be communicated to the City Council, administration, or those charged with governance of the City.

### **OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, *GOVERNMENT AUDITING STANDARDS*, AND TITLE 2 U.S. CODE OF FEDERAL REGULATIONS (CFR) PART 200, *UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS (UNIFORM GUIDANCE)***

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2020. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally and in our audit engagement letter. Professional standards also require that we communicate the following information related to our audit.

### **PLANNED SCOPE AND TIMING OF THE AUDIT**

We performed the audit according to the planned scope and timing previously discussed and coordinated in order to obtain sufficient audit evidence and complete an effective audit.

### **AUDIT OPINION AND FINDINGS**

Based on our audit of the City's financial statements for the year ended December 31, 2020:

- We have issued an unmodified opinion on the City's basic financial statements.
- We reported no deficiencies in the City's internal control over financial reporting that we considered to be material weaknesses. It should be understood that internal controls are never perfected, and those controls which protect the City's funds from such things as fraud and accounting errors need to be continually reviewed and modified as necessary.
- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*.
- We reported that the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements.
- The results of our tests indicate that the City has complied, in all material respects, with the types of compliance requirements that could have a direct and material effect on each of its major federal programs.
- We reported no deficiencies in the City's internal controls over compliance that we considered to be material weaknesses with the types of compliance requirements that could have a direct and material effect on each of its major federal programs.
- We reported no findings based on our testing of the City's compliance with Minnesota laws and regulations.

## OTHER OBSERVATIONS AND RECOMMENDATIONS

### Electronic Funds Transfers Fraud

As the use of electronic funds transfers and payment methods has become more prevalent, we have seen increases in both the incidences of fraud related to these transactions and the dollar amounts involved. Operational changes related to the COVID-19 pandemic, including greater reliance on technology and more employees working remotely, have tended to increase risk in this area. We urge cities to carefully review controls over these transactions, and consider best practices to address these risks, such as:

- Ensuring segregation of duties over these transactions by involving more than one employee in the process.
- Requiring multi-factor authentication of requests for electronic payments from new vendors or for changes in wiring instructions for existing vendors. It is recommended that changes for existing vendors be verified through trusted contact information used previously for that vendor, not as provided in the change request, to verify the accuracy of the change.
- Educate employees on the controls in place to protect the organization's financial assets and ensure management is supportive and accepting of the processes in place. Attempted fraudulent transactions are often initiated using the profile of a supervisor. Employees must be comfortable questioning unusual transactions or requests, and instructed not to circumvent internal control procedures regardless of whom they believe initiated the transaction.
- Recommended cyber security measures, such as limiting network access and requiring robust passwords that are changed regularly, should be implemented and followed by all city employees, not just those directly involved with financial transactions.
- Review insurance policies to understand the coverage provided for financial losses due to cybersecurity risks and evaluate whether they provide adequate coverage based on management's assessment of these risks.

### Uniform Guidance Written Controls and Micro-Purchase Threshold

Federal Uniform Guidance requires that nonfederal entities must have and use documented procurement procedures consistent with 2CFR § 200.317-320 for the acquisition of property or services required under a federal award or subaward. Effective August 31, 2020, the federal micro-purchase threshold, which is the threshold that allows for procurements without soliciting competitive price or rate quotations given certain conditions, was increased from \$3,500 to \$10,000 in the Federal Acquisition Regulations (FAR).

Effective November 12, 2020, the Uniform Guidance was also revised to allow nonfederal entities to establish a micro-purchase threshold higher than the \$10,000 threshold established in the FAR under certain circumstances. The nonfederal entity may self-certify a micro-purchase threshold up to \$50,000 if the requirements in 2CFR § 200.320(a)(1)(iv) are followed. Requirements include an *annual* self-certification and clear documentation of the justification to support the increase in the threshold. Acceptable reasons for justification must meet *one* of the following criteria:

- A qualification as a low-risk auditee, in accordance with the criteria in §200.520 for the most recent audit,
- An annual internal institutional risk assessment to identify, mitigate, and manage financial risks, or,
- A higher threshold consistent with state law.

This flexibility would allow Minnesota local governments to increase and align their federal procurement procedures, specifically the micro-purchase threshold, with state law, which allows for procurements below \$25,000 to be made without competitive price or rate quotations.

We recommend that the City review its current federal procurement policy. If the micro-purchase threshold in your currently adopted policy is below the allowable FAR limit of \$10,000, you would need to make a one-time amendment to the policy to adopt the \$10,000 FAR limit before using it. If you prefer to increase your federal micro-purchase threshold to \$25,000 to align it with state law, in addition to amending your federal procurement policy, you would need to annually certify the higher threshold and the justification for using the higher threshold.

### **SIGNIFICANT ACCOUNTING POLICIES**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 of the notes to basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2020.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

### **ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- **Depreciation** – Management's estimates of depreciation expense are based on the estimated useful lives of the assets.
- **Total Other Post-Employment Benefits (OPEB) and Net Pension Liabilities** – The City has recorded liabilities and activity for OPEB and pension benefits. These obligations are calculated using actuarial methodologies described in the Governmental Accounting Standards Board Statement Nos. 68 and 75. These actuarial calculations include significant assumptions, including projected changes, healthcare insurance costs, investment returns, retirement ages, proportionate share, and employee turnover.
- **Compensated Absences** – Management's estimate is based on current rates of pay, compensated absence balances, and the likelihood that sick leave will ultimately be paid at termination.
- **Self-Insurance Reserves** – Management's estimates of self-insurance reserves are based on the estimated liability for incurred but not reported claims.

We evaluated the key factors and assumptions used by management to develop these estimates in determining that they are reasonable in relation to the basic financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The disclosures included in the notes to the basic financial statements related pension benefits are particularly sensitive, due to the materiality of the liabilities, and the large and complex estimates involved in determining the disclosures.

The financial statement disclosures are neutral, consistent, and clear.

## **CORRECTED AND UNCORRECTED MISSTATEMENTS**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no misstatements detected as a result of audit procedures that were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

## **DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

## **DISAGREEMENTS WITH MANAGEMENT**

For purposes of this report, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

## **MANAGEMENT REPRESENTATIONS**

We have requested certain representations from management that are included in the management representation letter dated June 21, 2021.

## **MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

## **OTHER AUDIT FINDINGS OR ISSUES**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.



## **OTHER MATTERS**

We applied certain limited procedures to the management's discussion and analysis (MD&A) and the pension and OPEB-related required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information accompanying the financial statements and the separately issued Schedule of Expenditures of Federal Awards, which are not RSI. With respect to this information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information and Schedule of Expenditures of Federal Awards to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory section and the statistical section, which accompany the financial statements, but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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## GOVERNMENTAL FUNDS OVERVIEW

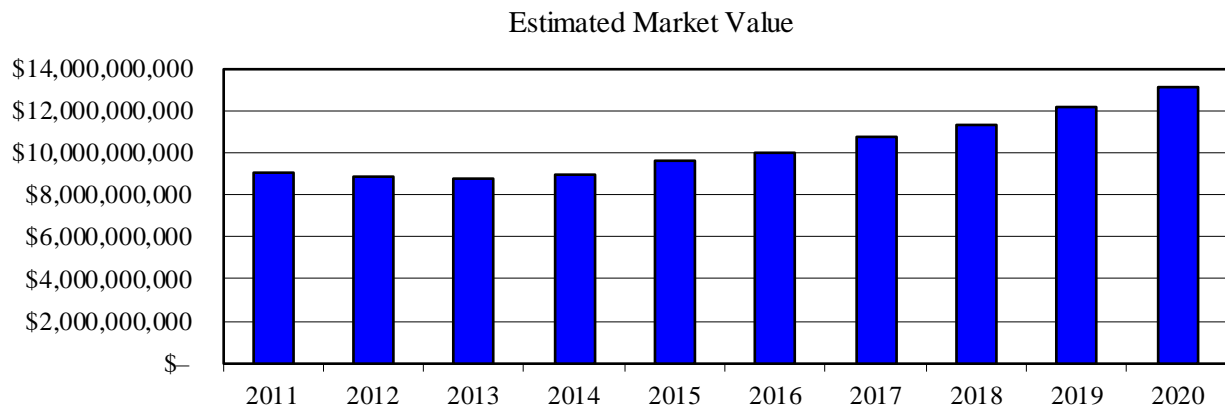
This section of the report provides you with an overview of the financial trends and activities of the City's governmental funds, which includes the General, special revenue, debt service, and capital project funds. These funds are used to account for the basic services the City provides to all of its citizens, which are financed primarily with property taxes. The governmental fund information in the City's financial statements focuses on budgetary compliance and the sufficiency of each governmental fund's current assets to finance its current liabilities.

### PROPERTY TAXES

Minnesota cities rely heavily on local property tax levies to support their governmental fund activities. For the 2019 fiscal year, local ad valorem property tax levies provided 40.8 percent of the total governmental fund revenues for cities over 2,500 in population, and 37.6 percent for cities under 2,500 in population. Total property taxes levied by all Minnesota cities for taxes payable in 2020 increased 6.1 percent from the prior year.

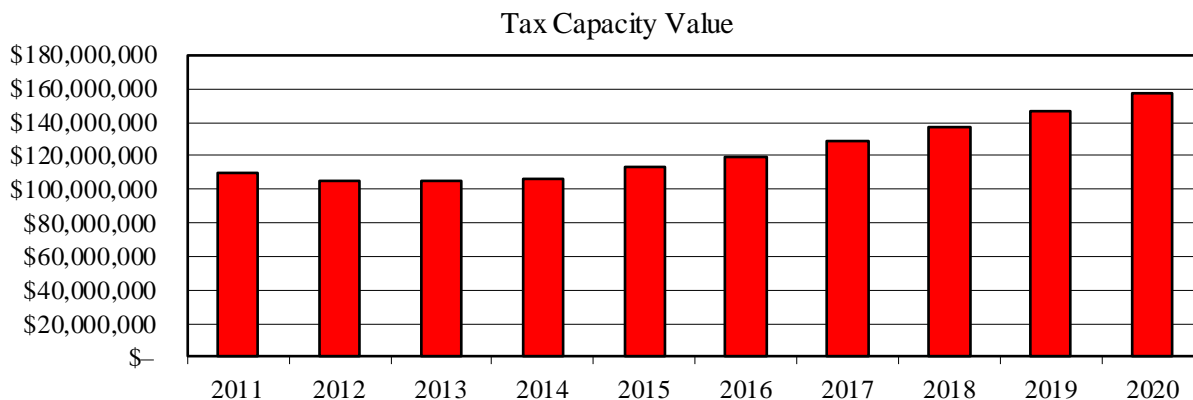
The total tax capacity value of property in Minnesota cities increased about 6.5 percent for the 2020 levy year. The tax capacity values used for levying property taxes are based on the assessed market values for the previous fiscal year (e.g., tax capacity values for taxes levied in 2020 were based on assessed market values as of January 1, 2019), so the trend of change in these tax capacity values lags somewhat behind the housing market and economy in general.

The City's estimated market value increased 7.7 percent for taxes payable in 2019 and 7.1 percent for taxes payable in 2020. The following graph shows the City's changes in estimated market value over the past 10 years:



Tax capacity is considered the actual base available for taxation. It is calculated by applying the state’s property classification system to each property’s market value. Each property classification, such as commercial or residential, has a different calculation and uses different rates. Consequently, a city’s total tax capacity will change at a different rate than its total market value, as tax capacity is affected by the proportion of the tax base that is in each property classification from year-to-year, as well as legislative changes to tax rates. The City’s tax capacity increased 7.4 percent for 2019 and 7.6 percent for 2020.

The following graph shows the City’s change in tax capacities over the past 10 years:



The following table presents the average tax rates applied to city residents for each of the last three levy years:

<b>Rates Expressed as a Percentage of Net Tax Capacity</b>			
	City of Plymouth		
	2018	2019	2020
<b>Average tax rate</b>			
City	26.3	25.9	25.8
County	42.8	41.9	41.1
School	25.5	24.8	26.7
Special taxing	10.3	9.9	9.5
<b>Total</b>	<u>104.9</u>	<u>102.5</u>	<u>103.1</u>

An increase in the school portion contributed to the change in the total average tax rate as presented in the above table.

Note: The school tax rate is based on Wayzata School’s (District No. 284) tax rate and the special taxing rate uses the Bassett Creek Watershed (District No. 7), due to these two districts servicing the majority of the City.

## GOVERNMENTAL FUND BALANCES

The following table summarizes the changes in the fund balances of the City's governmental funds during the year ended December 31, 2020, presented both by fund balance classification and by fund:

<b>Governmental Funds Change in Fund Balance</b>			
	Fund Balance as of December 31,		Change
	<u>2020</u>	<u>2019</u>	
Fund balances of governmental funds			
Total by classification			
Nonspendable	\$ 207,877	\$ 531,278	\$ (323,401)
Restricted	60,937,292	24,035,958	36,901,334
Assigned	42,598,230	39,312,827	3,285,403
Unassigned	<u>17,756,980</u>	<u>6,585,948</u>	<u>11,171,032</u>
Total governmental funds	<u>\$ 121,500,379</u>	<u>\$ 70,466,011</u>	<u>\$ 51,034,368</u>
Total by fund			
General	\$ 17,963,867	\$ 17,416,322	\$ 547,545
Transit System	13,131,668	10,554,889	2,576,779
General Capital Projects	8,308,491	6,210,470	2,098,021
Improvement Projects	2,410,716	(10,226,645)	12,637,361
Street Replacement	16,135,749	18,434,164	(2,298,415)
Plymouth Creek Center Expansion	34,347,131	-	34,347,131
Tax Increment Project	4,586,022	3,514,252	1,071,770
Nonmajor funds	<u>24,616,735</u>	<u>24,562,559</u>	<u>54,176</u>
Total governmental funds	<u>\$ 121,500,379</u>	<u>\$ 70,466,011</u>	<u>\$ 51,034,368</u>

In total, the fund balances of the City's governmental funds increased \$51,034,368 during the year ended December 31, 2020.

The increase in the current year was primarily in the Plymouth Creek Center Expansion Fund, with an increase in restricted amounts. The City issued bonds for the Plymouth Creek Center expansion, which are restricted for future construction costs. Other increases were due to the City recognizing funds for costs incurred for the I-494 Rockford Road bridge replacement project.

## GOVERNMENTAL FUND REVENUES

The following table presents the per capita revenue of the City’s governmental funds for the past three years, along with state-wide averages.

We have included the most recent comparative state-wide averages available from the Office of the State Auditor to provide a benchmark for interpreting the City’s data. The amounts received from the typical major sources of governmental fund revenue will naturally vary between cities based on factors such as a city’s stage of development, location, size and density of its population, property values, services it provides, and other attributes. It will also differ from year-to-year, due to the effect of inflation and changes in its operation. Also, certain data in these tables may be classified differently than how they appear in the City’s financial statements in order to be more comparable to the state-wide information, particularly in separating capital expenditures from current expenditures.

We have designed this section of our management report using per capita data in order to better identify unique or unusual trends and activities of the City. We intend for this type of comparative and trend information to complement, rather than duplicate, information in the MD&A. An inherent difficulty in presenting per capita information is the accuracy of the population count, which for most years is based on estimates.

<b>Governmental Funds Revenue per Capita</b>					
With State-Wide Averages by Population Class					
Year Population	State-Wide		City of Plymouth		
	2018	2019	2018	2019	2020
	20,000–100,000	20,000–100,000	78,351	79,475	79,650
Property taxes	\$ 493	\$ 512	\$ 427	\$ 441	\$ 476
Tax increments	43	44	25	24	26
Franchise fees and other taxes	50	50	29	30	32
Special assessments	57	53	–	–	1
Licenses and permits	47	51	58	64	52
Intergovernmental revenues	157	201	138	157	386
Charges for services	112	115	74	78	54
Other	49	79	67	71	57
Total revenue	<u>\$ 1,008</u>	<u>\$ 1,105</u>	<u>\$ 818</u>	<u>\$ 865</u>	<u>\$ 1,084</u>

The City’s governmental funds have typically generated less revenue per capita in total than other Minnesota cities in its population class. A city’s stage of development, along with the way a city finances various capital projects, will impact the mix of revenue sources. The City has less special assessment revenue than the state-wide average, which is due to the way the City finances certain capital projects and, therefore, is not included in the funds presented in the above table.

Total revenues for the City’s governmental funds for 2020 were \$86,238,904, an increase of \$17,488,360 (25.4 percent) from the prior year. On a per capita basis, the City’s governmental funds revenue for 2020 was \$1,084, an increase of \$219 from the prior year, including the effect of a change in estimated population. The most significant change was in intergovernmental revenues, which were \$229 per capita more than the prior year. In 2020, the City received approximately \$5.9 million in coronavirus relief funding, due to the COVID-19 pandemic. Intergovernmental funding was also up over the prior year with additional funding recognized from other governments on the I-494 Rockford Road bridge replacement project.

## GOVERNMENTAL FUND EXPENDITURES

The expenditures of governmental funds will also vary from state-wide averages and from year-to-year, based on the City's circumstances. Expenditures are classified into three types as follows:

- **Current** – These are typically the general operating type expenditures occurring on an annual basis, and are primarily funded by general sources, such as taxes and intergovernmental revenues.
- **Capital Outlay and Construction** – These expenditures do not occur on a consistent basis, more typically fluctuating significantly from year-to-year. Many of these expenditures are project-oriented, and are often funded by specific sources that have benefited from the expenditure, such as special assessment improvement projects.
- **Debt Service** – Although the expenditures for debt service may be relatively consistent over the term of the respective debt, the funding source is the important factor. Some debt may be repaid through specific sources, such as special assessments or redevelopment funding, while other debt may be repaid with general property taxes.

The City's expenditures per capita of its governmental funds for the past three years, together with the state-wide averages, are presented in the following table:

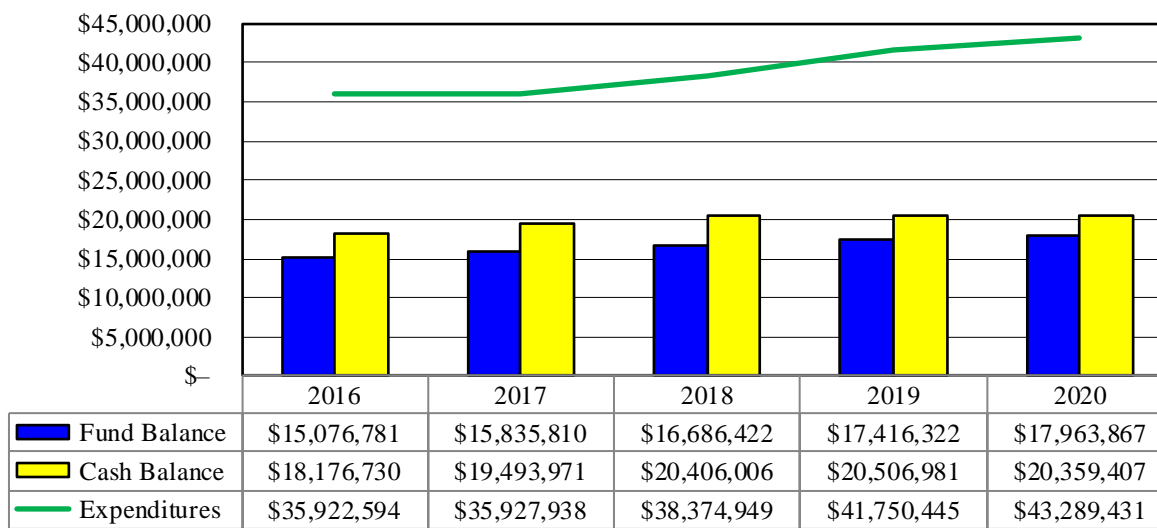
<b>Governmental Funds Expenditures per Capita</b> With State-Wide Averages by Population Class					
Year	State-Wide		City of Plymouth		
	2018 20,000–100,000	2019 20,000–100,000	2018 78,351	2019 79,475	2020 79,650
<b>Current</b>					
General government	\$ 104	\$ 107	\$ 86	\$ 86	\$ 92
Public safety	294	306	256	269	279
Streets and highways	106	119	77	261	96
Culture and recreation	104	106	105	107	106
All other	78	97	80	93	83
	<u>686</u>	<u>735</u>	<u>604</u>	<u>816</u>	<u>656</u>
Capital outlay and construction	307	355	212	166	344
<b>Debt service</b>					
Principal	109	88	13	13	31
Interest and fiscal	29	28	4	3	6
	<u>138</u>	<u>116</u>	<u>17</u>	<u>16</u>	<u>37</u>
Total expenditures	<u>\$ 1,131</u>	<u>\$ 1,206</u>	<u>\$ 833</u>	<u>\$ 998</u>	<u>\$ 1,037</u>

Total expenditures for the City's governmental funds for 2020 were \$82,576,897, an increase of \$3,298,355 (4.2 percent) from the prior year. The City's per capita governmental fund expenditures for 2020 were \$1,037, an increase of \$39 per capita from the prior year. Capital outlay and construction spending increased \$178 per capita, due to the Plymouth Creek Center expansion, street reconstruction, and trail projects. The decrease in streets and highway spending was due to less spending needed to complete the I-494 Rockford Road bridge replacement joint project than the previous year. Debt service spending increased with the City paying off bonds in the current year with available resources.

## GENERAL FUND

The City's General Fund accounts for the financial activity of the basic services provided to the community. The primary services included within this fund are the administration of the municipal operation, police and fire protection, building inspection, streets and highway maintenance, and parks and recreation. The graph below illustrates the change in the General Fund financial position over the last five years. We have also included a line representing annual expenditures to reflect the change in the size of the General Fund operation over the same period.

General Fund Financial Position  
Year Ended December 31,



The City's General Fund cash and investments balance at December 31, 2020 was \$20,359,407, a decrease of \$147,574. Total fund balance at December 31, 2020 was \$17,963,867, which is an increase of \$547,545 from the prior year, after a year-end transfer of \$3,027,388 to the General Capital Projects Fund, in accordance with the fund balance policy of the City for the General Fund.

As the graph above illustrates, the City has generally been able to maintain healthy cash and fund balance levels as the volume of financial activity has grown. This is an important factor because a government, like any organization, requires a certain amount of equity to operate. A healthy financial position allows the City to avoid volatility in tax rates; helps minimize the impact of state funding changes; allows for the adequate and consistent funding of services, repairs, and unexpected costs; and is a factor in determining the City's bond rating and resulting interest costs. Maintaining an adequate fund balance has become increasingly important given the fluctuations in state funding for cities in recent years.

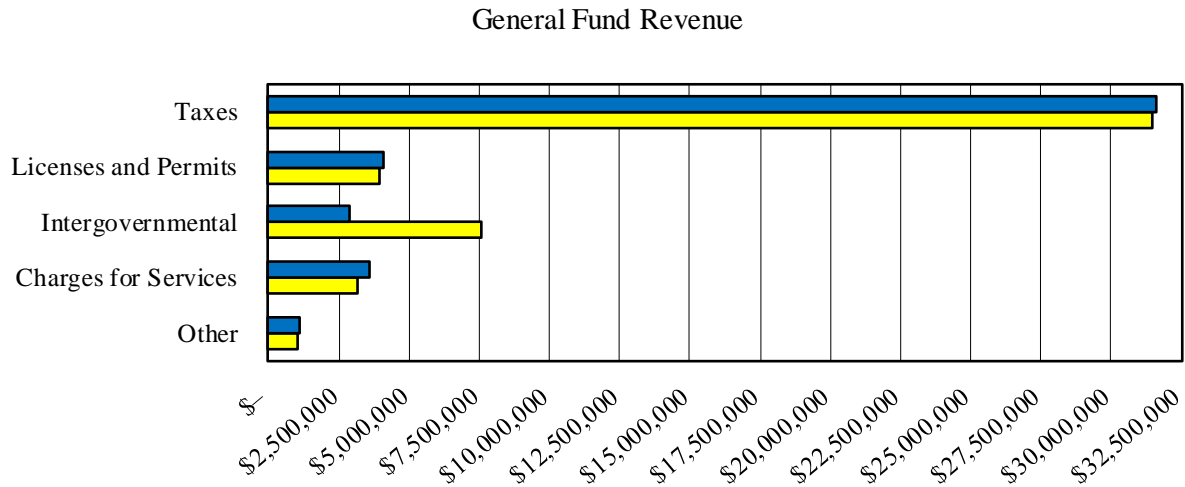
A trend that is typical to Minnesota local governments, especially the General Fund of cities, is the unusual cash flow experienced throughout the year. The City's General Fund cash disbursements are made fairly evenly during the year other than the impact of seasonal services, such as snowplowing, street maintenance, and park activities. Cash receipts of the General Fund are quite a different story. Taxes comprise about 67 percent of the fund's total annual revenue. Approximately half of these revenues are received by the City in July and the rest in December. Consequently, the City needs to have adequate cash reserves to finance its everyday operations between these payments.

In accordance with the City's fund balance policy, the General Fund balance at the end of the 2020 fiscal year represents 40 percent of the subsequent year's budgeted expenditures and transfers out.



## GENERAL FUND REVENUES

The following graph illustrates the City's General Fund revenue sources for 2020 compared to budget:

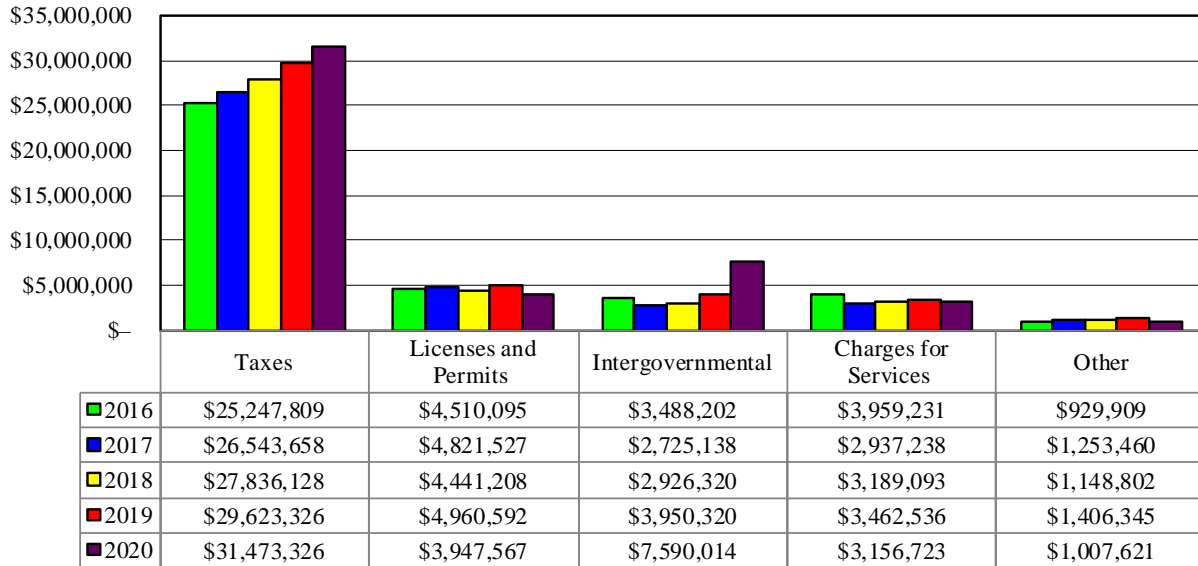


	Other	Charges for Services	Intergovernmental	Licenses and Permits	Taxes
■ Budget	\$1,094,300	\$3,565,724	\$2,905,942	\$4,076,980	\$31,594,857
■ Actual	\$1,007,621	\$3,156,723	\$7,590,014	\$3,947,567	\$31,473,326

Total General Fund revenues for 2020 were \$47,175,251, which was \$3,937,448 (9.1 percent) more than budget. Intergovernmental revenues were over budget by \$4,684,072. The City received approximately \$5.9 million in coronavirus relief funds in the current year, as previously mentioned, \$4.8 million was allocated to the General Fund. Charges for services ended the year less than anticipated by \$409,001, partially offsetting the favorable variance previously mentioned. The ongoing pandemic has impacted certain sources ending the year less than anticipated.

The following graph presents the City's General Fund revenue by source for the last five years and reflects the City's reliance on property taxes in recent years:

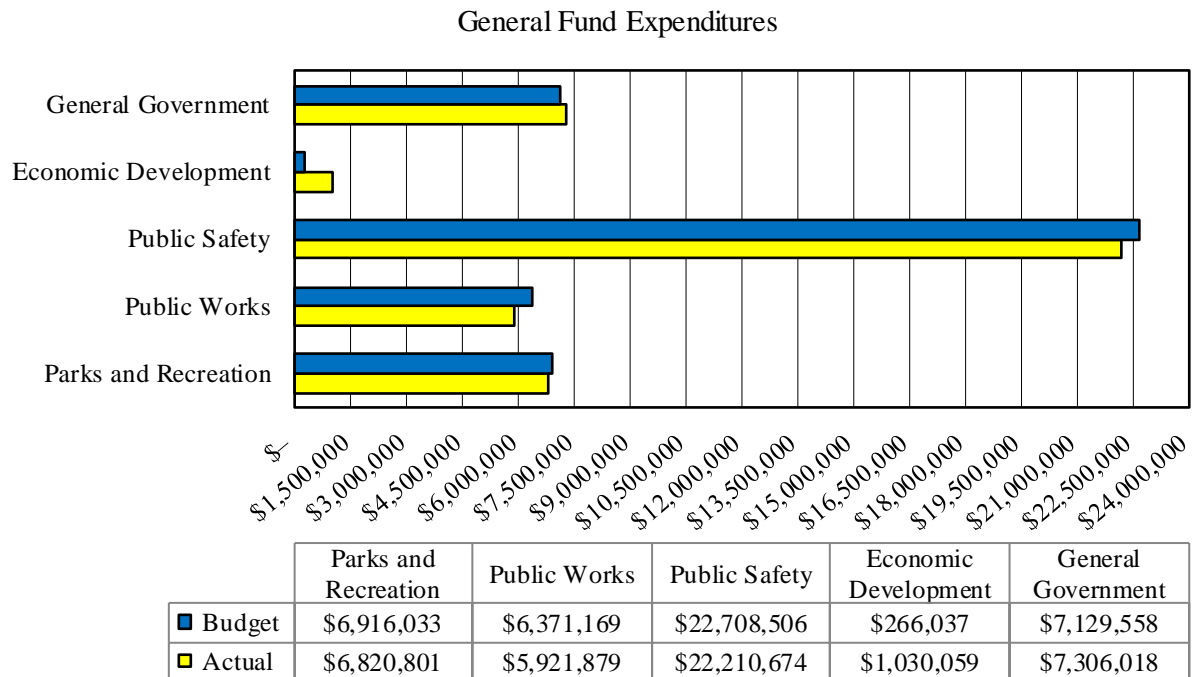
General Fund Revenue by Source  
Year Ended December 31,



Total General Fund revenue for 2020 was \$3,772,132 (8.7 percent) higher than last year. Intergovernmental revenue increased \$3,639,694, due to the City receiving coronavirus relief funding as previously mentioned. The increase in taxes was anticipated with the approval and adoption of the annual levy. Taxes represented 66.7 percent of total General Fund revenues in the current year.

## GENERAL FUND EXPENDITURES

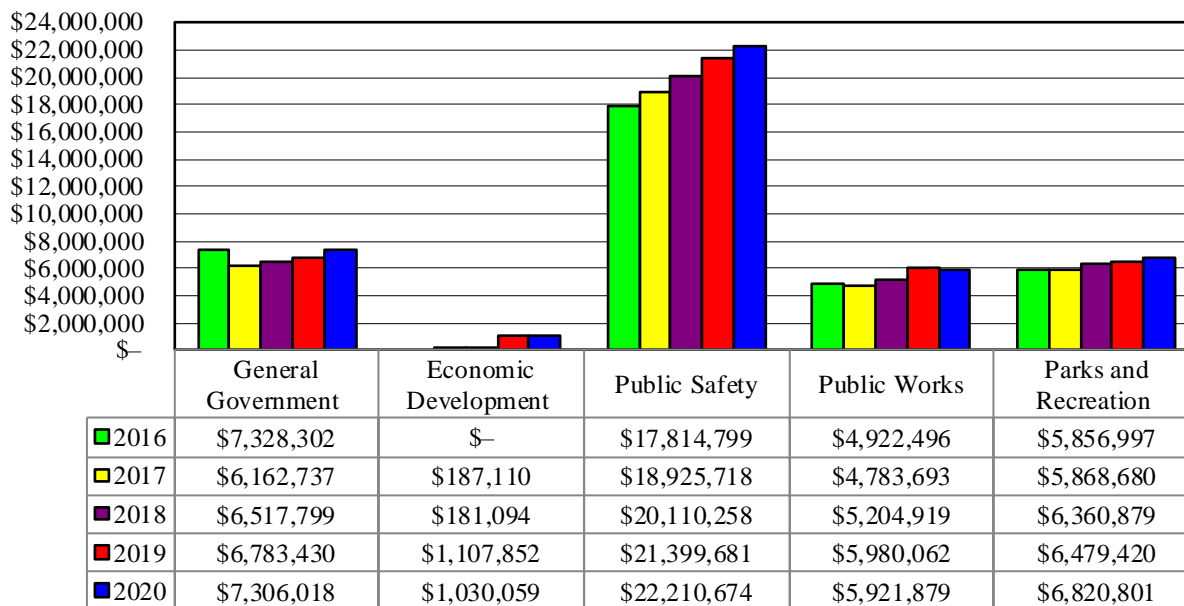
The following graph illustrates the components of General Fund spending for 2020 compared to budget:



Total General Fund expenditures for 2020 were \$43,289,431, which was \$101,872 (0.2 percent) under the final budget. Public safety and public works were under budget \$497,832 and \$449,290, respectively. Savings in personal services and contractual services contributed to these favorable variances. Economic development spending ended the year more than anticipated by \$764,022, partially offsetting the variances previously mentioned.

The following graph presents the City’s General Fund expenditures by function for the last five years:

General Fund Expenditures by Function  
Year Ended December 31,



Total General Fund expenditures for 2020 increased \$1,538,986 over the prior year. General government expenditures increased by \$522,588 (7.7 percent) from the prior year, mainly in personal and contractual services. Public safety expenditures increased by \$810,993 (3.8 percent), mainly in personal services. Parks and recreation expenditures increased by \$341,381 (5.3 percent), mainly in capital outlay. The expenditure increases are due to increased safety and supplies for social distancing as a result of the pandemic.

## ENTERPRISE FUNDS OVERVIEW

The City maintains enterprise funds to account for services the City provides that are financed primarily through fees charged to those utilizing the service. This section of the report provides you with an overview of the financial trends and activities of the City's enterprise funds, which include the Water Sewer Utility, Ice Center, Water Resources, Solid Waste Management, and Field House Funds.

The utility funds comprise a considerable portion of the City's activities. These funds help to defray overhead and administrative costs and provide additional support to general government operations. We understand that the City is proactive in reviewing these activities on an ongoing basis and we want to reiterate the importance of continually monitoring these operations. Over the years, we have emphasized to our city clients the importance of these utility operations being self-sustaining, preventing additional burdens on general government funds. This would include the accumulation of net position for future capital improvements and to provide a cushion in the event of a negative trend in operations.

### ENTERPRISE FUNDS FINANCIAL POSITION

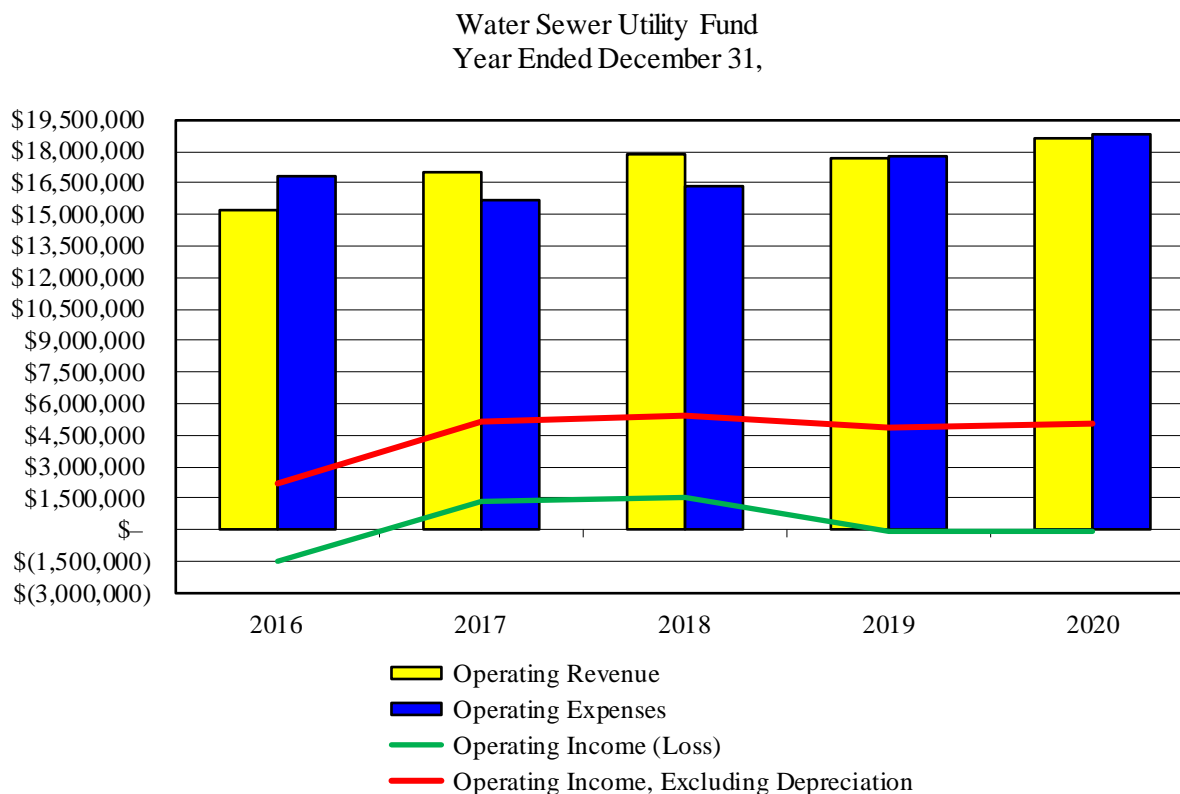
The following table summarizes the changes in the financial position of the City's enterprise funds during the years ended December 31, 2020 and 2019, presented both by classification and by fund:

<b>Enterprise Funds Change in Financial Position</b>			
	Net Position as of December 31,		Change
	<u>2020</u>	<u>2019</u>	
Net position of enterprise funds			
Total by classification			
Investment in capital assets	\$ 153,569,251	\$ 144,608,169	\$ 8,961,082
Restricted	27,510,696	21,823,114	5,687,582
Unrestricted	<u>10,334,428</u>	<u>12,105,612</u>	<u>(1,771,184)</u>
Total enterprise funds	<u>\$ 191,414,375</u>	<u>\$ 178,536,895</u>	<u>\$ 12,877,480</u>
Total by fund			
Water Sewer Utility	\$ 143,197,334	\$ 135,176,194	\$ 8,021,140
Ice Center	11,491,187	11,608,278	(117,091)
Water Resources	32,976,198	27,775,662	5,200,536
Nonmajor funds			
Solid Waste Management	1,173,385	1,318,777	(145,392)
Field House	<u>2,576,271</u>	<u>2,657,984</u>	<u>(81,713)</u>
Total enterprise funds	<u>\$ 191,414,375</u>	<u>\$ 178,536,895</u>	<u>\$ 12,877,480</u>

In total, enterprise fund net position increased by \$12,877,480 for the year ended December 31, 2020. The City's investment in capital assets increased by \$8,961,082, including capital contributions from governmental funds and developers. The restricted portion of net position increased \$5,687,582 for utility trunk and water resources, which reflects restricted equity to invest in capital infrastructure of the City. Unrestricted net position decreased (\$1,771,184) from the prior year-end balance as presented in the table above. Capital contributions, mentioned earlier, contributed significantly to the increases in net position of the Water Sewer Utility and Water Resources Funds.

## WATER SEWER UTILITY FUND

The following graph presents five years of comparative operating results for the City's Water Sewer Utility Fund:



The Water Sewer Utility Fund ended 2020 with a total net position of \$143,197,334, an increase of \$8,021,140 from the prior year. Of this, \$112,749,551 represents the investment in capital assets, and \$22,239,944 is restricted, leaving \$8,207,839 of unrestricted net position.

The Water Sewer Utility Fund operating revenue was \$18,667,841 for 2020, an increase of \$949,496 (5.4 percent). An increase in rates and consumption in 2020 contributed to this increase. Water usage was also impacted with more people being home during the work day or school day, due to the pandemic. Consumption will fluctuate from year-to-year based on many factors, including weather patterns and the number of utility customers.

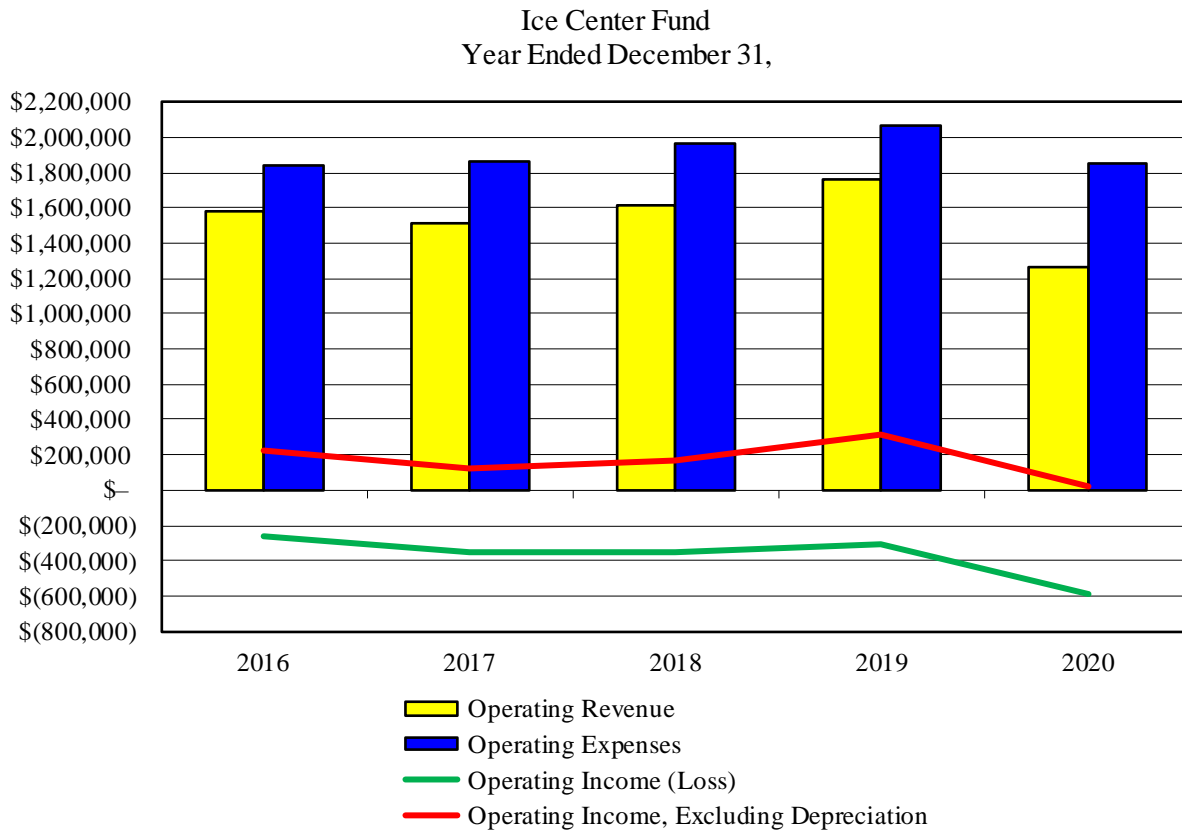
Operating expenses (including depreciation of \$5,127,601) were \$18,783,200, an increase of \$1,014,754 (5.7 percent); the increase was spread across several areas, including contractual services and depreciation. The change in contractual services was due to more water main repairs and increases related to water connection fees and sewer charges.

It is important to note that a portion of the operating expenses in this fund includes depreciation on assets paid for and contributed to the City by developers. In general, the City's utility rates have not been designed to fully recover depreciation costs on such assets. Utility rates are normally designed to cover current operating expenses and to provide for future repairs and replacement of these assets.

These operating losses, however, have generally been more than offset by amounts in other revenues and contributions over the same time period. Other revenues and contributions include a number of revenue sources that are normally one-time or inconsistent from year-to-year. It includes such things as interest income, grants, contributions from developers and residents, special assessments, and income from sales of assets.

## ICE CENTER FUND

The following graph presents five years of comparative operating results for the City's Ice Center Fund:



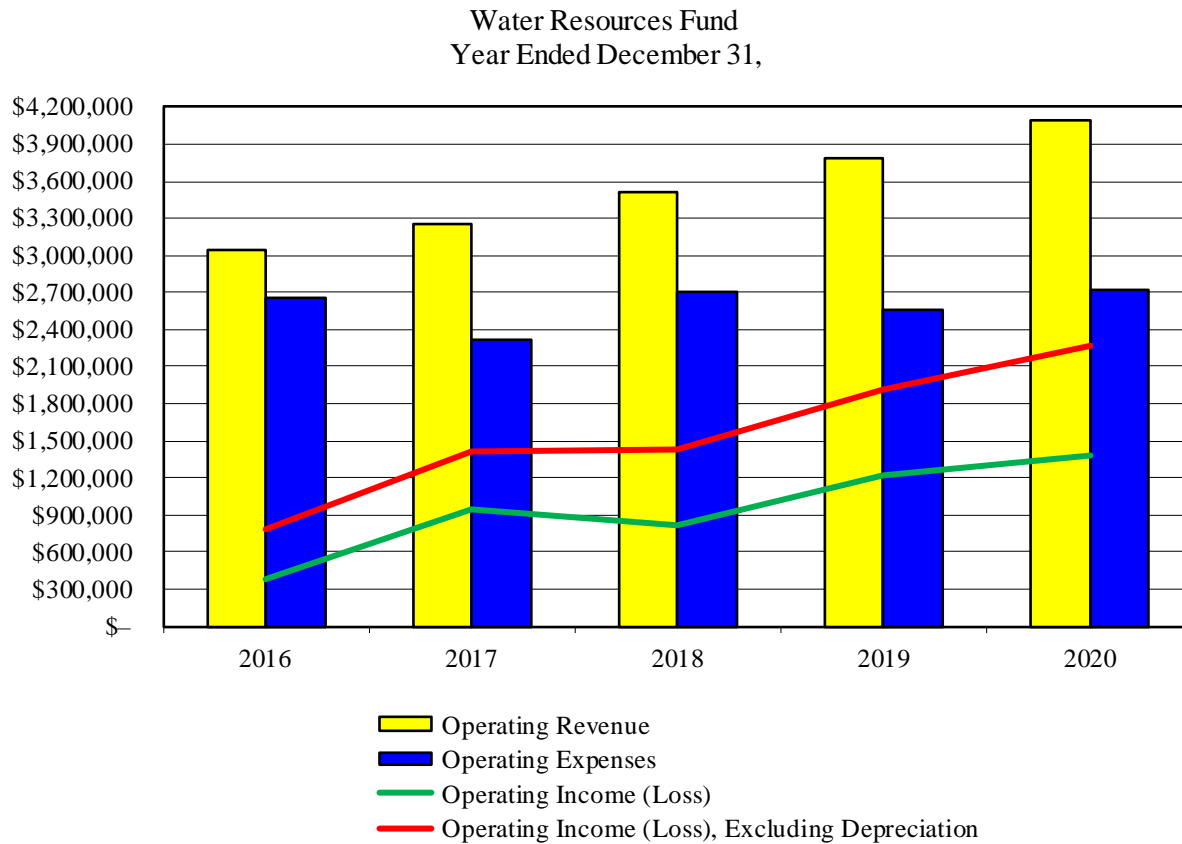
The Ice Center Fund ended 2020 with a net position of \$11,491,187, a decrease of \$117,091 from the prior year. Of this, \$11,743,733 represents the investment in capital assets, leaving an unrestricted deficit net position of \$252,546.

Operating revenue in the Ice Center Fund was \$1,267,264, a decrease of \$495,658 from the prior year. Operating expenses for 2020 were \$1,857,536, a decrease of \$208,845 from the prior year. The decrease in expenses was primarily due to contractual services. Revenues and expenses were down from the prior year, due to service limitations, due to the ongoing COVID-19 pandemic.

It is important to note that a significant portion of the operating expenses in this fund is depreciation on capital assets already funded. The fees charged in this fund are developed to cover operating expenses, repairs, and betterment of the ice center facilities.

## WATER RESOURCES FUND

The following graph presents five years of comparative operating results for the City's Water Resources Fund:



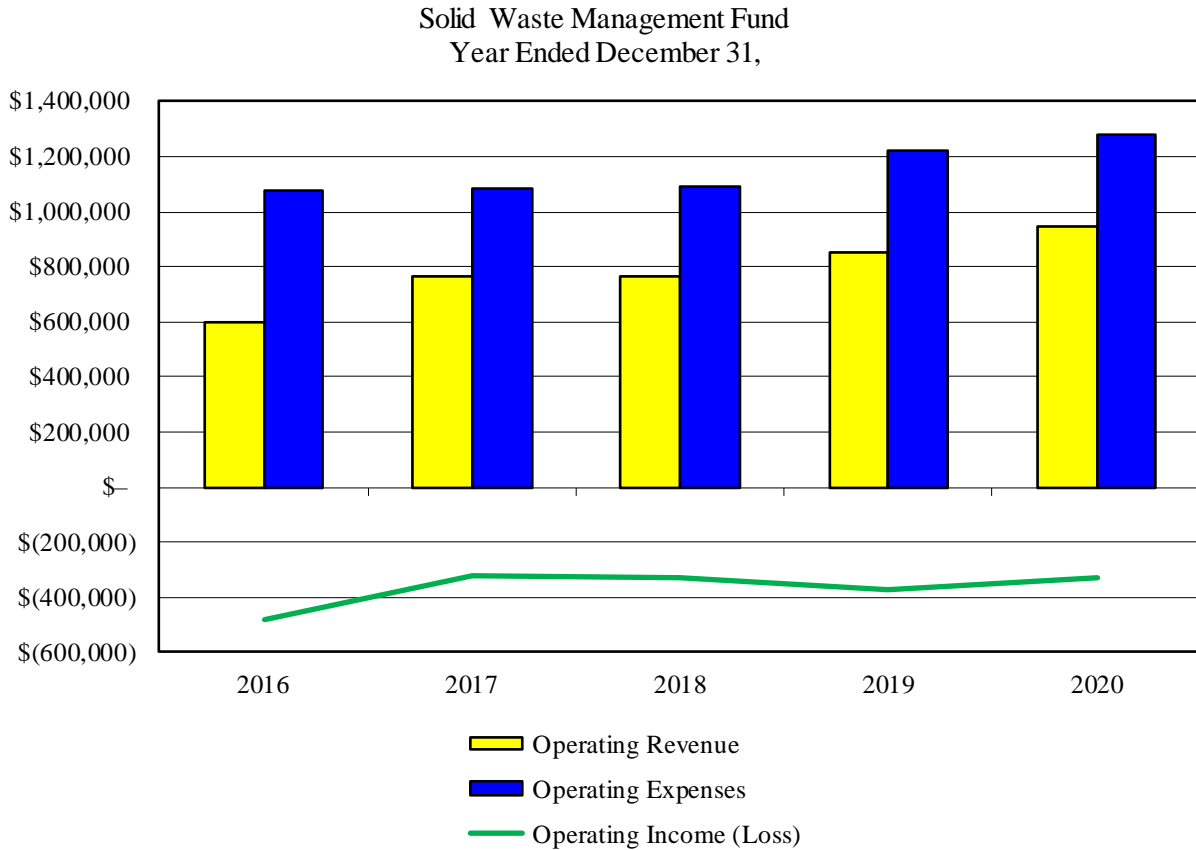
The Water Resources Fund ended 2020 with a net position of \$32,976,198, an increase of \$5,200,536 from the prior year. Of this, \$27,705,446 represents the investment in capital assets, while the remaining \$5,270,752 is restricted for water resources.

Operating revenue in the Water Resources Fund totaled \$4,090,957, an increase of \$312,084 (8.3 percent) from the prior year, largely due to an increase in approved rates and customers in a growing community. Operating expenses for 2020 were \$2,713,156, an increase of \$159,823 (6.3 percent) from the prior year. The increase in expenses was primarily due to an increase in depreciation.



**SOLID WASTE MANAGEMENT FUND**

The following graph presents five years of comparative operating results for the City’s Solid Waste Fund:



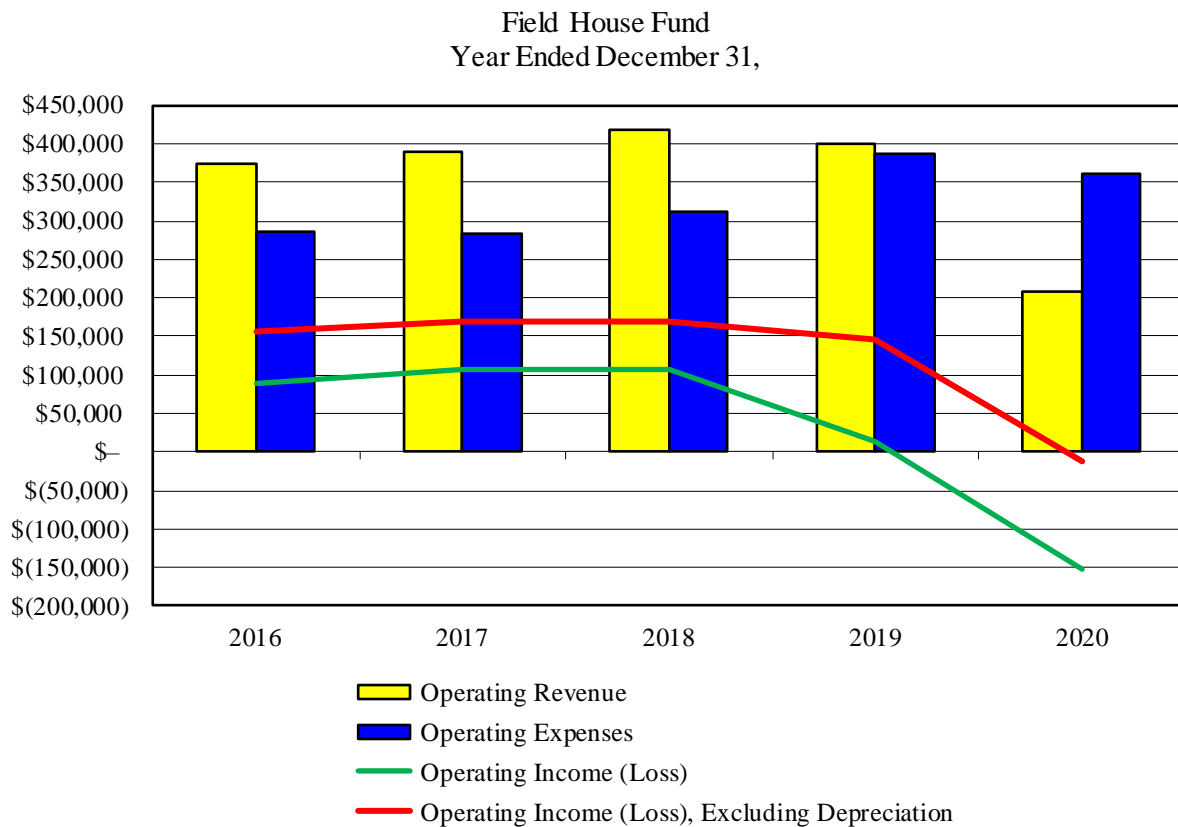
The Solid Waste Management Fund ended 2020 with a net position of \$1,173,385, a decrease of \$145,392 from the prior year. Of this, \$120,202 represents the investment in capital assets, leaving \$1,053,183 of unrestricted net position.

Operating revenues in the Solid Waste Management Fund were \$949,533, an increase of \$99,690 from the prior year. Operating expenses for 2020 were \$1,277,590, an increase of \$55,728 from the prior year, mainly in personal services.

The City also recognized \$182,665 in net nonoperating activities that offset a portion of the loss presented in the graph above.

## FIELD HOUSE FUND

The following graph presents five years of comparative operating results for the City's Field House Fund:



The Field House Fund ended 2020 with a net position of \$2,576,271, a decrease of \$81,713 from the prior year. Of this, \$1,250,319 represents the investment in capital assets, leaving \$1,325,952 of unrestricted net position.

As presented in the graph above, the Field House Fund experienced negative operating income for the current year. This was due to the COVID-19 pandemic as the Field House was only able to operate normally for a short period of time in 2020. Total operating revenue in the Field House Fund was \$209,244, a decrease of \$190,626 from the previous year. The fees charged in this fund are developed to cover operating expenses, repairs, and betterment of field house facilities. Field House Fund operating expenses for 2020 were \$361,313, a decrease of \$25,900, mainly in contractual services from the previous year.

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

In addition to fund-based information, the current reporting model for governmental entities also requires the inclusion of two government-wide financial statements designed to present a clear picture of the City as a single, unified entity. These government-wide financial statements provide information on the total cost of delivering services, including capital assets and long-term liabilities.

### STATEMENT OF NET POSITION

The Statement of Net Position essentially tells you what your city owns and owes at a given point in time, the last day of the fiscal year. Theoretically, net position represents the resources the City has leftover to use for providing services after its debts are settled. However, those resources are not always in spendable form, or there may be restrictions on how some of those resources can be used. Therefore, net position is divided into three components: net investment in capital assets, restricted, and unrestricted.

The following table presents the components of the City's net position as of December 31, 2020 and 2019, for governmental activities, business-type activities, and the Housing and Redevelopment Authority (HRA) component unit:

	As of December 31,		Change
	2020	2019	
Net position			
Governmental activities			
Net investment in capital assets	\$ 243,569,258	\$ 232,591,571	\$ 10,977,687
Restricted	32,913,275	30,035,519	2,877,756
Unrestricted	73,753,056	72,591,837	1,161,219
Total governmental activities	<u>350,235,589</u>	<u>335,218,927</u>	<u>15,016,662</u>
Business-type activities			
Investment in capital assets	153,569,251	144,608,169	8,961,082
Restricted	27,496,549	21,910,511	5,586,038
Unrestricted	8,251,297	9,834,062	(1,582,765)
Total business-type activities	<u>189,317,097</u>	<u>176,352,742</u>	<u>12,964,355</u>
Housing and Redevelopment Authority			
Net investment in capital assets	699,662	(84,066)	783,728
Restricted	3,928,184	4,216,964	(288,780)
Unrestricted	2,229,690	2,201,284	28,406
Total Housing and Redevelopment Authority	<u>6,857,536</u>	<u>6,334,182</u>	<u>523,354</u>
Total net position	<u>\$ 546,410,222</u>	<u>\$ 517,905,851</u>	<u>\$ 28,504,371</u>

The City (including the HRA) ended 2020 with a combined total net position of \$546,410,222, an increase of \$28,504,371 from the prior year. Several factors contributed to this increase, as discussed earlier in the report. Significant capital contributions recognized from grantors and developers contributed to the increase over the prior year.

At the end of the fiscal year, the City is able to present positive balances in all three categories of net position for the governmental activities and business-type activities. The same situation held true for the prior fiscal year.

## STATEMENT OF ACTIVITIES

The Statement of Activities tracks the City's yearly revenues and expenses, as well as any other transactions that increase or reduce total net positions. These amounts represent the full cost of providing services. The Statement of Activities provides a more comprehensive measure than just the amount of cash that changed hands, as reflected in the fund-based financial statements. This statement includes the cost of supplies used, depreciation of long-lived capital assets, and other accrual-based expenses.

The following table presents the change in net position of the City and the HRA for the years ended December 31, 2020 and 2019:

	2020		2019	
	Expenses	Program Revenues	Net Change	Net Change
Net (expense) revenue				
Governmental activities				
General government	\$ 7,632,130	\$ 1,630,026	\$ (6,002,104)	\$ (5,337,586)
Economic development	1,687,715	107,993	(1,579,722)	(796,945)
Parks and recreation	10,188,323	925,216	(9,263,107)	(8,281,279)
Public safety	22,038,769	6,172,895	(15,865,874)	(13,586,476)
Public service	5,021,459	6,903,348	1,881,889	872,494
Public works	17,781,871	14,335,080	(3,446,791)	(6,183,919)
Interest on long-term debt	509,274	–	(509,274)	(197,995)
Business-type activities				
Water Sewer Utility	18,833,795	24,222,661	5,388,866	2,407,475
Ice Center	1,877,600	1,295,488	(582,112)	(168,332)
Water Resources	2,702,510	6,764,987	4,062,477	2,018,565
Solid Waste Management	1,279,974	1,099,436	(180,538)	(210,752)
Field House	359,849	209,445	(150,404)	10,228
Housing and Redevelopment Authority	9,380,574	9,110,301	(270,273)	(158,821)
Total net (expense) revenue	<u>\$ 99,293,843</u>	<u>\$ 72,776,876</u>	(26,516,967)	(29,613,343)
General revenues				
Property and other taxes and franchise fees			43,240,305	39,904,315
Grants and contributions not restricted to specific programs			5,941,577	–
Investment earnings			5,332,090	5,742,338
Gain on sale of capital assets			195,139	95,358
Other			312,227	338,146
Total general revenues			<u>55,021,338</u>	<u>46,080,157</u>
Change in net position			<u>\$ 28,504,371</u>	<u>\$ 16,466,814</u>

One of the goals of this statement is to provide a side-by-side comparison to illustrate the difference in the way the City's governmental and business-type operations are financed. The table clearly illustrates the dependence of the City's governmental operations on general revenues, such as property taxes and other general sources. It also shows that, for the most part, the City's business-type activities are generating sufficient program revenues (service charges and program-specific grants) to cover expenses. This is critical given the current downward pressures on the general revenue sources.

The shift in the net changes presented above between the current and prior year reflects the change in level of developer contributions as previously mentioned. The change in public works is also due in part to expenses for the I-494 Rockford Road bridge replacement joint project that were not capital assets of the City. The increase in grants and contributions not restricted to specific programs reflects the federal Coronavirus Relief Fund resources received in 2020.

## LEGISLATIVE UPDATES

The 2020 legislative session, coming in the second half of the state's fiscal biennium, was expected to be a typical short session focused primarily on making relatively minor modifications to the biennial budget. Given a projected budget surplus of \$1.5 billion going into the session, consideration of a substantial capital investment and bonding bill was also a potential focus.

The start of the legislative session in February was followed by a series of significant events that changed the course of the session, including a world-wide health pandemic, the death of George Floyd while in police custody and the ensuing protests and unrest, and a hotly contested national election. On March 13, 2020, the Governor issued an executive order declaring a peacetime emergency, giving his administration the ability to quickly impose restrictions and measures aimed at mitigating the COVID-19 outbreak. By early May, the state's budget outlook had changed from a robust surplus to a projected deficit of \$2.4 billion. The legislative session ultimately encompassed an unprecedented seven special sessions, more than double the previous state record of three, with the final special session in mid-December.

In the end, a \$1.87 billion omnibus bonding bill was passed that included \$1.36 billion in general obligation state bonding for capital improvements, \$31.0 million in supplemental General Fund budget spending, and provisions for tax relief and economic assistance. The session also yielded a new Police Accountability Act, and a \$217.0 million economic relief package to help businesses negatively impacted by the pandemic. The following is a brief summary of legislative changes from the 2020 session or previous legislative sessions potentially impacting Minnesota cities.

**Coronavirus Aid, Relief, and Economic Security (CARES) Act** – The CARES Act provided federal economic relief to protect the American people from the public health and economic impacts of COVID-19. Minnesota received approximately \$2.2 billion in funding under the CARES Act.

When the first legislative special session ended without an agreement on the distribution of approximately \$841.5 million of federal Coronavirus Relief Fund (CRF) funding earmarked for Minnesota local governments, the Governor distributed the funds by executive order based on the framework of the legislative agreement debated during the first special session. This resulted in \$350.4 million being distributed directly to Minnesota cities with populations equal to or greater than 200. The funds were authorized for use for unbudgeted costs related to the COVID-19 pandemic, but not to replace lost revenues. In accordance with CARES Act provisions, the CRF funding was available to cover costs that;

- 1) were necessary expenditures incurred due to the public health emergency related to COVID-19;
- 2) were not accounted for in the entity's budget most recently approved as of March 27, 2020; and
- 3) were incurred during the period from March 1, 2020 through December 31, 2020 (the availability period end date was revised by the state to November 15, 2020 for Minnesota cities).

**Emergency Small Business Assistance Program** – The Legislature created a program to appropriate \$60.0 million of federal CRF funding to make grants available through the Minnesota Department of Employment and Economic Development for eligible small businesses impacted by COVID-19. Small businesses employing up to 50 full-time employees are eligible to receive grants of up to \$10,000. The allocation is split between the metro area and greater Minnesota, with specific allocations for businesses owned by minorities, veterans, and women. \$18.0 million of the allocation is earmarked for businesses with 6 or less employees.

**Workers' Compensation Claims – COVID-19 Presumption** – The Legislature adopted several new provisions to state unemployment statutes related to COVID-19, including a presumption that an employee who contracts COVID-19 has an "occupational disease" arising out of, and in the course of, employment if the employee works in one of the specified occupations and has a confirmed case of COVID-19. Covered occupations include nurses, healthcare workers, and workers required to provide childcare for first responders and healthcare workers under Executive Orders 20-02 and 20-19. The COVID-19 presumption provision sunsets on May 1, 2021.

**Bonding Bill** – The 2020 bonding bill provided financing for approximately \$1.36 billion of projects. Some of the more significant appropriations for local infrastructure included: \$105 million in undesignated grants for local road improvement and bridge replacement; \$100 million for water infrastructure and point source implementation grants; \$25 million for state match of federal grants for public facilities improvements, \$20 million for natural resource asset preservation, \$17 million for flood control mitigation, \$15 million for the Local Government Roads Wetlands Replacement Program; \$5 million for Metropolitan Council inflow and infiltration grants; and \$5 million for metropolitan regional parks and trails. The bill also included funding for a number of state initiatives, including: \$300 million in trunk highway bonds for the improvement of the state trunk highway system; \$145 million in appropriation bonds to fund the infrastructure and capital needs of the Minnesota Housing Finance Agency, Minnesota Pollution Control Agency, and Minnesota Public Television; \$30 million for state agency projects aimed at promoting racial equity, \$29.5 million for the state Emergency Operations Center; and \$16 million for the Minnesota Housing Finance Agency.

The bill provides authority for eligible local governments to own and operate childcare facilities, and permits local governments to enter into management agreements with licensed childcare providers to operate in publicly-owned facilities. It also makes cities, counties, school districts, and joint powers boards located outside of the seven-county metro area eligible to apply for grants through the Greater Minnesota Childcare Facility Capital Grant Program.

The bill also included a provision extending the equal pay certificate of compliance requirement to contracts by any public entity, including political subdivisions, using state general obligation bond proceeds for all or part of a capital project. Local governments will be responsible for requiring that bids include proper certification on applicable projects, which applies to projects for goods or services valued at more than \$1 million utilizing appropriated bond proceeds on or after January 1, 2022.

**Elections** – A number of measures were passed to help ensure the safe and secure conduct of the 2020 state primary and general elections, including; allowing for the processing of absentee ballots to begin 14 days prior to the date of the election, extending the period during which absentee ballots could be processed for 2 days following the election, accepting electronic filings for affidavits of candidacy or nominating petitions, and specifying that municipalities were to use schools as polling places only when no other public or private location was reasonably available. Funds from the federal Help America Vote Act were made available for modernizing, securing, and improving election facilities, a portion of which was made available for grants to local governments to fund activities prescribed by this program.

**Minors Operating Lawn Care Equipment** – Effective May 28, 2020, Minnesota Statutes lowered the employment age for operating lawn care equipment to age 16. Minors aged 16 and 17 must be trained in the safe operation of the equipment and wear appropriate personal protective equipment when operating the lawn care equipment. The exception under this statute applies only to minors directly employed by golf courses, resorts, rental property owners, or municipalities to perform lawn care on golf courses, resort grounds, rental property, or municipal grounds.

**Open Meeting Law Exception** – The interactive television provision of the Minnesota Open Meeting Law was amended to allow for participation in meetings by interactive electronic means, such as Skype or Zoom, without requiring that an elected official be advised to do so by a healthcare professional for personal or family medical reasons. This allowance is available only when a national security or peacetime emergency has been declared and may be used up to 60 days after the emergency declaration has been lifted. Whenever public meetings are held via interactive electronic means of this type, votes must be conducted by roll call and be recorded in the minutes.

**Expanded Authority for Electronic Signatures During COVID-19** – Effective May 17, 2020, cities are allowed to accept certain documents, signatures, or filings electronically, by mail, or facsimile during the COVID-19 pandemic, including; planning and zoning applications and permits; land use documents; documents requiring the signature of licensed architects, engineers, land surveyors, geoscientists, or interior designers; applications for birth or death certificates; or recording notary commissions. This accommodation expires January 16, 2021, or 60 days following the termination of the peacetime public health emergency.

**Solid Waste Recycling Exemption** – The requirement that not more than 15 percent of mixed municipal solid waste received by recycling or composting facilities be disposed of, rather than recycled or composted, is suspended as long as the need for the exception is triggered by operational changes implemented to address the COVID-19 pandemic.

**Pension Changes** – Effective January 1, 2021, the maximum lump-sum pension amount for volunteer firefighters is increased from \$10,000 to \$15,000 per year of service. Municipalities are permitted to split state fire aid received between its career firefighters and its affiliated volunteer firefighters, but only if the amount allocated to the career firefighters is approved by the membership of the volunteer firefighter relief association. Any aid allocated to career firefighters must be used to pay the Public Employees Retirement Association (PERA) employer contributions on their behalf within 18 months of the transfer or be returned to the relief association.

**Police Accountability Act** – The Legislature passed the Police Accountability Act, which enacted a number of changes to laws governing police conduct, training, and oversight. Among the more significant changes adopted were:

- Defined and authorized “public safety peer counseling” and “critical incident stress management,” and classifies information shared in these settings as private data.
- Established an Independent Use of Force Investigations Unit within the Bureau of Criminal Apprehension to investigate all officer-involved deaths in the state, as well as criminal sexual assault allegations against peace officers, effective August 1, 2020.
- Authorized statutory or home rule charter cities to offer incentives to encourage a person hired as a peace officer to be a resident of the city.
- Limited the use of certain restraint methods by peace officer unless the use of deadly force is authorized in a given situation.
- Established and modified provisions related to law enforcement use of deadly force.
- Defined and prohibited “warrior-style” training for peace officers.
- Established a 15-member “Ensuring Police Excellence and Improving Community Relations Advisory Council” under the Police Officer Standards and Training (POST) Board, to assist the POST Board in maintaining policies and regulating peace officers in a manner that ensures the protection of civil and human rights.
- Established a duty for peace officers to intercede when another officer is using excessive force and report incidents of excessive force to supervisors.

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## ACCOUNTING AND AUDITING UPDATES

The following is a summary of Governmental Accounting Standards Board (GASB) standards expected to be implemented in the next few years. Due to the COVID-19 pandemic, the GASB has delayed the original implementation dates of these and other standards as described below.

### **GASB Statement No. 87, *Leases***

A lease is a contract that transfers control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this statement.

Governments enter into leases for many types of assets. Under the previous guidance, leases were classified as either capital or operating depending on whether the lease met any of the four tests. In many cases, the previous guidance resulted in reporting lease transactions differently than similar nonlease financing transactions.

The goal of this statement is to better meet the information needs of users by improving accounting and financial reporting for leases by governments. It establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. This statement increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

Under this statement, a lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

To reduce the cost of implementation, this statement includes an exception for short-term leases, defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract. The requirements of this statement are effective for reporting periods beginning after June 15, 2021.

## **GASB Statement No. 91, *Conduit Debt Obligations***

The primary objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

A conduit debt obligation is defined as a debt instrument having all of the following characteristics:

- There are at least three parties involved: (1) an issuer, (2) a third party obligor, and (3) a debt holder or a debt trustee.
- The issuer and the third party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

This statement also addresses arrangements, often characterized as leases, that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third party obligors in the course of their activities.

This statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

## **GASB Statement No. 92, *Omnibus 2020***

The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other post-employment benefit (OPEB) plan
- The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for post-employment benefits
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to post-employment benefit arrangements
- Measurement of liabilities (and assets, if any) related to asset retirement obligations in a government acquisition
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature
- Terminology used to refer to derivative instruments

The requirements of this statement are effective for fiscal years beginning after June 15, 2021. Earlier application is encouraged.

## **GASB Statement No. 96, *Subscription-Based Information Technology Arrangements***

This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

An SBITA is defined as a contract that conveys control of the right to use another party's (an SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this statement, a government generally should recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability.

This statement provides an exception for short-term SBITAs with a maximum possible term under the SBITA contract of 12 months, including any options to extend, regardless of their probability of being exercised. Subscription payments for short-term SBITAs should be recognized as outflows of resources.

This statement requires a government to disclose descriptive information about its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information.

The requirements of this statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

***GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an Amendment of GASB Statement No. 14 and No. 84, and a Supersession of GASB Statement No. 32***

The primary objectives of this statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this statement that (1) exempt primary governments that perform the duties that a government board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans, and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately.

The requirements of this statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this statement.