Management Report

for

City of Plymouth
Hennepin County, Minnesota

December 31, 2021

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MMKR
CERTIFIED PUBLIC ACCOUNTANTS

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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, 2021. 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
July 20, 2022

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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, 2021. 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, in our audit engagement letter, and in a separate letter dated May 2, 2022. 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. However, the completion of the audit was later than anticipated, due to staff turnover at the City.

AUDIT OPINION AND FINDINGS

Based on our audit of the City's financial statements for the year ended December 31, 2021:

- 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 one finding based on our testing of the City's compliance with Minnesota laws and regulations. We noted that 2 of 25 disbursements tested were not paid within the 35-day period, as required by Minnesota Statutes § 471.425, Subd. 2.

OTHER OBSERVATIONS AND RECOMMENDATIONS

Written Uniform Guidance Procedures

2 CFR § 200.302 and 2 CFR § 200.332 requires the City to have written cash management and subrecipient monitoring procedures, which includes: accounting for advances and reimbursement of federal funds, written budget to actual comparison of federal expenditures for each federal award, allowability of costs in accordance with 2 CFR 200 Subpart E, and written subrecipient monitoring, including a written risk assessment of each subrecipient, and documentation of monitoring. While the City does have robust policies and procedures in place, we recommend that the City review the Uniform Guidance over these requirements and update the language used in its written procedures to ensure future compliance with these standards within these compliance areas.

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, 2021.

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.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

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.

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 July 20, 2022.

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.

GOVERNMENTAL FUNDS OVERVIEW

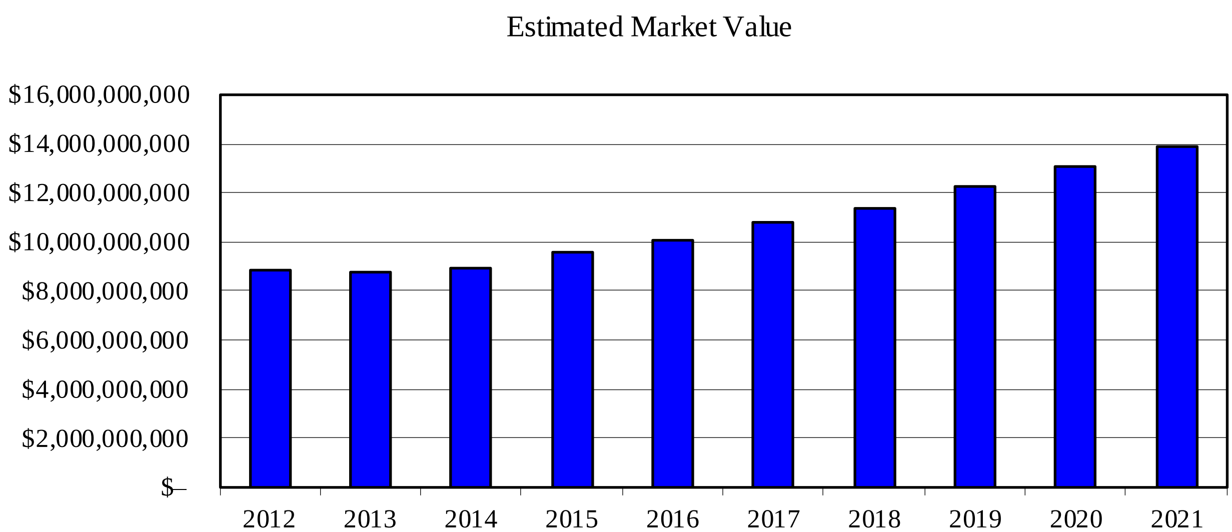
This section of the report provides you with an overview of the financial trends and activities of the City's governmental funds, which includes the General, special revenue, debt service, and capital project funds. These funds are used to account for the basic services the City provides to all of its 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 2020 fiscal year, local ad valorem property tax levies provided 40.9 percent of the total governmental fund revenues for cities over 2,500 in population, and 36.5 percent for cities under 2,500 in population. Total property taxes levied by all Minnesota cities for taxes payable in 2021 increased 4.0 percent compared to the prior year, and 5.9 percent for taxes payable in 2022.

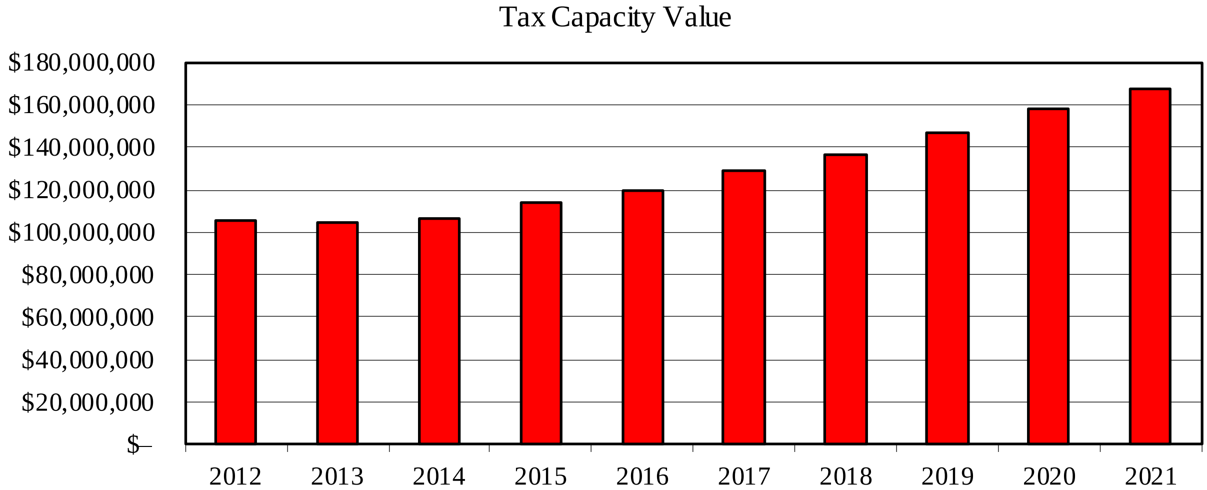
The total tax capacity value of property in Minnesota cities increased about 6.3 percent for the 2021 levy year. The tax capacity values used for levying property taxes are based on the assessed market values for the previous fiscal year (e.g., tax capacity values for taxes levied in 2021 were based on assessed market values as of January 1, 2020), 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 7.1 percent for taxes payable in 2020 and 5.9 percent for taxes payable in 2021. 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 its 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 7.6 percent for 2020 and 6.3 percent for 2021.

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:

Rates Expressed as a Percentage of Net Tax Capacity

	City of Plymouth		
	2019	2020	2021
Average tax rate			
City	25.9	25.8	26.1
County	41.9	41.1	38.2
School	24.8	26.7	26.9
Special taxing	9.9	9.5	9.0
Total	102.5	103.1	100.2

The improvement in tax capacity values, previously discussed, contributed to the change in the City's average tax rate.

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, 2021, presented both by fund balance classification and by fund:

Governmental Funds Change in Fund Balance

	Fund Balance as of December 31, 2021	Fund Balance as of December 31, 2020	Change
Fund balances of governmental funds			
Total by classification			
Nonspendable	$ 205,912	$ 207,877	$ (1,965)
Restricted	40,121,760	60,937,292	(20,815,532)
Assigned	45,067,886	42,598,230	2,469,656
Unassigned	18,622,515	17,756,980	865,535
Total governmental funds	$ 104,018,073	$ 121,500,379	$ (17,482,306)
Total by fund			
General	$ 18,782,279	$ 17,963,867	$ 818,412
Transit System	8,592,505	13,131,668	(4,539,163)
General Capital Projects	8,571,754	8,308,491	263,263
Improvement Projects	2,842,174	2,410,716	431,458
Street Replacement	17,681,173	16,135,749	1,545,424
Plymouth Creek Center Expansion	7,675,176	34,347,131	(26,671,955)
Fire Stations Construction	9,461,239	–	9,461,239
Tax Increment Projects	2,343,903	4,586,022	(2,242,119)
Nonmajor funds	28,067,870	24,616,735	3,451,135
Total governmental funds	$ 104,018,073	$ 121,500,379	$ (17,482,306)

In total, the fund balances of the City's governmental funds decreased $17,482,306 during the year ended December 31, 2021.

The decrease in the current year was primarily in the Plymouth Creek Center Expansion Fund, with a decrease in restricted amounts. The ongoing construction spending of bond funds issued in the prior year, accounted for the change in the Plymouth Creek Center Expansion Fund. The City issued bonds in the current year, used for financing ongoing construction and renovation projects for Fire Stations No. 2 and No. 3. At year-end, $9,461,239 of restricted funds remain for project completion. The decrease in restricted fund balance in the Transit System Fund was largely due to current year capital spending.

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.

Governmental Funds Revenue per Capita
With State-Wide Averages

	State-Wide		City of Plymouth		
Year	2019	2020	2019	2020	2021
Population	20,000–100,000	20,000–100,000	79,475	81,026	81,184
Property taxes	$ 512	$ 537	$ 441	$ 468	$ 513
Tax increments	44	44	24	25	27
Franchise fees and other taxes	50	46	30	32	36
Special assessments	53	54	–	1	–
Licenses and permits	51	46	64	51	50
Intergovernmental revenues	201	273	157	380	240
Charges for services	115	91	78	53	64
Other	79	69	71	56	23
Total revenue	$ 1,105	$ 1,160	$ 865	$ 1,066	$ 953

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 2021 were $77,403,557, a decrease of $8,835,347 (10.2 percent) from the prior year. On a per capita basis, the City's governmental funds revenue for 2021 was $953, a decrease of $113 from the prior year, including the effect of a change in estimated population. The most significant change was in intergovernmental revenues, which were $140 per capita less than the prior year. In 2020, the City received a one-time federal Coronavirus Relief Fund (CRF) grant entitlement to provide assistance to the community and fund unanticipated COVID-19-related expenses. The City also recognized funding from other governments in the prior year on the I-494 Rockford Road bridge replacement project that also contributed to the change in the revenue source. Property taxes were up as anticipated with the approved levy. The decrease in "other" source revenues in the current year were largely caused by changing investment rates and market adjustments reducing the City's investment earnings.

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:

Governmental Funds Expenditures per Capita
With State-Wide Averages by Population Class

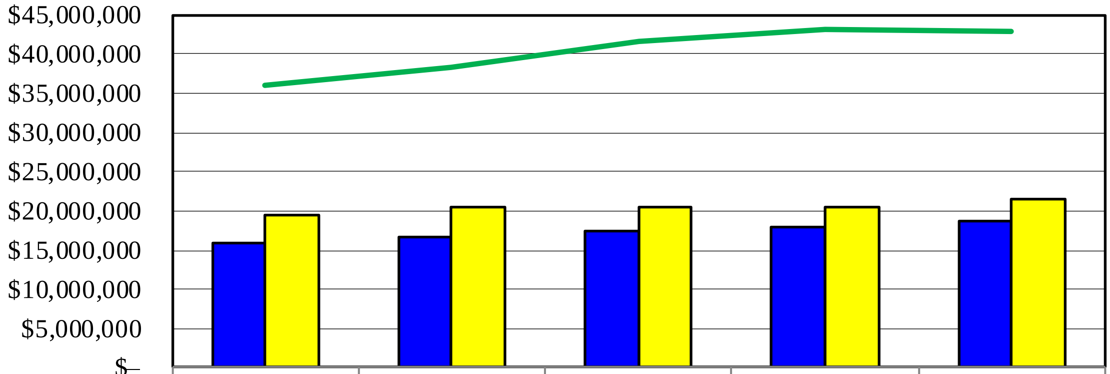
	State-Wide		City of Plymouth		
Year	2019	2020	2019	2020	2021
Population	20,000–100,000	20,000–100,000	79,475	81,026	81,184
Current					
General government	$ 107	$ 118	$ 86	$ 90	$ 84
Public safety	306	320	269	274	285
Streets and highways	119	112	261	94	74
Culture and recreation	106	95	107	104	113
All other	97	104	93	82	112
	735	749	816	644	668
Capital outlay and construction	355	331	166	338	827
Debt service					
Principal	88	91	13	30	11
Interest and fiscal	28	33	3	6	13
	116	124	16	36	24
Total expenditures	$ 1,206	$ 1,204	$ 998	$ 1,018	$ 1,519

Total expenditures for the City's governmental funds for 2021 were $123,384,073, an increase of $40,807,176 (49.4 percent) from the prior year. The City's per capita governmental fund expenditures for 2021 were $1,519, an increase of $501 per capita from the prior year. Capital outlay and construction spending increased $489 per capita, due to the Plymouth Creek Center expansion, capital spending in the Transit System Fund, and Fire Stations No. 2 and No. 3 reconstruction and renovation projects.

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,



	2017	2018	2019	2020	2021
Fund Balance	$15,835,810	$16,686,422	$17,416,322	$17,963,867	$18,782,279
Cash Balance	$19,493,971	$20,406,006	$20,506,981	$20,359,407	$21,595,035
Expenditures	$35,927,938	$38,374,949	$41,750,445	$43,289,431	$42,922,095

The City's General Fund cash and investments balance at December 31, 2021 was $21,595,035, an increase of $1,235,628. Total fund balance at December 31, 2021 was $18,782,279, which is an increase of $818,412 from the prior year, after a year-end transfer of $1,265,663 to the General Capital Projects Fund, in accordance with the fund balance policy of the City for the General Fund.

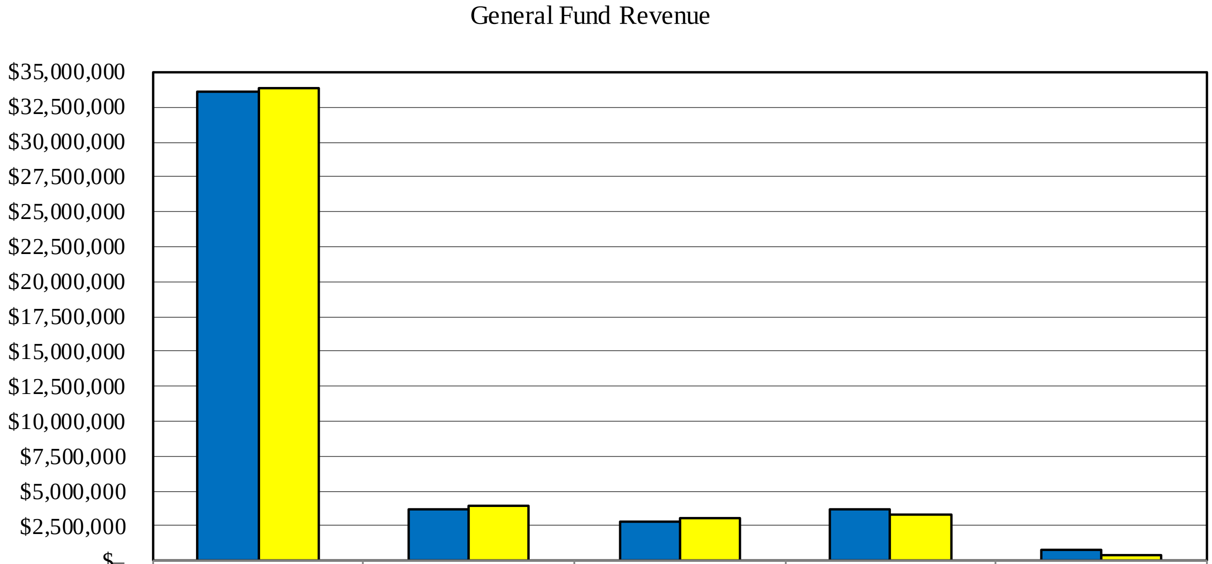
As the graph above illustrates, the City has generally been able to maintain healthy cash and fund balance levels as the volume of financial activity has grown. This is an important factor because a government, like any organization, requires a certain amount of equity to operate. A healthy financial 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 76 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 2021 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 2021 compared to budget:

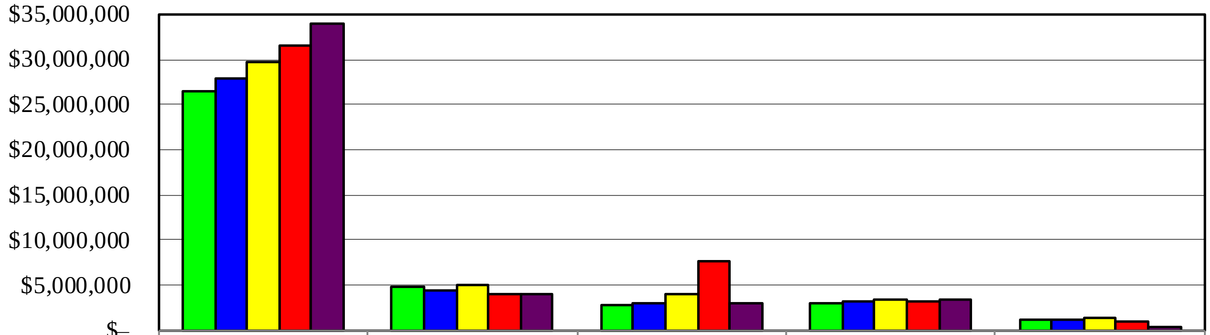


	Taxes	Licenses and Permits	Intergovernmental	Charges for Services	Other
Actual	$33,852,858	$3,999,026	$3,016,629	$3,374,948	$390,241
Budget	$33,598,337	$3,717,130	$2,828,828	$3,688,271	$827,100

Total General Fund revenues for 2021 were $44,633,702, which was $25,964 (0.1 percent) less than budget. Favorable variances in taxes, licenses and permits, and intergovernmental sources, were offset by charges for services and other remaining sources ending less than projected in the final budget. Other sources were under budget, predominantly caused by the decrease in the market value of investments, due to the market decline throughout the year.

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,

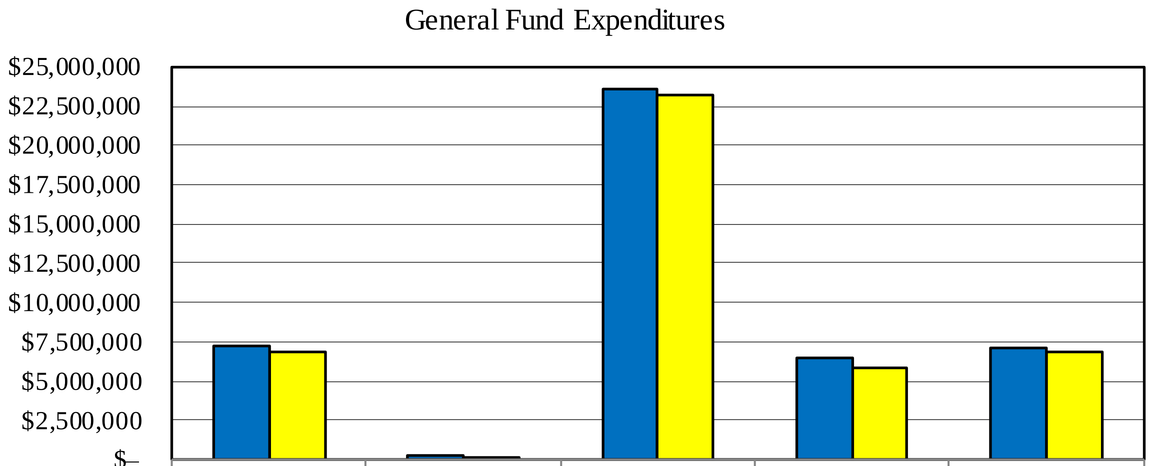


	Taxes	Licenses and Permits	Intergovernmental	Charges for Services	Other
2017	$26,543,658	$4,821,527	$2,725,138	$2,937,238	$1,253,460
2018	$27,836,128	$4,441,208	$2,926,320	$3,189,093	$1,148,802
2019	$29,623,326	$4,960,592	$3,950,320	$3,462,536	$1,406,345
2020	$31,473,326	$3,947,567	$7,590,014	$3,156,723	$1,007,621
2021	$33,852,858	$3,999,026	$3,016,629	$3,374,948	$390,241

Total General Fund revenue for 2021 was $2,541,549 (5.4 percent) less than last year. Intergovernmental revenue decreased by $4,573,385, due to the COVID-19 funds recognized as previously discussed. Tax revenue increased $2,379,532, due to the approval and adoption of the annual levy, partially offsetting the decrease in intergovernmental revenue sources. Taxes represented 75.8 percent of total General Fund revenues in the current year.

GENERAL FUND EXPENDITURES

The following graph illustrates the components of General Fund spending for 2021 compared to budget:

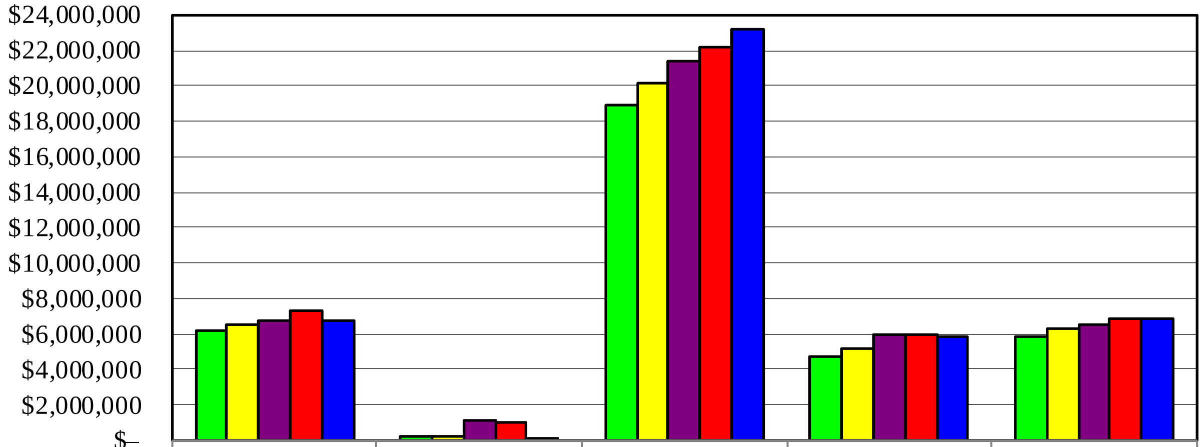


	General Government	Economic Development	Public Safety	Public Works	Parks and Recreation
Actual	$6,809,290	$144,215	$23,231,070	$5,880,832	$6,856,688
Budget	$7,284,584	$278,305	$23,536,670	$6,526,915	$7,080,692

Total General Fund expenditures for 2021 were $42,922,095, which was $1,785,071 (4.0 percent) under the final budget. Budget savings were spread across each function presented above. Cost restraints by all departments contributed to this favorable variance with less spending for personal services, materials and supplies, contractual services, and other expenditures.

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,



	General Government	Economic Development	Public Safety	Public Works	Parks and Recreation
2017	$6,162,737	$187,110	$18,925,718	$4,783,693	$5,868,680
2018	$6,517,799	$181,094	$20,110,258	$5,204,919	$6,360,879
2019	$6,783,430	$1,107,852	$21,399,681	$5,980,062	$6,479,420
2020	$7,306,018	$1,030,059	$22,210,674	$5,921,879	$6,820,801
2021	$6,809,290	$144,215	$23,231,070	$5,880,832	$6,856,688

Total General Fund expenditures for 2021 decreased $367,336 from the prior year. The overall expenditure decrease was due in part to spending in the prior year for safety and supplies for social distancing as a result of the pandemic. Public safety expenditures increased by $1,020,396 (4.6 percent) from the prior year, mainly in personal services as planned in the budget.

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, 2021, presented both by classification and by fund:

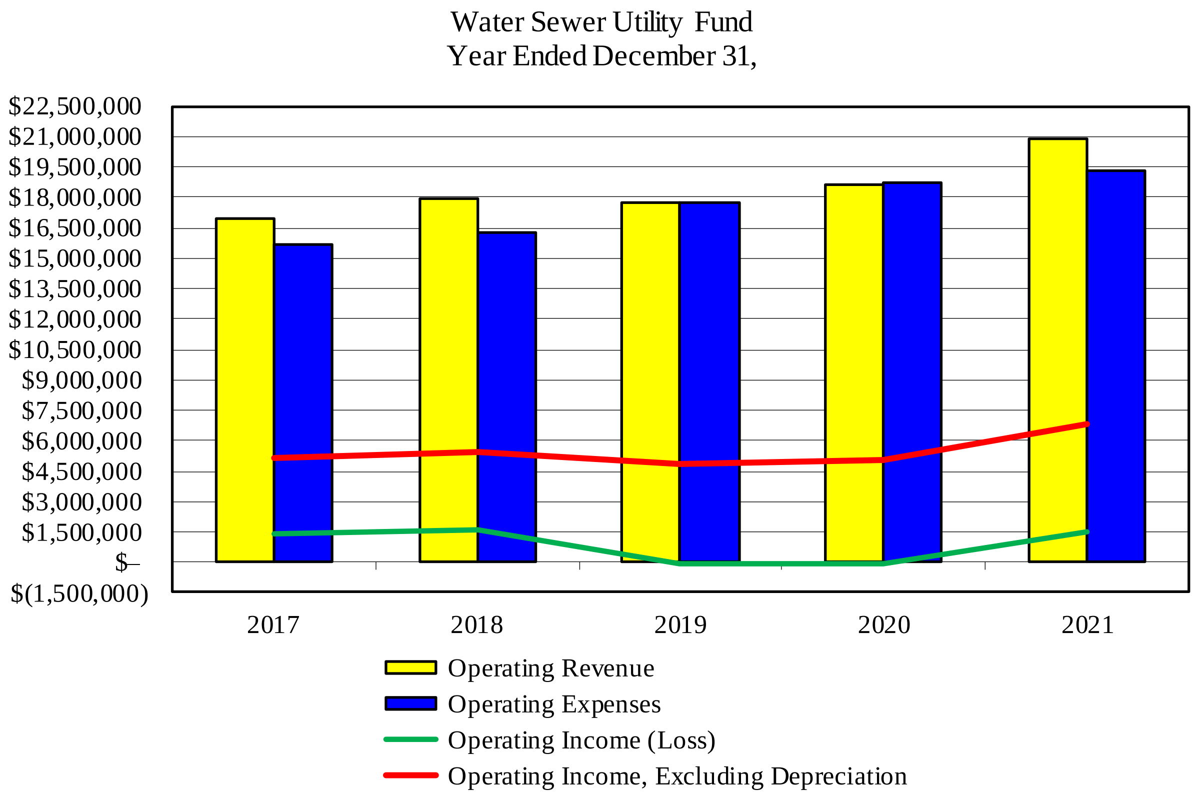
Enterprise Funds Change in Financial Position

	Net Position as of December 31, 2021	Net Position as of December 31, 2020	Change
Net position of enterprise funds			
Total by classification			
Net investment in capital assets	$ 152,951,160	$ 153,569,251	$ (618,091)
Restricted	29,996,595	27,510,696	2,485,899
Unrestricted	10,922,232	10,334,428	587,804
Total enterprise funds	$ 193,869,987	$ 191,414,375	$ 2,455,612
Total by fund			
Water Sewer Utility	$ 144,021,644	$ 143,197,334	$ 824,310
Ice Center	11,165,915	11,491,187	(325,272)
Water Resources	35,233,025	32,976,198	2,256,827
Nonmajor funds			
Solid Waste Management	993,798	1,173,385	(179,587)
Field House	2,455,605	2,576,271	(120,666)
Total enterprise funds	$ 193,869,987	$ 191,414,375	$ 2,455,612

In total, enterprise fund net position increased by $2,455,612 for the year ended December 31, 2021. The City's net investment in capital assets decreased by $618,091, largely due to depreciation recognized in the current year. The restricted portion of net position increased $2,485,899 for utility trunk and water resources, which reflects restricted equity to invest in capital infrastructure of the City. Unrestricted net position increased $587,804 from the prior year-end balance as presented in the table above. Capital contributions 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 2021 with a total net position of $144,021,644, an increase of $824,310 from the prior year. Of this, $111,516,583 represents the net investment in capital assets, and $23,721,236 is restricted, leaving $8,783,825 of unrestricted net position.

The Water Sewer Utility Fund operating revenue was $20,874,178 for 2021, an increase of $2,206,337 (11.8 percent). An increase in rates and consumption in 2021 contributed to this increase. Consumption will fluctuate from year-to-year based on many factors, including weather patterns and the number of utility customers.

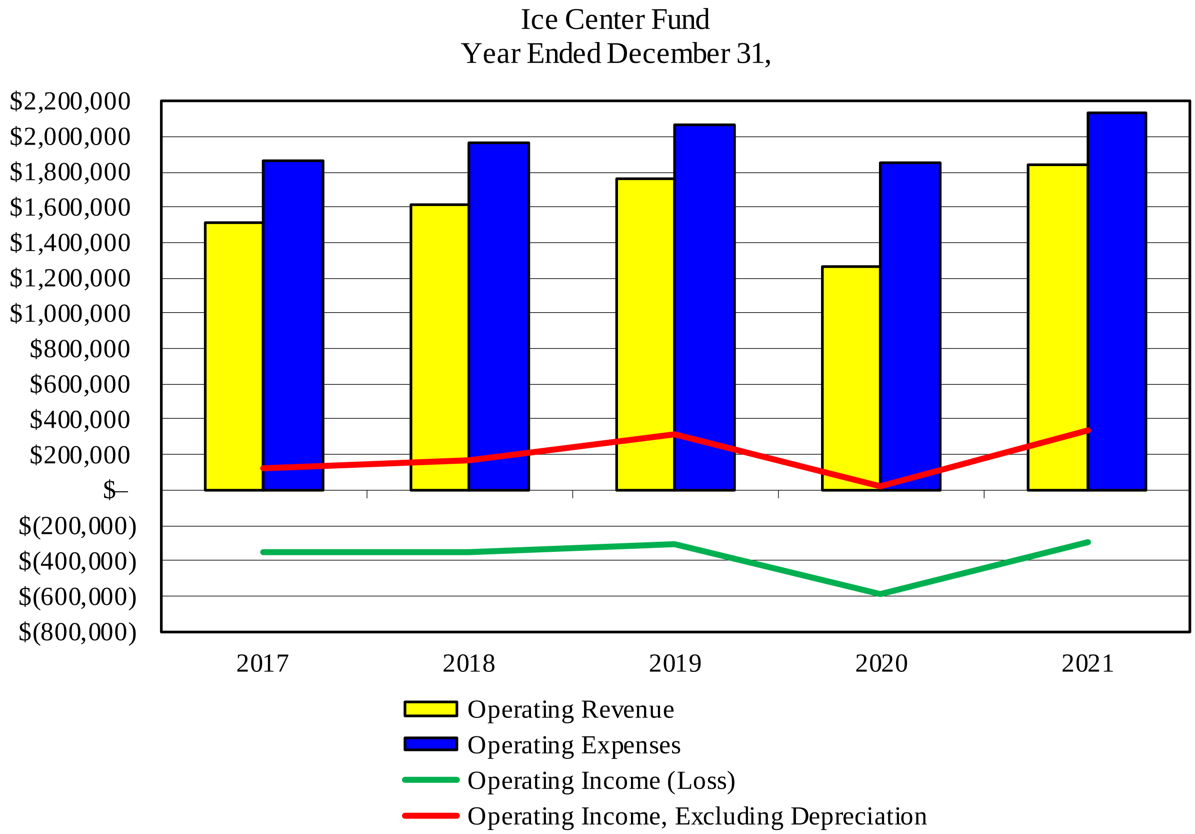
Operating expenses (including depreciation of $5,263,669) were $19,341,034, an increase of $557,834 (3.0 percent); the increase was spread across several areas, including personal services, contractual services, and depreciation.

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.

Operating losses in certain years 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 2021 with a net position of $11,165,915, a decrease of $325,272 from the prior year. Of this, $11,236,622 represents the net investment in capital assets, leaving an unrestricted deficit net position of $70,707.

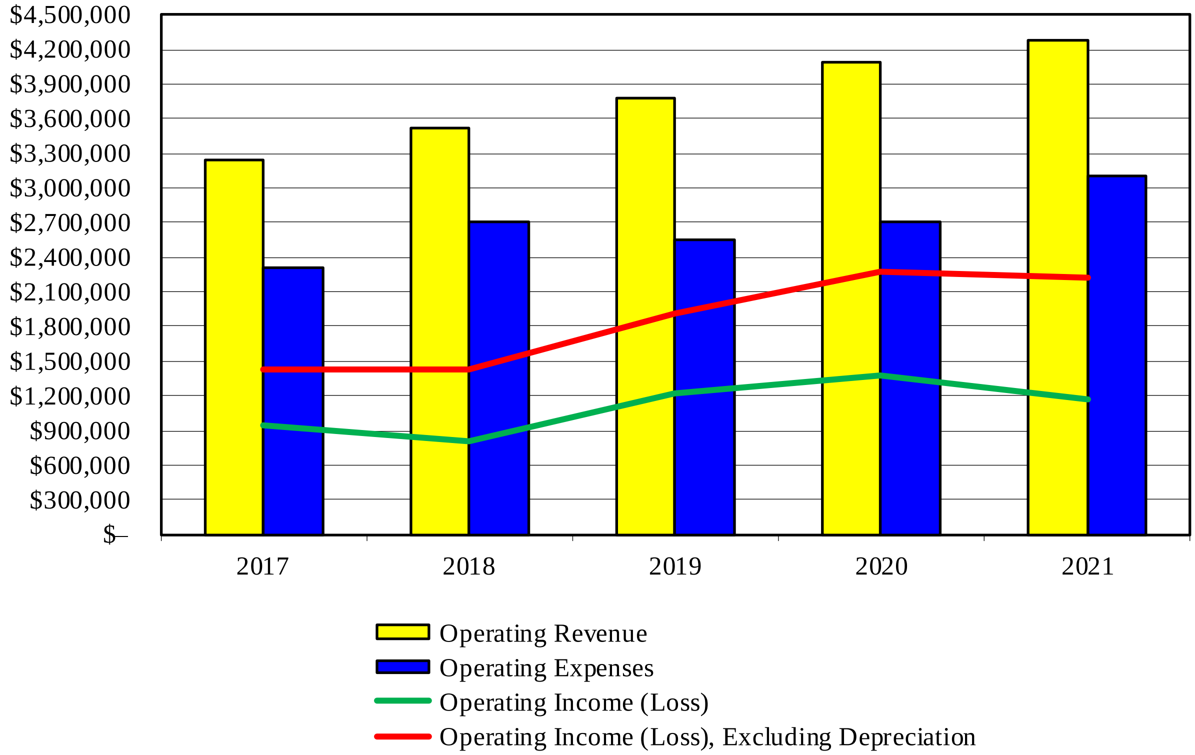
Operating revenue in the Ice Center Fund was $1,840,486, an increase of $573,222 from the prior year. Operating expenses for 2021 were $2,141,317, an increase of $283,781 from the prior year. The increase in expenses was primarily due to personal services, contractual services, and depreciation. Revenues and expenses were up from the prior year, due to the ongoing COVID-19 pandemic limiting service delivery in the prior year.

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:

Water Resources Fund
Year Ended December 31,

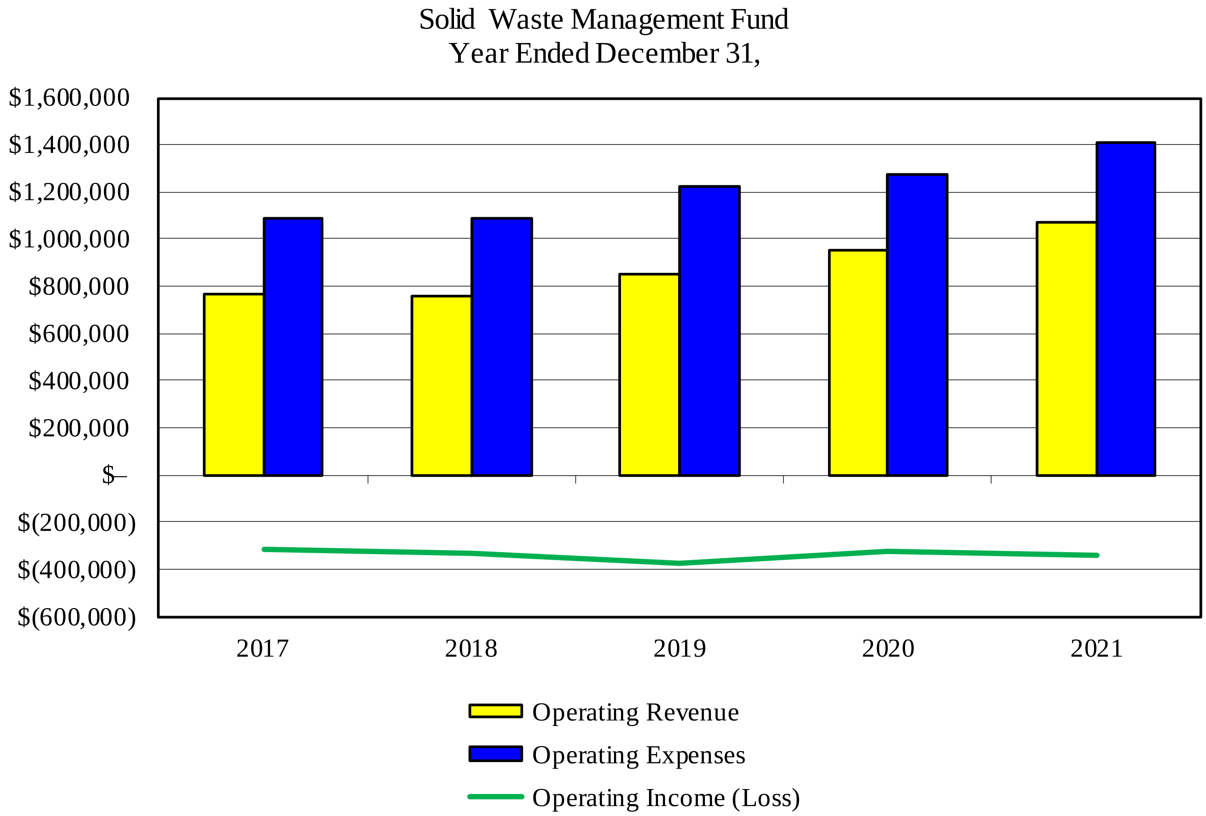


The Water Resources Fund ended 2021 with a net position of $35,233,025, an increase of $2,256,827 from the prior year. Of this, $28,957,666 represents the net investment in capital assets, while the remaining $6,275,359 is restricted for water resources.

Operating revenue in the Water Resources Fund totaled $4,274,103, an increase of $183,146 (4.5 percent) from the prior year, largely due to an increase in approved rates and customers in a growing community. Operating expenses for 2021 were $3,107,762, an increase of $394,606 (14.5 percent) from the prior year. The increase in expenses was primarily due to an increase in personal services and depreciation.

SOLID WASTE MANAGEMENT FUND

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



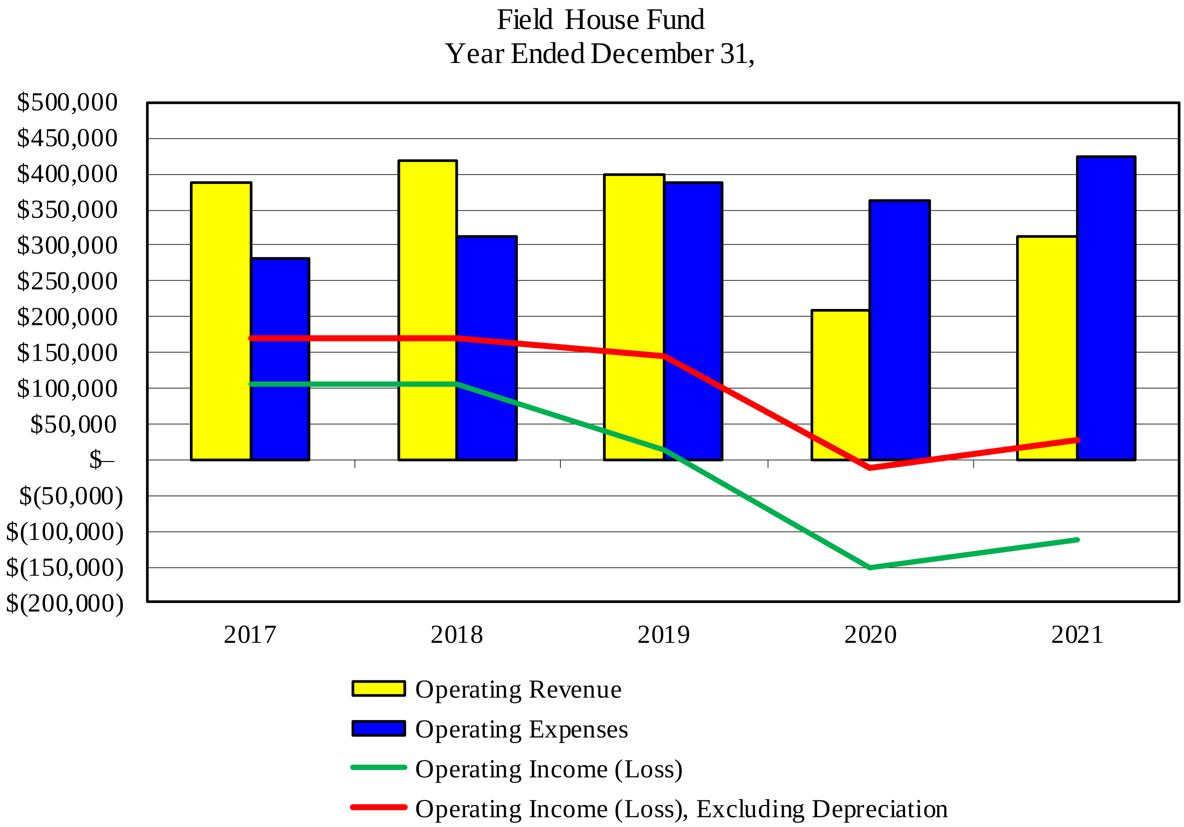
The Solid Waste Management Fund ended 2021 with a net position of $993,798, a decrease of $179,587 from the prior year. Of this, $109,526 represents the net investment in capital assets, leaving $884,272 of unrestricted net position.

Operating revenues in the Solid Waste Management Fund were $1,070,525, an increase of $120,992 from the prior year. Operating expenses for 2021 were $1,410,397, an increase of $132,807 from the prior year, mainly in contractual services.

The City also recognized $160,285 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 2021 with a net position of $2,455,605, a decrease of $120,666 from the prior year. Of this, $1,130,763 represents the net investment in capital assets, leaving $1,324,842 of unrestricted net position.

Total operating revenue in the Field House Fund was $311,378, an increase of $102,134 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 2021 were $424,203, an increase of $62,890, mainly in contractual services from the previous year. This operation was also impacted by the COVID-19 pandemic limiting operations significantly in the prior 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, 2021 and 2020, for governmental activities, business-type activities, and the Housing and Redevelopment Authority (HRA) component unit:

	As of December 31,		
	2021	2020	Change
Net position			
Governmental activities			
Net investment in capital assets	$ 263,555,863	$ 243,569,258	$ 19,986,605
Restricted	24,222,280	32,913,275	(8,690,995)
Unrestricted	82,336,652	73,753,056	8,583,596
Total governmental activities	370,114,795	350,235,589	19,879,206
Business-type activities			
Investment in capital assets	152,951,160	153,569,251	(618,091)
Restricted	30,022,879	27,496,549	2,526,330
Unrestricted	9,017,122	8,251,297	765,825
Total business-type activities	191,991,161	189,317,097	2,674,064
Housing and Redevelopment Authority			
Net investment in capital assets	1,917,619	699,662	1,217,957
Restricted	4,204,406	3,928,184	276,222
Unrestricted	2,153,559	2,229,690	(76,131)
Total Housing and Redevelopment Authority	8,275,584	6,857,536	1,418,048
Total net position	$ 570,381,540	$ 546,410,222	$ 23,971,318

The City (including the HRA) ended 2021 with a combined total net position of $570,381,540, an increase of $23,971,318 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 position. 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, 2021 and 2020:

	2021			2020
	Expenses	Program Revenues	Net Change	Net Change
Net (expense) revenue				
Governmental activities				
General government	$ 6,989,852	$ 1,748,273	$ (5,241,579)	$ (6,002,104)
Economic development	3,857,765	36,486	(3,821,279)	(1,579,722)
Parks and recreation	10,966,251	1,586,906	(9,379,345)	(9,263,107)
Public safety	26,211,396	6,675,272	(19,536,124)	(15,865,874)
Public service	5,318,907	7,673,357	2,354,450	1,881,889
Public works	17,234,926	22,785,750	5,550,824	(3,446,791)
Interest on long-term debt	1,293,490	–	(1,293,490)	(509,274)
Business-type activities				
Water Sewer Utility	19,341,543	24,314,972	4,973,429	5,388,866
Ice Center	2,139,068	1,857,790	(281,278)	(582,112)
Water Resources	3,076,533	5,602,919	2,526,386	4,062,477
Solid Waste Management	1,410,858	1,242,006	(168,852)	(180,538)
Field House	419,640	311,508	(108,132)	(150,404)
Housing and Redevelopment Authority	7,597,331	8,396,375	799,044	(270,273)
Total net (expense) revenue	$105,857,560	$ 82,231,614	(23,625,946)	(26,516,967)
General revenues				
Property, other, and franchise taxes			47,472,375	43,240,305
Grants and contributions not restricted to specific programs			–	5,941,577
Investment earnings (charges)			(405,870)	5,332,090
Gain on sale of capital assets			176,152	195,139
Other			354,607	312,227
Total general revenues			47,597,264	55,021,338
Change in net position			$ 23,971,318	$ 28,504,371

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 in the prior year that were not capital assets of the City. The decrease in grants and contributions not restricted to specific programs reflects the federal CRF resources received in 2020.

LEGISLATIVE UPDATES

As the first year of the fiscal biennium, the primary focus of the 2021 Minnesota legislative session would typically have been the development of the state's fiscal year (FY) 2022–2023 biennial budget. Positive news on the state's budget forecast entering the session, with projections for the end of the FY 2020–2021 biennium improving from a $2.4 billion shortfall predicted in a May 2020 special pandemic budget projection to a $940.0 million surplus predicted in the February 2021 budget and economic forecast, was expected to ease the budget process and relieve the pressure to make budget cuts during an already uncertain time. However, given the significant events of the preceding year, including the COVID-19 pandemic and death of George Floyd, the focus of the regular session shifted to legislation responding to the pressing issues that resulted from those events. The business of setting a biennial budget was ultimately not addressed until a June special session that ended in the early morning hours of July 1st.

The following is a brief summary of legislative changes from the 2021 session or previous legislative sessions potentially impacting Minnesota cities.

American Rescue Plan (ARP) Act – The federal ARP Act, signed into law in March 2021, provided federal economic recovery funding for federal, state, and local government responses to the COVID-19 pandemic. Minnesota local governments received approximately $2.1 billion in funding under the ARP Act, including $644.0 million awarded to 21 large cities (over 50,000 population) and $377.0 million awarded to cities and towns with a population below 50,000, with half distributed in FY 2021 and half in FY 2022. Local governments can use ARP Act funding in four broad categories: responding to public health and economic impacts; providing premium pay to essential workers; providing general government services to the extent of revenue loss; or investments in water, sewer, and broadband infrastructure.

Potential State Aid Enhancements – The 2021 Legislature increased state general fund base spending by approximately $1.3 billion. Included are funding increases for several programs potentially of benefit to Minnesota cities, including:

- A one-time appropriation of $5.5 million for supplemental aid to cities for FY 2022, to offset losses of local government aid (LGA) for 96 cities under the current formula. It is expected the Legislature will review and consider updating the LGA formula during the 2022 session.
- Annual appropriations of $1.8 million for the Greater Minnesota Business Development Public Infrastructure Grant Program, intended to bolster local economic growth by providing grant assistance to cities for public infrastructure needed to create and retain jobs.
- Annual appropriations of $2.5 million for local community childcare grants, intended to assist local communities to increase the number of childcare providers to support economic development.
- Allocating a total of $70.0 million from the state's ARP Act funds over the biennium ($35.0 million per year) to fund the Border-to-Border Broadband Grant Program, which provides grants to local governments for enhancing broadband availability.
- Annual allocations of $4.5 million for reimbursements to local governments for firefighter training and education costs.
- Annual allocations of $2.9 million for reimbursement to local governments for peace officer training costs.
- A one-time appropriation of $18.0 million for FY 2022 to the small cities assistance account to provide additional road repair funding for cities under 5,000 population.

Truth-in-Taxation Changes – Effective for property taxes payable in 2023 and thereafter, county auditors will be required to prepare a new statement for inclusion in its parcel-specific truth-in-taxation notices that contains summary budget information for the county, cities, and school districts for which they spread and collect tax levies. Cities with a population greater than 500 will be required to compile and provide current and proposed summary budget information to the county auditor, based on the summary budget information cities are required to submit each year to the Minnesota state auditor.

Tax Base Change for Low-Income Rental Property – Effective for assessment years 2022 and 2023, the first-tier limit for class 4d low-income rental property is reduced from $174,000 to $100,000, with class rates remaining at 0.75 percent on the first $100,000 and 0.25 percent on the remaining balance. The tier limit will once again be adjusted annually after assessment year 2023.

Local Sales Tax Projects Defined – Minnesota cities are authorized to include up to five capital projects in proposals for local sales taxes. The definition of a capital project for this purpose was updated to include: a single building or structure, including associated infrastructure; improvements within a single park or recreation area, or; a contiguous trail.

Tax Increment Financing (TIF) Flexibility – The Legislature enacted several measures that provide additional flexibility for TIF spending, including:

- Allowing unobligated TIF to be used to provide loans, interest rate subsidies, or other assistance to private developers for the construction or substantial rehabilitation of buildings and ancillary facilities, if doing so will create jobs. Transfer authority expires on December 31, 2022, and all transferred increment must be spent by December 31, 2025, or returned to the TIF district.
- Allowing TIF districts that have elected to increase pooling by 10 percent to use the increment for owner-occupied housing that meets the requirements of a housing TIF district, in addition to current low-income rental housing.
- Providing three-year extensions of the five-year and six-year rules for redevelopment districts created after December 31, 2017, but before June 30, 2020, thereby extending their duration.
- Creating a three-city pilot program, giving temporary authority to transfer unobligated housing TIF district increment to the cities affordable housing trust funds.

Sales and Use Tax Refund Process – Effective for purchases made after June 30, 2021, cities and other local governments are allowed to utilize a streamlined process to secure a sales tax refund on construction materials purchased by a contractor on behalf of the city for construction, remodeling, expansion, or improvement of public safety facilities owned by local governments, such as police and fire stations. The process also applies to materials used in related facilities, such as access roads, lighting, sidewalks, and utility components. Under the process, local governments would continue to initially pay sales tax on these materials, but would then be allowed to file for a refund of the sales tax paid. Contractors would be required to provide the local government with the information necessary to file for the refund.

Fire Protection Special Taxing District Authority – Effective for property tax levies payable in 2023 and thereafter, the current law giving emergency medical districts taxing authority is expanded to include fire protection districts. Two or more local units of government are now permitted to establish a special taxing district to provide fire protection, emergency medical services, or both. The special taxing district will have authority to levy property taxes to finance district operations, spread either across the entire district at a set rate, or allocated to each participating jurisdiction based on factors, such as population or service calls. Districts will also have authority to issue debt related to the function of the district. The property tax and debt issuance authority also apply to existing districts established prior to June 30, 2021.

Open Meeting Law – The Legislature made several pandemic-related changes to the Open Meeting Law, including removing the statutory cap of three times per year for elected officials to utilize a medical exception for attending meetings remotely between January 1, 2021, and July 1, 2021, and removing the requirement for elected officials participating in public meetings remotely, due to military service or medical exceptions, to disclose their remote locations. The law changes also updated the definition of "interactive technology" to replace "interactive television" throughout the text of the Open Meeting Laws, and added requirements for public bodies meeting remotely to enable remote participation by the public free of charge and enable public comment from remote locations, when practical.

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.

GASB Statement No. 98, *The Annual Comprehensive Financial Report*

This statement establishes the term *annual comprehensive financial report* and its acronym *ACFR.* That new term and acronym replace instances of *comprehensive annual financial report* and its acronym in generally accepted accounting principles for state and local governments. This statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur. This statement's introduction of the new term is founded on a commitment to promoting inclusiveness. The requirements of this statement are effective for fiscal years ending after December 15, 2021. Earlier application is encouraged.