Management Report

for

City of Saint Peter, Minnesota

December 31, 2021

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MMKR
CERTIFIED PUBLIC ACCOUNTANTS

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To the City Council and Management
City of Saint Peter, Minnesota

We have prepared this management report in conjunction with our audit of the City of Saint Peter, 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
- Debt Service
- 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 30, 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 *AND GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, 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 and *Government Auditing Standards*, 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 April 13, 2022. Professional standards also require that we communicate the following information related to our audit.

AUDITOR'S RESPONSIBILITY FOR COMPONENT UNITS

Our responsibility is to express opinions on the City's financial statements based on our audit. We did not audit the discretely presented component units' financial statements. This includes the financial statements of the River's Edge Hospital and Clinic and the financial statements of the Housing and Redevelopment Authority. Those statements were audited by other auditors whose reports have been furnished to us. Our opinion on the basic financial statements, insofar as they relate to the amounts included for these organizations as component units of the City, is based solely on the reports of the other auditors.

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, 2021:

- We have issued an unmodified opinion on the City's basic financial statements.

- We reported one deficiency in the City's internal control over financial reporting that we considered to be a material weakness.

    1. During the audit, we noted that the City's accounts payables were understated, requiring a journal entry to the financial statements. Auditing standards consider the identification of a material misstatement that was not initially identified by the City to be a material weakness in the related internal control.

- We reported one significant deficiency related to our testing of internal controls over financial reporting:

    1. We reported that, due to the small number of office staff, the City has a limited segregation of in several areas, which we consider a significant deficiency in internal controls.

- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards.*

- We reported two findings based on our testing of the City's compliance with Minnesota laws and regulations.

    1. Minnesota Statutes § 471.425, Subd. 2 requires that local government bills must be paid within 35 days of receipt for governing boards that meet at least once a month. Three of twenty-five disbursements tested were not paid within thirty-five days of receipt.

    2. Minnesota Statutes § 471.345 Subd. 4 requires contracts estimated to exceed $25,000, but not to exceed $175,000, be made either by sealed bids or direct negotiation, by obtaining two or more quotations for the purchase. For one of six contracts selected for testing, the City did not obtain two or more quotations for the purchase.

FOLLOW-UP ON PRIOR YEAR FINDINGS AND RECOMMENDATIONS

As a part of our audit of the City's financial statements for the year ended December 31, 2021, we performed procedures to follow-up on the findings and recommendations that resulted from our prior year audit. We reported the following three findings that were corrected by the City in the current year:

- 2020-002 – Internal Control Over Compliance With Federal Allowable Activities and Period of Performance Requirements

- 2020-003 – Internal Control Over Compliance With Federal Reporting Requirements

- 2020-004 – Collateral

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.

- **Self-Insurance Reserves** – Management's estimates of costs for unreported claims are based on the past history of claims reported.

- **Compensated Absences** – Management's estimate is based on current rates of pay, sick leave balances, and the likelihood that sick leave will ultimately be paid at termination.

- **Value of Property Held for Resale** – Management's estimates of these assets are based on net realizable value (lower of cost or acquisition value).

- **Total Other Post-Employment Benefits (OPEB) and Net Pension Liability** – The City has recorded liabilities and activity for OPEB and pension benefits. These obligations are calculated using actuarial methodologies described in 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.

- **Allowance for Doubtful Accounts** – Management's estimate of the allowance for doubtful accounts is based on historical water and sewer revenues, historical loss levels, and an analysis of the collectability of individual accounts.

We evaluated the key factors and assumptions used by management to develop these accounting 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 to OPEB and 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 was one misstatement detected as a result of audit procedures that was material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole. This material misstatement was described earlier in this report.

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 30, 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 supplemental information accompanying the financial statements, which is not RSI. With respect to this supplementary 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 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 other city information 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

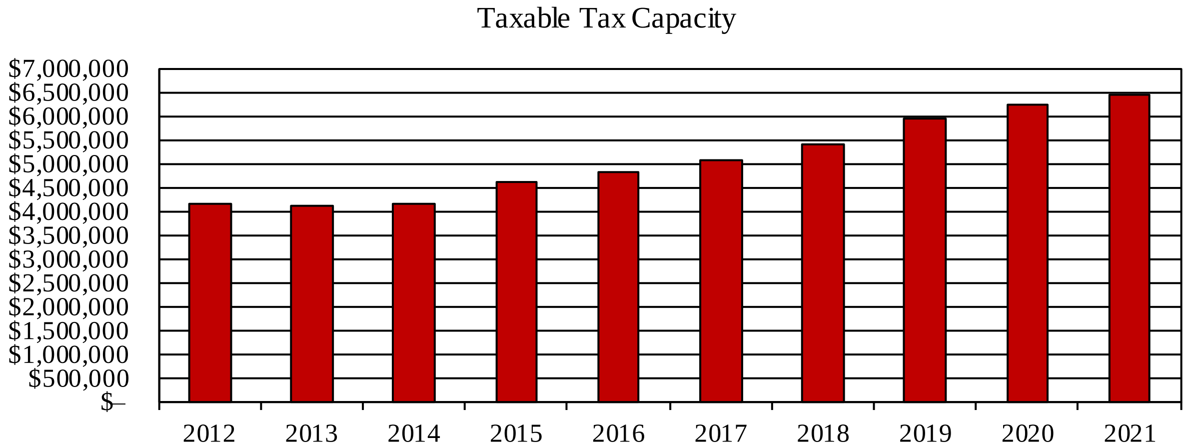
Minnesota cities rely heavily on local property tax levies to support their governmental fund activities. For the 2020 fiscal year, local ad valorem property tax levies provided 40.9 percent of the total governmental fund revenues for cities over 2,500 in population, and 36.5 percent for cities under 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 taxable market value increased 5.1 percent for taxes payable in 2020 and increased 12.1 percent for taxes payable in 2021. The following graph shows the City's changes in taxable 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 5.1 percent and 2.9 percent for taxes payable in 2020 and 2021, respectively.

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



Some of the increase in taxable tax capacity in 2015 is related to the decertification of tax increment districts by the City in previous 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 Saint Peter		
	2019	2020	2021
Average tax rate			
City	50.1	51.6	51.7
County	54.0	55.1	58.4
School	38.1	35.9	36.9
Special taxing	0.5	0.5	0.5
Total	142.7	143.1	147.5

GOVERNMENTAL FUNDS REVENUE

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 by Population Class

	State-Wide			City of Saint Peter		
Year	December 31, 2020			2019	2020	2021
Population	2,500–10,000	10,000–20,000	20,000–100,000	12,033	12,066	12,066
Property taxes	$ 540	$ 517	$ 537	$ 252	$ 269	$ 269
Tax increments	34	33	44	57	66	79
Franchise and other taxes	49	60	46	11	10	9
Special assessments	54	39	54	7	4	9
Licenses and permits	36	39	46	13	14	29
Intergovernmental revenues	474	367	273	337	416	343
Charges for services	113	89	91	35	32	49
Other	83	69	69	109	87	85
Total revenue	$ 1,383	$ 1,213	$ 1,160	$ 821	$ 898	$ 872

The City's lower than average tax revenue is primarily the result of the City relying on enterprise fund activities to finance the City's activities. This is due to the large amount of nontaxable property within the City.

In 2021, governmental funds revenue per capita decreased $26 per capita. The large decrease was in intergovernmental revenues, due to the federal Coronavirus Relief Funds (CRF) the City received in 2020 for COVID-19 support. This decrease was partially offset by licenses and permits, along with charges for services increasing by $15 and $17 per capita, respectively, due to the pandemic limiting activity in the prior year. Tax increments increased by $13 per capita, due to an increase in increment generated from the City's Tax Increment Financing (TIF) Districts.

It is important to note that this table does not include operating transfers, which are used by the City to support governmental fund activities. This information is not included in the table, as the comparable information is not available.

GOVERNMENTAL FUNDS 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 comparative 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 Saint Peter		
Year	December 31, 2020			2019	2020	2021
Population	2,500–10,000	10,000–20,000	20,000–100,000	12,033	12,066	12,066
Current						
General government	$ 176	$ 140	$ 118	$ 119	$ 132	$ 131
Public safety	315	288	320	267	272	275
Streets and highways	146	122	112	120	112	127
Parks and recreation	100	112	95	157	154	174
All other	95	108	104	49	121	75
Total current	832	770	749	712	791	782
Capital outlay and construction	586	429	331	236	119	194
Debt service						
Principal	172	149	91	127	110	95
Interest and fiscal charges	45	42	33	29	22	28
Total debt service	217	191	124	156	132	123
Total expenditures	$ 1,635	$ 1,390	$ 1,204	$ 1,104	$ 1,042	$ 1,099

The City's governmental funds, current per capita expenditures increased by $57 per capita in fiscal 2021. Capital outlay and construction expenditures increased by $75 per capita from the previous year, as this category changes each year based on the timing of projects in the City. Parks and recreation increased $20 per capita, due to increased activity as the pandemic subsides. The "all other" category of expenditures decreased by $46 per capita from the previous year, due to the City issuing economic development loans with CRF in 2020.

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:

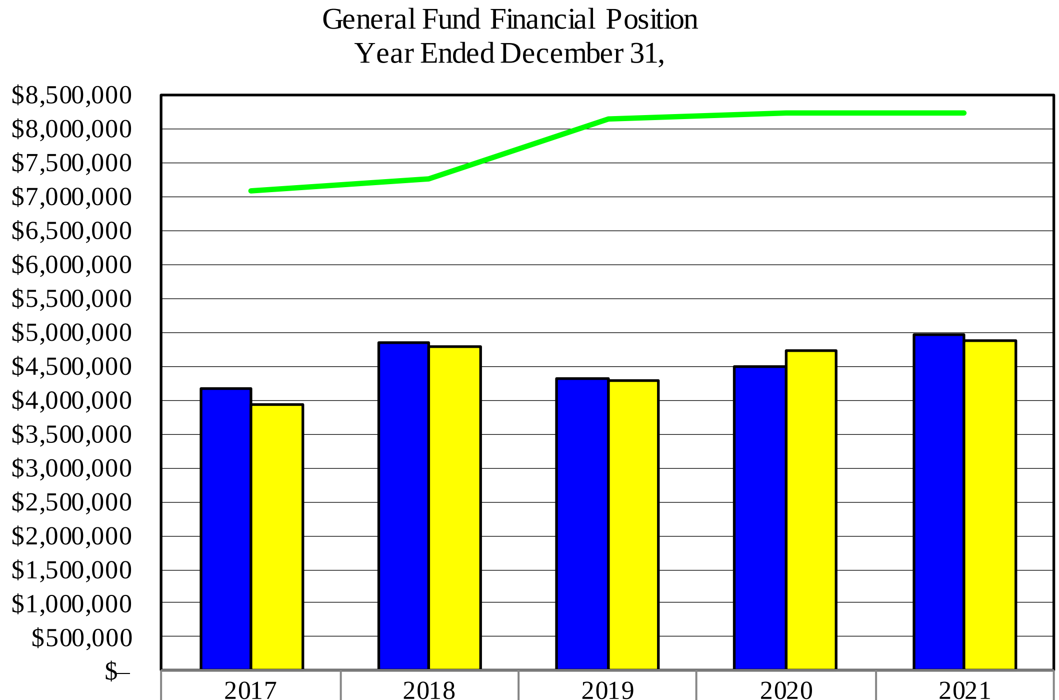
Governmental Funds Change in Fund Balance

	Fund Balance as of December 31, 2020	Fund Balance as of December 31, 2021	Change
Fund balances of governmental funds			
Total by classification			
Nonspendable	$ 854	$ 2,987	$ 2,133
Restricted	5,999,792	5,693,510	(306,282)
Committed	747,429	871,824	124,395
Assigned	221,433	568,872	347,439
Unassigned	3,247,005	3,699,063	452,058
Total governmental funds	$ 10,216,513	$ 10,836,256	$ 619,743
Total by fund			
General	$ 4,485,729	$ 4,967,841	$ 482,112
Capital Projects – Traverse Green TIF District	370,814	89,282	(281,532)
Nonmajor	5,359,970	5,779,133	419,163
Total governmental funds	$ 10,216,513	$ 10,836,256	$ 619,743

In total, the fund balances of the City's governmental funds increased by $619,743 during the year ended December 31, 2021. The decrease in the restricted fund balance was due to the Traverse Green TIF District incurring significant capital outlay expenditures related to the Clark Street project. The increase in assigned fund balance was due to the City assigning fiscal 2022's General Fund budgeted deficit. The increase in unassigned fund balance is due to Parkland Dedication Capital Projects Fund balance deficit decreasing, due to the City receiving proceeds from a sale of property.

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, street and highway maintenance, parks and recreation, and economic development. 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.



	2017	2018	2019	2020	2021
Fund Balance	$4,173,342	$4,854,944	$4,305,606	$4,485,729	$4,967,841
Net Cash Balance	$3,927,763	$4,799,635	$4,288,105	$4,737,540	$4,863,335
Expenditures	$7,088,453	$7,260,349	$8,141,214	$8,235,391	$8,234,321

The City's General Fund cash and investments balance increased in the current year as a result of the increase to fund balance. The total fund balance at December 31, 2021 was $4,967,841, an increase of $482,112, as compared to a budgeted decrease of $147,589.

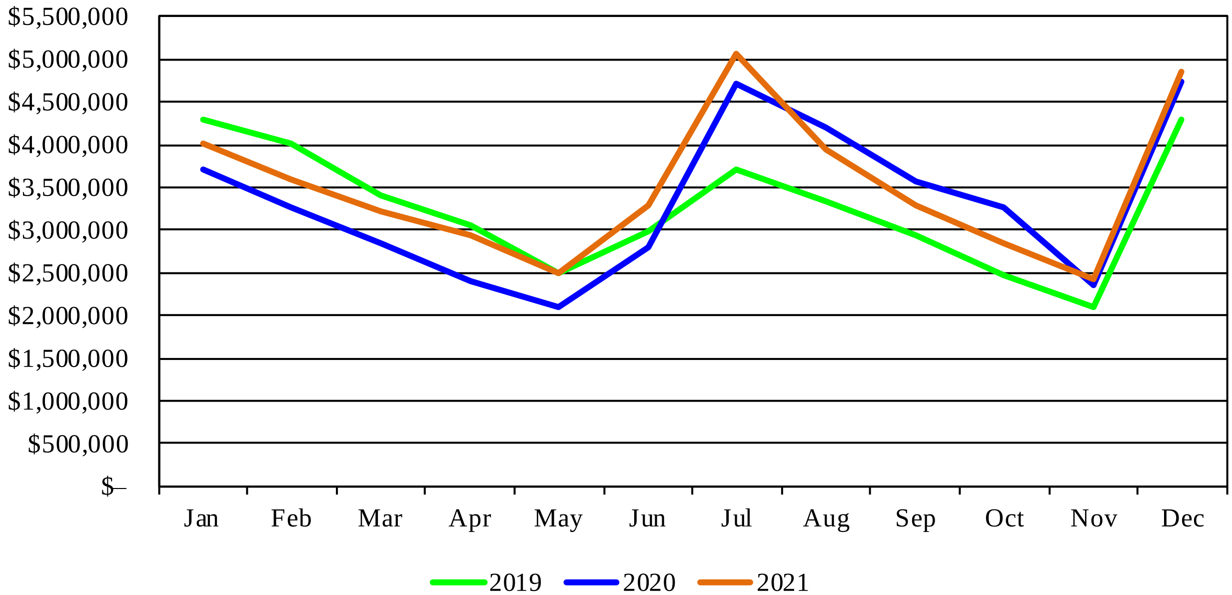
As the graph illustrates, the City has generally been able to maintain healthy cash and fund balance levels as the volume of financial activity has grown. This is an important factor because a government, like any organization, requires a certain amount of equity to operate. A healthy financial position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

The City Council has formally adopted a fund balance policy regarding the fund balance for the General Fund. The policy establishes that the City will strive to maintain an unassigned fund balance in the General Fund in the range of 35.0–50.0 percent of the following year's budgeted expenditures. At December 31, 2021, the unassigned fund balance of the General Fund was 45.3 percent of the subsequent year's budgeted expenditures. The total fund balance was 54.9 percent of subsequent year's budgeted expenditures.

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 and state aids comprise about 82.8 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.

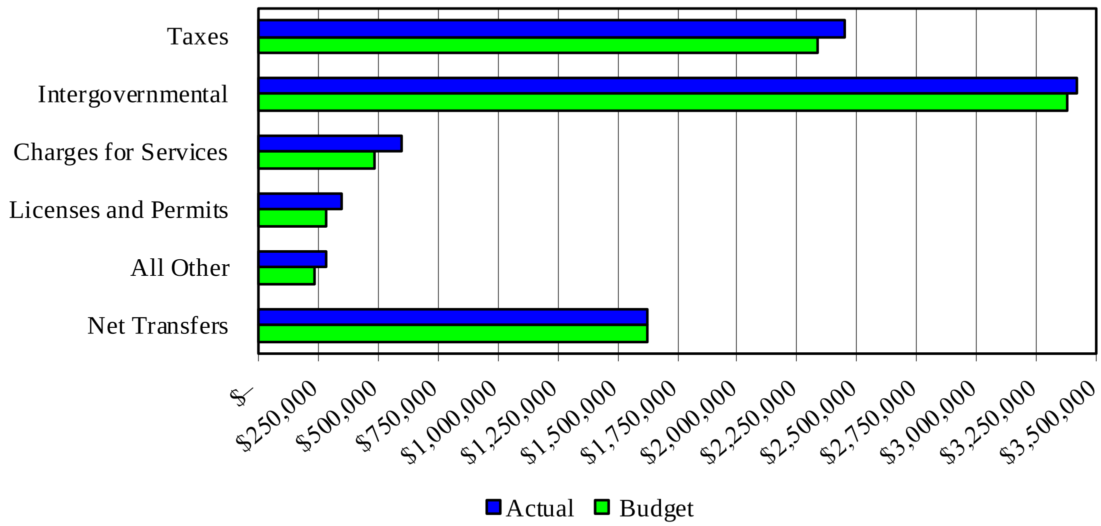
The following graph illustrates the monthly cash flow of the General Fund in recent years (excluding interfund borrowing). Adequate fund balances in the General Fund have provided for positive month-end balances for all three years presented.

General Fund Cash and Investment Flow
Month-End Balances



The following graph reflects the City's General Fund revenues and net transfers, budget and actual, for 2021:

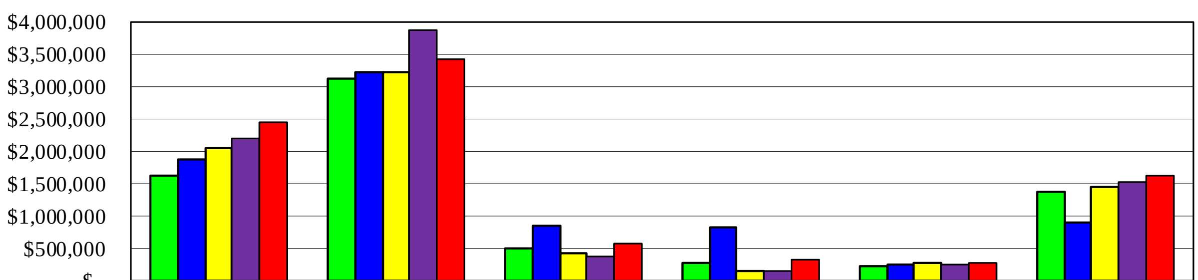
General Fund Revenue
Budget and Actual



Total General Fund revenues and net transfers in 2021 were $8,716,433, which was $377,860 more than the final budget. Licenses and permits exceeded budgeted amounts by $65,536, due to increased construction activity. Taxes exceeded budgeted amounts by $115,493, due to better than projected collections. Charges for services was over budget by $108,028, due to a reduction in COVID-19-related restrictions.

The following graph presents the City's General Fund revenue sources for the last five years:

General Fund Revenue by Source
Year Ended December 31,



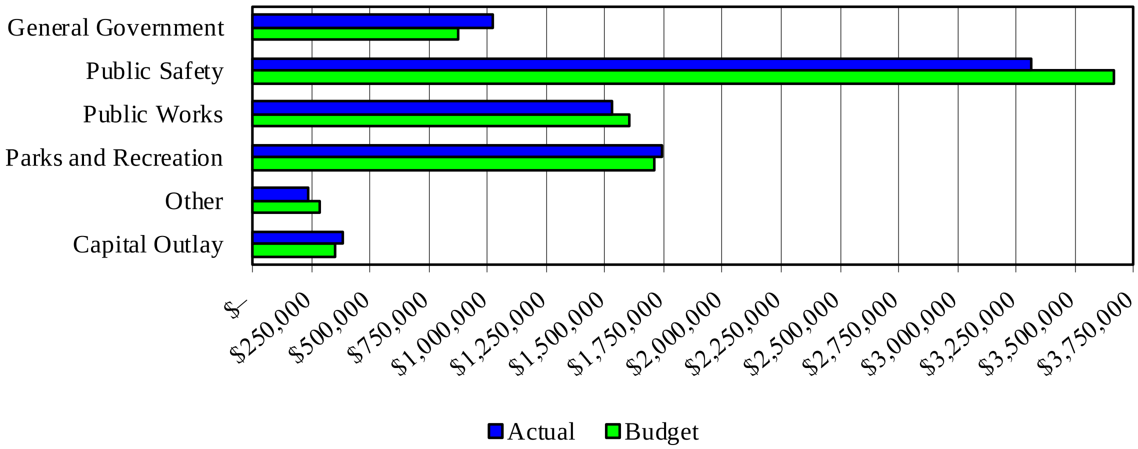
	Taxes	Intergovernmental	Charges for Services	Licenses and Permits	All Other	Net Transfers
2017	$1,622,592	$3,124,235	$505,815	$283,358	$240,607	$1,381,797
2018	$1,872,594	$3,228,131	$857,299	$823,846	$257,871	$902,210
2019	$2,051,165	$3,230,762	$422,304	$151,730	$284,897	$1,451,018
2020	$2,210,294	$3,870,151	$384,671	$171,778	$251,230	$1,526,172
2021	$2,447,893	$3,421,466	$595,058	$346,261	$281,687	$1,624,068

Revenues and net transfers for the year ended December 31, 2021 increased by $302,137. Intergovernmental decreased, due to the City receiving less COVID-19-related aid in the current year. Taxes increased, due to an increase in the tax levy in the current year. Charges for services, along with licenses and permits, increased due to less pandemic-related restrictions in the current year. The increase in net transfers was anticipated in the City's budget for the year.

The large amount of tax-exempt property in the City causes historically, heavily relied upon intergovernmental revenue (mainly state aid) and transfers from its enterprise funds to help support General Fund operations.

The following graph provides the components of the City's General Fund spending for 2021 compared to budget:

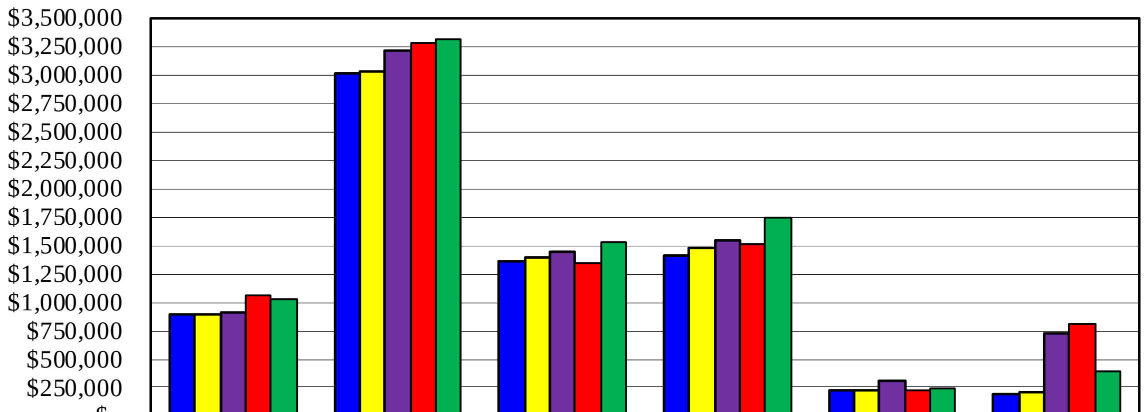
General Fund Expenditures
Budget and Actual



Total General Fund expenditures for 2021 were $8,234,321, which was $251,841 less than budget. Public safety was under budget by $353,545, due to decreased spending on the police department, mainly due to vacant positions. Public works was under budget by $73,400, due to lower than budgeted spending on wages and benefits. General government was over budget by $148,365, mainly in personnel costs including wages and fringe benefits and building repair and maintenance costs.

The following graph presents the components of the City's General Fund spending for the past five years:

General Fund Expenditures by Function
Year Ended December 31,



	General Government	Public Safety	Public Works	Parks and Recreation	Other	Capital Outlay
2017	$898,784	$3,010,330	$1,352,627	$1,414,024	$229,546	$183,142
2018	$899,807	$3,038,480	$1,401,593	$1,479,333	$227,836	$213,300
2019	$914,176	$3,209,627	$1,438,798	$1,542,035	$310,222	$726,356
2020	$1,059,200	$3,281,216	$1,347,888	$1,508,161	$232,270	$806,656
2021	$1,022,449	$3,312,297	$1,528,658	$1,745,829	$238,826	$386,262

In 2021, total General Fund expenditures decreased by $1,070. Capital outlay decreased $420,394. Capital outlay can fluctuate year-over-year, due to the timing and number of ongoing projects. Public works increased $180,770, due to increased professional service costs for streets. Parks and recreation increased $237,668, due to the increase in programming as COVID-19-related restrictions subsided in 2021.

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ENTERPRISE FUNDS OVERVIEW

The City maintains a number of 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.

The enterprise 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 by way of annual transfers. We understand 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 governmental 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 2021, presented both by classification and by fund:

Enterprise Funds Change in Financial Position

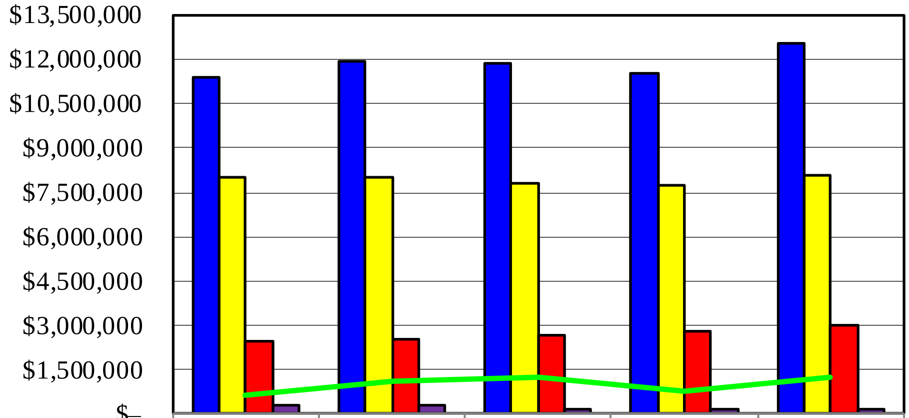
	Net Position as of December 31, 2020	Net Position as of December 31, 2021	Change
Net position of enterprise funds			
Total by classification			
Net investment in capital assets	$ 51,901,045	$ 52,597,223	$ 696,178
Restricted for debt service	656,477	656,477	–
Restricted for capital replacement	894,015	–	(894,015)
Unrestricted	2,476,863	3,403,571	926,708
Total enterprise funds	$ 55,928,400	$ 56,657,271	$ 728,871
Total by fund			
Electric	$ 16,709,250	$ 17,064,546	$ 355,296
Water	9,615,271	9,710,484	95,213
Environmental Services	(2,899)	14,475	17,374
Wastewater	21,515,097	21,967,556	452,459
Storm Water	5,414,470	5,229,440	(185,030)
Telecommunications Conduit	151,058	139,039	(12,019)
Medical Office Building	2,526,153	2,531,731	5,578
Total enterprise funds	$ 55,928,400	$ 56,657,271	$ 728,871

In total, net position of the City's enterprise funds increased by $728,871 during the year ended December 31, 2021. The financial results of the most significant funds are further described on the following pages.

ELECTRIC FUND

The following graph presents five years of comparative data for the City's Electric Fund:

Electric Fund Operation
Year Ended December 31,



	2017	2018	2019	2020	2021
Operating Revenue	$11,362,827	$11,969,327	$11,863,160	$11,511,083	$12,555,614
Purchased Power	$7,992,040	$8,008,885	$7,823,127	$7,763,314	$8,067,990
Operating Expense	$2,433,887	$2,557,162	$2,655,329	$2,791,476	$3,036,239
Net Other Expense	$284,089	$276,291	$157,499	$153,087	$171,051
Income Before Transfers and Contributions	$652,811	$1,126,989	$1,227,205	$803,206	$1,280,334

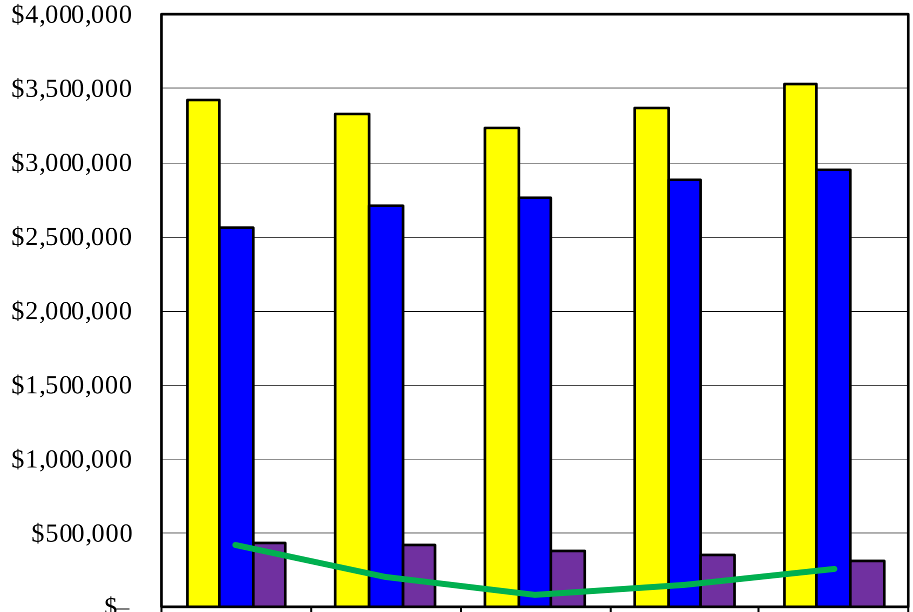
At December 31, 2021, the Electric Fund had a total net position of $17,064,546, of which $656,477 was restricted for debt service; $13,906,118 was the net investment in capital assets; and $2,501,951 was unrestricted.

Electric Fund operating revenue was $12,555,614 for 2021, an increase of $1,044,531 (9.1 percent), due to increases in usage and one-time rebates from Southern Minnesota Municipal Power in the current year. Operating expenses (excluding purchased power) increased by $244,763 (8.8 percent) in 2021, mainly due to an increase in repairs and maintenance.

WATER FUND

The following graph presents selected data for the City's Water Fund for the past five years:

Water Fund Operation
Year Ended December 31,



	2017	2018	2019	2020	2021
Operating Revenue	$3,419,963	$3,329,466	$3,232,207	$3,371,567	$3,530,127
Operating Expense	$2,567,831	$2,706,977	$2,770,452	$2,881,254	$2,959,326
Net Other Expense	$432,614	$416,320	$381,245	$349,006	$313,669
Income Before Transfers and Contributions	$419,518	$206,169	$80,510	$141,307	$257,132

At December 31, 2021, the Water Fund had a total net position of $9,710,484, of which $9,837,655 was the net investment in capital assets and a negative $127,171 was unrestricted.

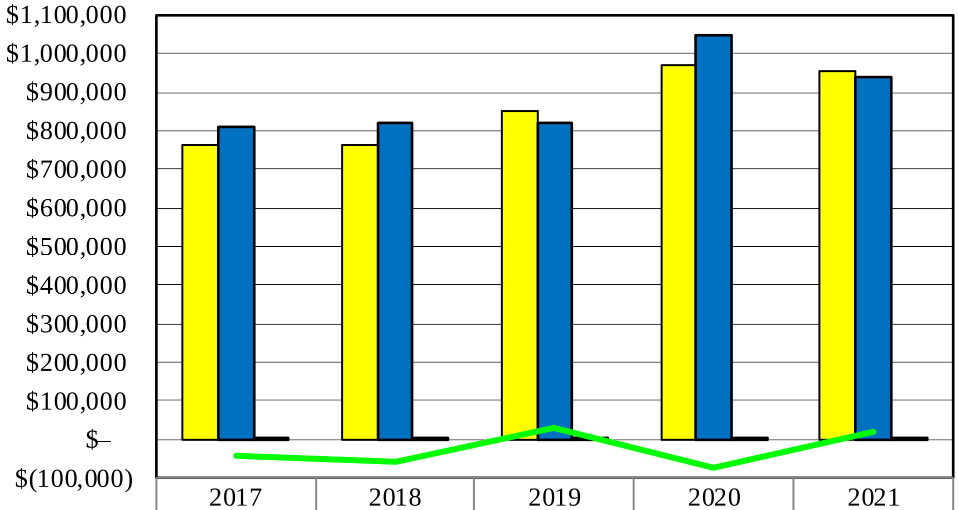
Water Fund operating revenue was $3,530,127 for 2021, an increase of $158,560 (4.7 percent), which was primarily the result of an increase in consumption. Operating expenses increased by $78,072, (2.7 percent), mainly due to an increase in depreciation on infrastructure recently placed into service.

Although this fund is in a positive financial position, we suggest that the City continue to review the water rates on an annual basis. Water rates are generally designed to cover operating costs and provide an accumulation of resources for significant repairs and replacements, and an operating cushion for potential negative years in financial operations.

ENVIRONMENTAL SERVICES FUND

The following graph presents selected data for the City's Environmental Services Fund for the past five years:

Environmental Services Fund
Year Ended December 31,



	2017	2018	2019	2020	2021
Operating Revenue	$763,613	$762,832	$848,917	$968,931	$955,065
Operating Expense	$808,861	$822,172	$819,070	$1,045,485	$939,583
Net Other Revenue	$1,680	$2,116	$1,663	$2,473	$1,892
Change in Net Position	$(43,568)	$(57,224)	$31,510	$(74,081)	$17,374

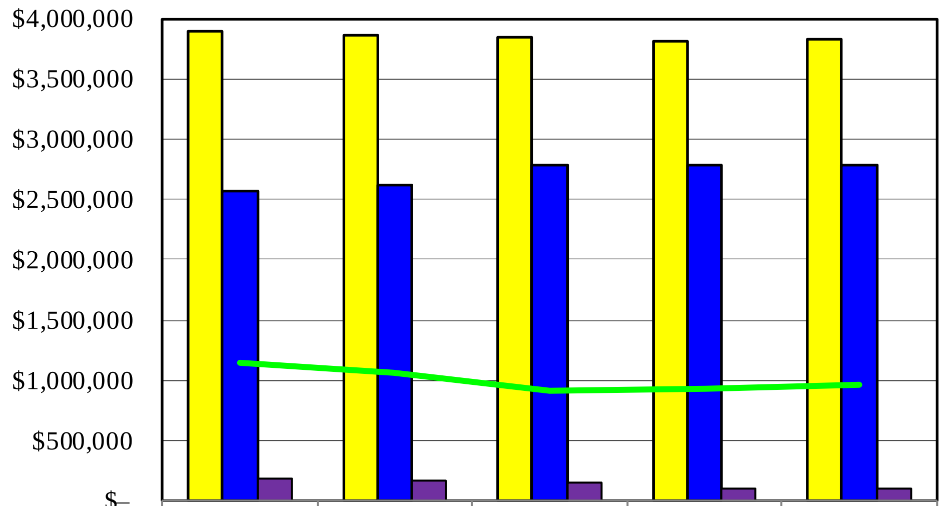
At December 31, 2021, the Environmental Services Fund had a total net position of $14,475, of which $159,401 was the net investment in capital assets and a negative $144,926 was unrestricted.

Environmental Services Fund operating revenue was $955,065 for 2021, a decrease of $13,866 (1.4 percent). Operating expenses decreased by $105,902 (10.1 percent) in 2021, mainly due to decreased personnel costs.

WASTEWATER FUND

The following graph presents selected data for the City's Wastewater Fund for the past five years:

Wastewater Fund
Year Ended December 31,



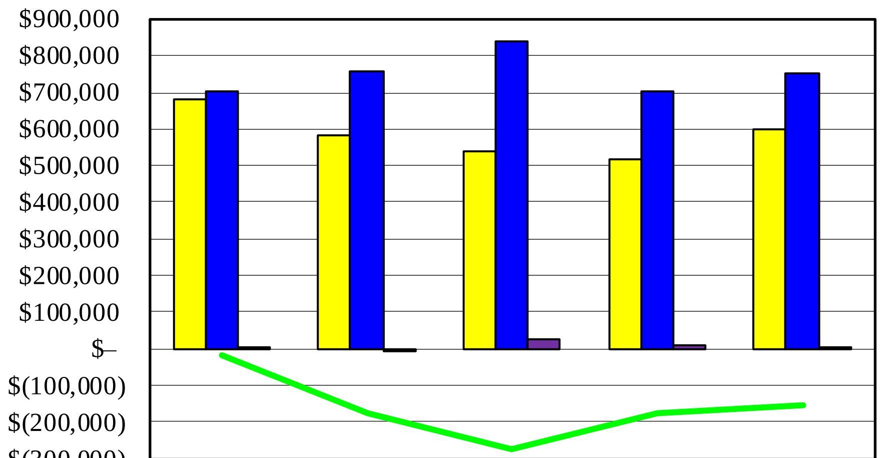
	2017	2018	2019	2020	2021
Operating Revenue	$3,904,375	$3,868,100	$3,846,332	$3,822,666	$3,837,108
Operating Expense	$2,565,811	$2,628,891	$2,781,274	$2,790,224	$2,788,597
Net Other Expense	$185,316	$169,398	$146,051	$103,500	$91,963
Income Before Transfers	$1,153,248	$1,069,811	$919,007	$928,942	$956,548

At December 31, 2021, the Wastewater Fund had a total net position of $21,967,556, of which $21,017,880 was the net investment in capital assets and $949,676 was unrestricted.

STORM WATER FUND

The following graph presents selected data for the City's Storm Water Fund for the past five years:

Storm Water Fund
Year Ended December 31,



	2017	2018	2019	2020	2021
Operating Revenue	$681,306	$582,450	$540,543	$517,459	$600,165
Operating Expense	$702,256	$757,340	$840,798	$702,089	$754,055
Net Other Revenue (Expense)	$1,500	$(1,790)	$27,906	$9,629	$902
Income (Loss) Before Transfers	$(19,450)	$(176,680)	$(272,349)	$(175,001)	$(152,988)

At December 31, 2021, the Storm Water Fund had a total net position of $5,229,440, of which $5,078,912 is the net investment in capital assets and $150,528 is considered unrestricted.

Storm Water Fund operating revenue was $600,165 for 2021, an increase of $82,706 (16.0 percent), mainly due increased rates and additional erosion control permits in the current year. Operating expenses increased $51,966 (7.4 percent), mainly due to more personal services expenses in the current year.

DEBT SERVICE

The following table shows outstanding debt per capita (excluding unamortized premiums) for the City's governmental activities and comparable state-wide averages:

Outstanding Debt per Capita
Governmental Activities
With State-Wide Comparable Information

Bond Type	State-Wide as of December 31, 2019	State-Wide as of December 31, 2020	City of Saint Peter as of December 31, 2019	City of Saint Peter as of December 31, 2020	City of Saint Peter as of December 31, 2021
General obligation	$ 596	$ 621	$ 221	$ 213	$ 275
Tax increment	68	71	369	268	246
Special assessment	410	413	–	–	–
General obligation revenue	396	415	499	232	206
Revenue	182	189	–	–	–
Other	1	1	–	–	–
Governmental activities total	$ 1,653	$ 1,710	$ 1,089	$ 713	$ 727

The following table shows outstanding debt per capita for the City's enterprise funds and comparable state-wide averages:

Outstanding Debt per Capita
Enterprise Funds
With State-Wide Comparable Information

Fund	State-Wide as of December 31, 2019	State-Wide as of December 31, 2020	City of Saint Peter as of December 31, 2019	City of Saint Peter as of December 31, 2020	City of Saint Peter as of December 31, 2021
Electric	$ 447	$ 417	$ 601	$ 580	$ 524
Water	183	196	1,158	1,050	937
Wastewater	184	190	442	336	228
Storm Water	26	30	2	–	–
Total enterprise funds	$ 840	$ 833	$ 2,203	$ 1,966	$ 1,689
Primary government totals	$ 2,493	$ 2,543	$ 3,292	$ 2,679	$ 2,416

As seen in the table above, the City has more outstanding debt per capita than the average Minnesota city. This higher-than-average debt balance is mostly related to balances within the Water and Wastewater Funds, which are related to recent capital improvements in these funds.

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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 the 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 2021, for governmental activities and business-type activities:

	As of December 31,		
	2020	2021	Change
Net position			
Governmental activities			
Net investment in capital assets	$ 31,135,441	$ 31,259,193	$ 123,752
Restricted	6,501,925	8,022,473	1,520,548
Unrestricted	98,314	1,351,066	1,252,752
Total governmental activities	37,735,680	40,632,732	2,897,052
Business-type activities			
Net investment in capital assets	51,901,045	52,597,223	696,178
Restricted	1,550,492	656,477	(894,015)
Unrestricted	2,476,863	3,403,571	926,708
Total business-type activities	55,928,400	56,657,271	728,871
Total net position – primary government	$ 93,664,080	$ 97,290,003	$ 3,625,923

Much of the City's net position is restricted by virtue of external restrictions (statutory reserves) or by the nature of the fund it is in. Further, a significant portion of net position has been identified as invested in capital assets, net of related debt, which leaves the balance unrestricted.

The increase in the restricted balance in governmental activities is a combination of a number of items, including increased amounts in restricted for debt service, capital projects, revolving loans, and other purposes. The increase in unrestricted net position in the governmental activities is related to positive operating results in these funds. The changes in the business-type activities relate to the result of current year operations, including principal payments on debt, released restrictions on related debt, and capital asset purchases.

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 the net position of the City for the years ended December 31, 2020 and 2021:

	2020	2021		
	Net Difference	Expenses	Program Revenues	Net Difference
Net (expense) revenue				
Governmental activities				
General government	$ (1,120,495)	$ 1,548,203	$ 628,844	$ (919,359)
Public safety	(2,605,125)	3,073,012	949,527	(2,123,485)
Public works	(2,510,630)	2,744,535	1,535,955	(1,208,580)
Parks and recreation	(2,138,230)	2,460,080	208,091	(2,251,989)
Economic development	(400,786)	844,042	415,748	(428,294)
Interest and fiscal charges	(229,655)	297,449	–	(297,449)
Business-type activities				
Electric	770,010	11,282,708	12,556,403	1,273,695
Water	130,163	3,285,927	3,542,735	256,808
Environmental services	(76,073)	939,583	956,957	17,374
Wastewater	906,855	2,884,198	3,837,608	953,410
Storm water	(184,206)	754,055	600,433	(153,622)
Telecommunications conduit	(12,075)	14,265	2,226	(12,039)
Medical office building	(27,395)	284,906	290,515	5,609
	(7,497,642)	$ 30,412,963	$ 25,525,042	(4,887,921)
General revenues				
Taxes	4,173,244			4,305,684
Unrestricted grants and contributions	4,159,642			3,660,221
Investment earnings (charges)	163,814			(1,548)
Other revenues	389,618			549,487
Total general revenues	8,886,318			8,513,844
Change in net position	1,388,676			3,625,923
Net position – beginning	92,275,404			93,664,080
Net position – ending	$ 93,664,080			$ 97,290,003

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 unrestricted grants. It also shows if 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.

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.