Management Report

for

City of Wayzata, Minnesota

December 31, 2021

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MMKR
CERTIFIED PUBLIC ACCOUNTANTS

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To the City Council and Management
City of Wayzata, Minnesota

We have prepared this management report in conjunction with our audit of the City of Wayzata, 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
May 10, 2022

Malloy, Montague, Karnowski, Radosevich & Co., P.A.
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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 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 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 May 5, 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.

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 matter involving the City's internal control over financial reporting that we consider to be a significant deficiency. Due to the limited size of the City's finance department staff, the City has limited segregation of duties in certain areas.

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

- We reported one finding based on our testing of the City's compliance with Minnesota laws and regulations. For 3 of 25 payroll claims for wages paid on an hourly or daily basis, the City had not obtained the signed employee declaration required by Minnesota Statutes § 412.271, Subd. 2. In all three cases, the employees were seasonal employees hired during 2021.

OTHER OBSERVATIONS AND RECOMMENDATIONS

We discussed the following observations and recommendations with city management during our audit:

- The City is updating its procurement policies, which currently call for all purchases below $2,500 to be approved by department directors and purchases over $2,500 to be approved by the city manager. It was noted that there is no procedure in place requiring a second party review of city manager purchases over $2,500. We recommend the City consider adding such a procedure, in order to strengthen segregation of duties over purchasing transactions.

- Minnesota Statutes § 345 requires the City to submit any unclaimed property annually to the Commissioner of Commerce and file an unclaimed property report. Even when the City is not holding any unclaimed property, it is required to file the unclaimed property report annually. This report of zero unclaimed property held was not filed by the City for 2021.

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:

- The City has recorded liabilities and activity for pension benefits and other post-employment benefits (OPEB). These obligations are calculated using actuarial methodologies described in Governmental Accounting Standards Board (GASB) 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.

- The City has recorded a liability for compensated absences payable. 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.

- The depreciation of capital assets involves estimates pertaining to useful lives.

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 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 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 May 10, 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, which accompanies the financial statements, but is not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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GOVERNMENTAL FUNDS OVERVIEW

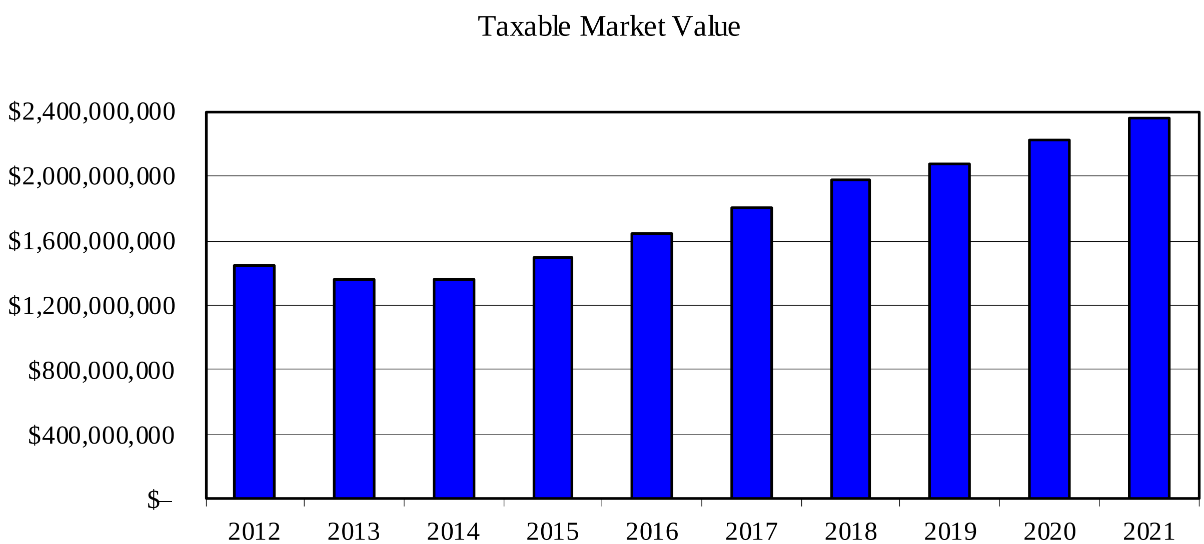
This section of the report provides you with an overview of the financial trends and activities of the City's governmental funds, which includes the General, special revenue, debt service, and capital project funds. These funds are used to account for the basic services the City provides to all of its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

PROPERTY TAXES

Minnesota cities rely heavily on local property tax levies to support their governmental fund activities. For the 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.

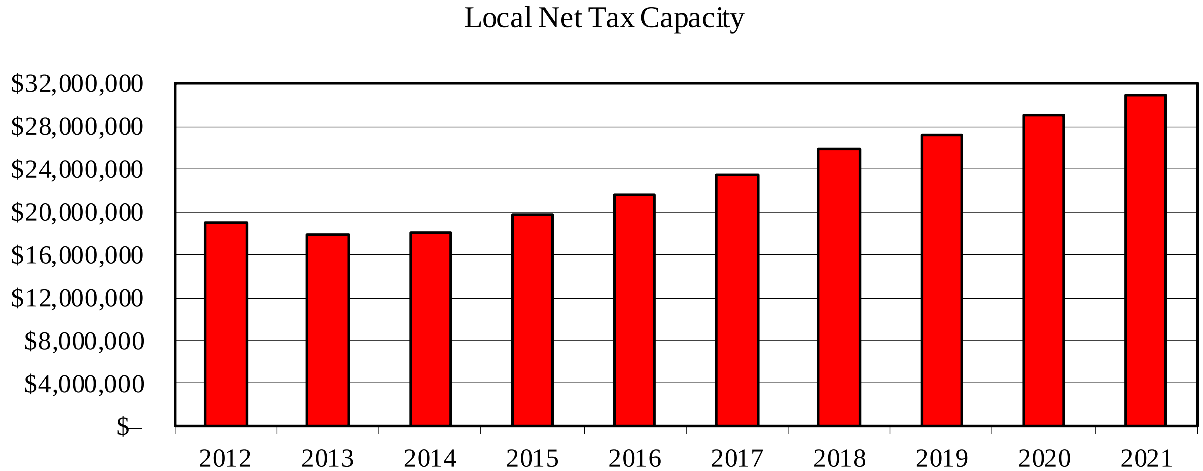
The total tax capacity value of property in Minnesota cities increased about 6.3 percent for the 2021 levy year. The tax capacity values used for levying property taxes are based on the assessed market values for the previous fiscal year (e.g., tax capacity values for taxes levied in 2021 were based 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 6.9 percent for taxes payable in 2020 and 6.5 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 7.0 percent and 6.1 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:



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 Wayzata		
	2019	2020	2021
Average tax rate			
City	21.7	21.1	20.6
County	41.9	41.1	38.2
School	24.8	26.7	26.9
Special taxing	10.1	9.7	9.2
Total	98.5	98.6	94.9

The City's portion of the tax capacity rates for Wayzata residents, as well as the total tax capacity rate, have slowly been declining in recent years. This is due to the City's relatively low annual tax levies, coupled with its high property values and strong commercial tax base.

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	$ 1,685,297	$ 754,668	$ 930,629
Restricted	1,855,438	1,757,102	98,336
Committed	122,660	127,334	(4,674)
Assigned	7,929,310	8,069,035	(139,725)
Unassigned	2,044,797	3,278,984	(1,234,187)
Total governmental funds	$ 13,637,502	$ 13,987,123	$ (349,621)
Total by fund			
General	$ 4,012,272	$ 4,316,693	$ (304,421)
Debt Service	1,130,916	1,133,727	(2,811)
Lakefront Improvement Capital Projects	706,870	703,562	3,308
Developer Financed Capital Projects	1,605	–	1,605
Nonmajor funds	7,785,839	7,833,141	(47,302)
Total governmental funds	$ 13,637,502	$ 13,987,123	$ (349,621)

In total, the fund balances of the City's governmental funds decreased $349,621 during the year ended December 31, 2021. The majority of the decrease was in General Fund unassigned fund balance, mainly due to the approved transfer of excess fund balance to other funds to finance capital improvements. This decrease was partially offset by increases in fund balances restricted for parks and trails, and nonspendable fund balance related to loans receivable from the Housing and Redevelopment Authority (HRA) component unit.

GOVERNMENTAL FUNDS REVENUE AND EXPENDITURES

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

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 on 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.

The per capita information presented in this report excludes the Wayzata HRA, the City's discretely presented component unit.

Governmental Funds Revenue per Capita
With State-Wide Averages for Population Class

	State-Wide		City of Wayzata		
Year	2019	2020	2019	2020	2021
Population	2,500–10,000	2,500–10,000	4,672	4,434	4,434
Property taxes	$ 514	$ 540	$ 1,018	$ 1,119	$ 1,168
Tax increments	30	34	–	–	–
Franchise and other taxes	45	49	34	36	36
Special assessments	54	54	53	110	108
Licenses and permits	40	36	145	163	147
Intergovernmental revenues	342	474	118	496	214
Charges for services	135	113	302	342	331
Other	89	83	228	613	142
Total revenue	$ 1,249	$ 1,383	$ 1,898	$ 2,879	$ 2,146

The City's total governmental funds revenue for 2021 was $9,509,707, a decrease of $3,256,442 (25.5 percent), or about $733 per capita from the previous year. The majority of the decrease was in intergovernmental revenues ($282 per capita), and other revenues ($471 per capita). The decrease in intergovernmental revenues was primarily due to the City receiving $355,531 from a federal Coronavirus Relief Fund (CRF) grant and a large HRA cash contribution for the Panoway Project in 2020. The decrease in the "other" revenue category was primarily due to contributions of about $1.3 million received from private sources and developers in 2020 for the Panoway Project, and recognizing $344,346 less investment income in 2021 than in the prior year, due to a decline in the fair value of the City's investment portfolio.

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, which 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 state-wide averages for cities with comparable populations, are presented in the following table:

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

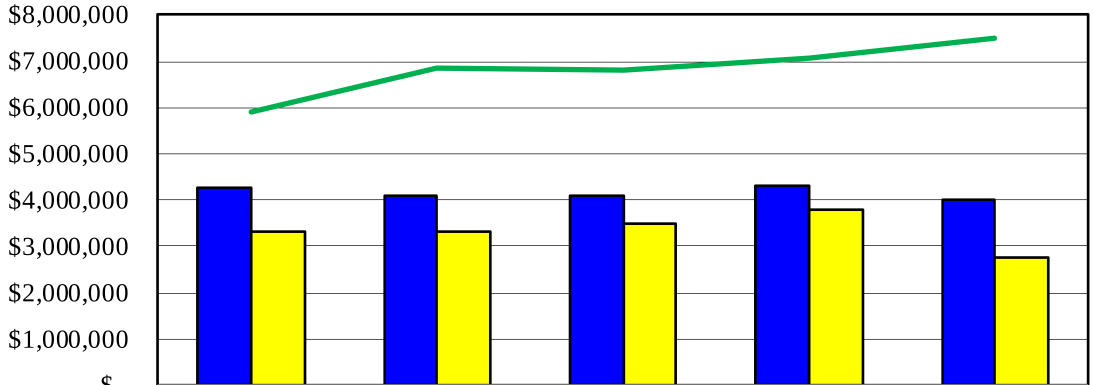
	State-Wide		City of Wayzata		
Year	2019	2020	2019	2020	2021
Population	2,500–10,000	2,500–10,000	4,672	4,434	4,434
Current					
General government	$ 152	$ 176	$ 356	$ 373	$ 383
Public safety	300	315	506	623	642
Public works	146	146	194	216	178
Culture and recreation	103	100	259	245	211
All other	74	95	59	68	82
Total current	775	832	1,374	1,525	1,496
Capital outlay and construction	438	586	689	2,435	551
Debt service					
Principal	168	172	74	142	184
Interest and fiscal	43	45	84	123	102
Total debt service	211	217	158	265	286
Total expenditures	$ 1,424	$ 1,635	$ 2,221	$ 4,225	$ 2,333

The City's total governmental funds expenditures for 2021 were $10,339,422, a decrease of $8,394,856 (44.8 percent) from the prior year, or $1,892 per capita. The majority of this decrease was in capital outlay, which was $1,884 per capita lower than last year, primarily due to the majority of the construction for Phase One of the City's Panoway Project being completed in 2020.

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 culture 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 and transfers out 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	$4,258,409	$4,095,409	$4,074,455	$4,316,693	$4,012,272
Cash Balance	$3,306,531	$3,308,723	$3,482,533	$3,770,875	$2,751,726
Exp & Trans Out	$5,902,131	$6,843,803	$6,816,402	$7,069,679	$7,488,960

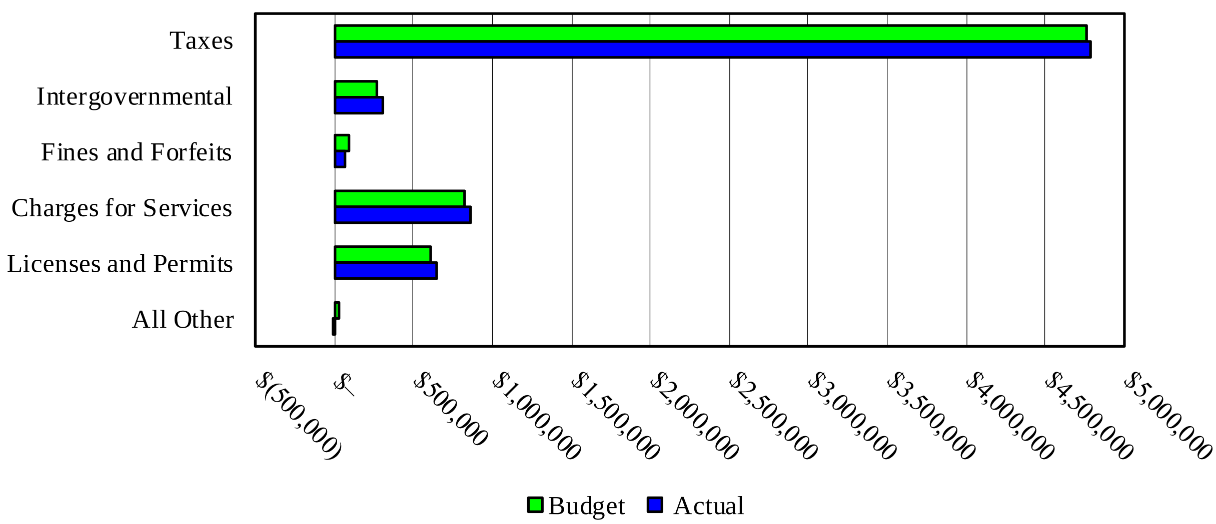
The City's General Fund cash and investments balance at December 31, 2021 was $2,751,726, a decrease of $1,019,149 from the previous year. Total fund balance at year-end was $4,012,272, which was a decrease of $304,421 from the prior year, as compared to a break-even budget. The unassigned portion of fund balance was $2,044,797 at year-end, which represents 27.3 percent of the City's annual General Fund expenditures and transfers out, based on 2021 levels. Both the cash balance and the unassigned fund balance of the General Fund decreased in 2021, due to an increase of about $927,000 in outstanding loans to the HRA to provide temporary financing for TIF improvement projects.

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.

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. Property taxes comprise about 71.8 percent of the fund's total annual revenue. Approximately half of these revenues are received by the City at mid-year and the rest at year-end. Consequently, the City needs to have adequate cash reserves to finance its everyday operations between these payments.

The following chart reflects the City's General Fund revenue sources for 2021 compared to budget:

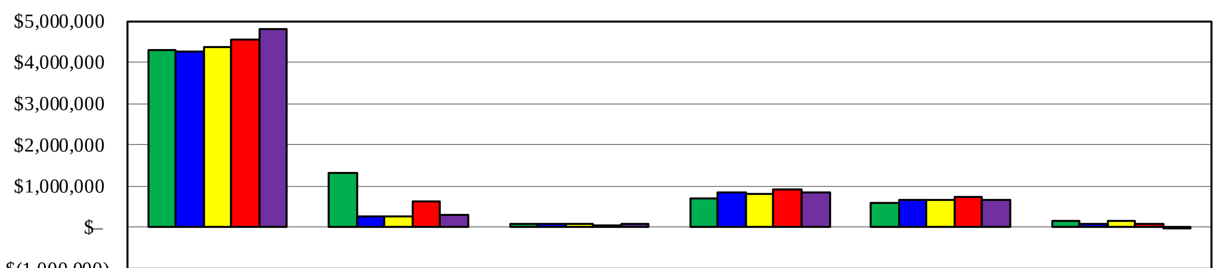
General Fund Revenue
Budget to Actual



General Fund revenue for 2021 totaled $6,680,778, which was $94,380 (1.4 percent) higher than budget. Revenue from taxes was $33,335 over budget, due to a decrease in delinquencies. Charges for services were $28,955 over budget, and licenses and permits were $41,103 over budget, both mainly due to more development-related fees and permits than anticipated.

The following graph presents the City's General Fund revenues by source for the last five years. The graph reflects the City's reliance on property taxes and other local sources of revenue.

General Fund Revenue by Source
Year Ended December 31,

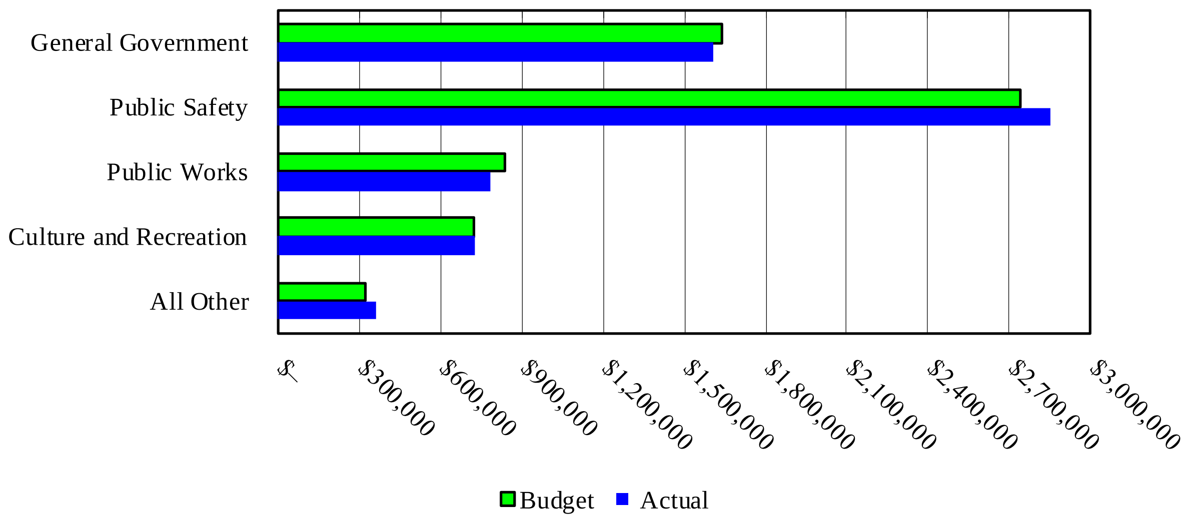


	Taxes	Intergovernmental	Fines and Forfeits	Charges for Services	Licenses and Permits	All Other
2017	$4,312,130	$1,306,099	$81,423	$716,702	$595,372	$141,912
2018	$4,263,785	$276,372	$100,118	$837,538	$683,900	$81,915
2019	$4,385,718	$260,846	$77,810	$817,871	$676,426	$171,990
2020	$4,569,159	$629,065	$56,402	$924,715	$724,557	$74,231
2021	$4,794,707	$306,273	$71,557	$857,171	$651,413	$(343)

Total General Fund revenues decreased $297,351 (4.3 percent) from the previous year. Taxes revenue was $225,548 higher than the previous year, due to an increase in the levy. Intergovernmental revenue decreased $322,792, mainly due to the federal CRF grant received last year. Charges for services were $67,544 lower than last year, and licenses and permits were $73,144 lower, both mainly due to less development activity within the City in 2021 compared to the previous year. Revenues from all other sources, as presented above, decreased by $74,574, primarily due a decline in market conditions and available interest rates on investments.

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

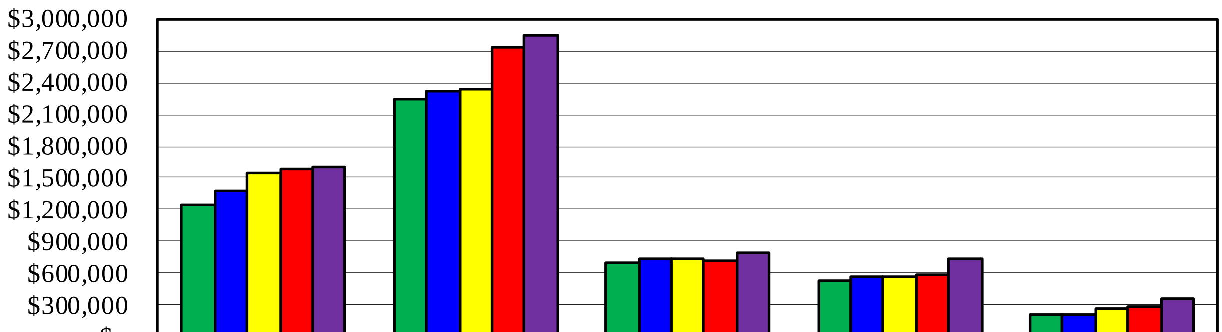
General Fund Expenditures
Budget to Actual



Total General Fund expenditures for 2021 of $6,341,972, exceeded budget by $74,799 (1.2 percent). This variance was mainly in the public safety program area, as police protection expenditures exceeded budget by $187,889, due primarily to hiring more officers than anticipated.

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	Public Safety	Public Works	Culture and Recreation	All Other
2017	$1,251,354	$2,234,630	$703,182	$530,460	$214,831
2018	$1,374,287	$2,311,503	$740,013	$566,137	$214,552
2019	$1,548,038	$2,344,625	$738,012	$577,613	$259,752
2020	$1,580,956	$2,731,967	$722,549	$579,740	$294,676
2021	$1,610,316	$2,850,206	$787,898	$730,936	$362,616

Total General Fund expenditures were $432,084 (7.3 percent) higher than the previous year, due to inflationary increases across all program areas shown above. The largest increases were in public safety ($118,239), due to hiring additional police personnel, and culture and recreation ($151,196), due to the resumption of recreation programs curtailed in the prior year, due to COVID-19 restrictions.

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, which include the Water, Sewer, Licensing, Liquor, Solid Waste, and Stormwater Funds.

ENTERPRISE FUNDS FINANCIAL POSITION

The following table summarizes the changes in the financial position of the City's enterprise funds during the year ended December 31, 2021, presented both by classification and by fund:

Enterprise Funds Change in Financial Position

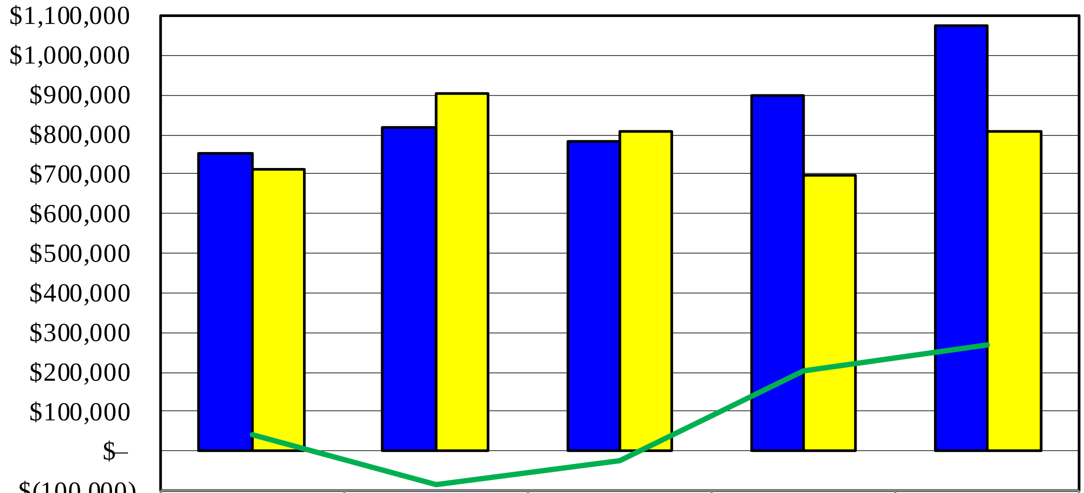
	Net Position as of December 31, 2021	Net Position as of December 31, 2020	Change
Net position of enterprise funds			
Total by classification			
Net investment in capital assets	$ 13,481,147	$ 13,540,628	$ (59,481)
Restricted	1,177,638	1,307,471	(129,833)
Unrestricted	3,781,892	2,852,654	929,238
Total enterprise funds	$ 18,440,677	$ 17,700,753	$ 739,924
Total by fund			
Water	$ 8,263,339	$ 8,030,291	$ 233,048
Sewer	4,433,124	4,065,488	367,636
Licensing	(207,159)	(278,886)	71,727
Liquor	1,730,233	1,576,454	153,779
Solid Waste	279,645	280,644	(999)
Stormwater	3,941,495	4,026,762	(85,267)
Total enterprise funds	$ 18,440,677	$ 17,700,753	$ 739,924

In total, the net position of the City's enterprise funds increased by $739,924 during the year ended December 31, 2021. Operating revenues increased in all enterprise funds in 2021, and most funds generated positive income before contributions and transfers.

WATER FUND

The following graph presents five years of operating results for the Water Fund:

Water Fund
Year Ended December 31,



	2017	2018	2019	2020	2021
Oper Rev	$750,334	$820,062	$785,225	$900,956	$1,077,649
Oper Exp	$710,647	$904,319	$810,291	$698,751	$810,395
Oper Inc (Loss)	$39,687	$(84,257)	$(25,066)	$202,205	$267,254

The Water Fund ended 2021 with a total net position of $8,263,339, which was an increase of $233,048 from the prior year. The Water Fund had a net investment in capital assets of $5,826,492, net position restricted for debt service of $873,244, and unrestricted net position of $1,563,603 at year-end.

Water Fund operating revenues for fiscal 2021 were $1,077,649, an increase of $176,693 (19.6 percent) from the prior year, due to increases in both water rates and water consumption in 2021.

Operating expenses for 2021 were $810,395, an increase of $111,644 (16.0 percent) from the previous year, mainly in maintenance, supplies, and depreciation.

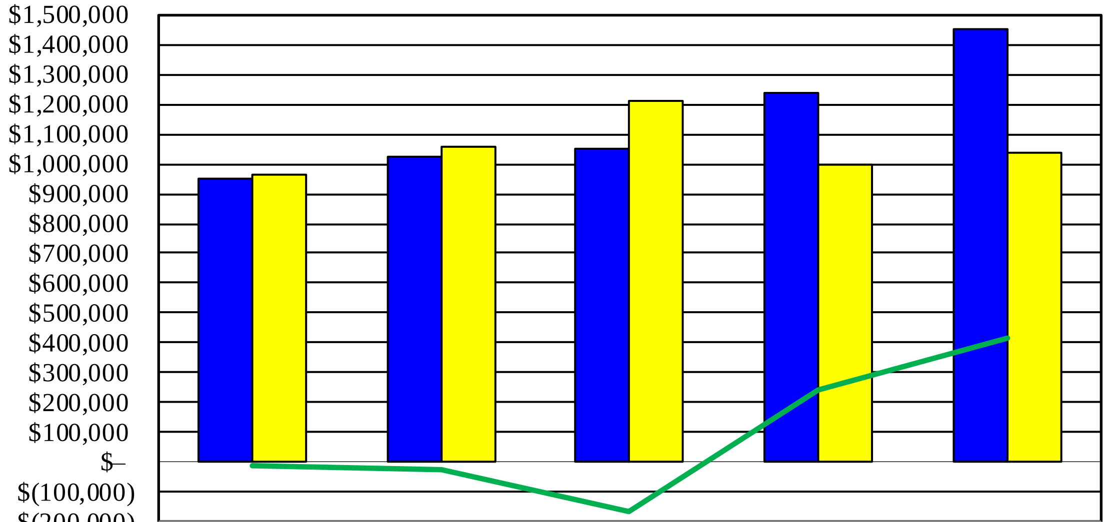
After nonoperating revenues and expenses (such as interest revenue and interest expense), the Water Fund had income (before contributions and transfers), of $160,807.

The Water Fund received capital contributions of $141,809 from special assessments and access charges to finance the water portion of street improvement projects. The Water Fund also transferred out $38,568 to finance equipment purchases, and $31,000 to support the General Fund.

SEWER FUND

The following graph presents five years of operating results for the Sewer Fund:

Sewer Fund
Year Ended December 31,



	2017	2018	2019	2020	2021
Oper Rev	$950,007	$1,026,386	$1,050,037	$1,239,184	$1,451,684
Oper Exp	$963,435	$1,055,052	$1,214,010	$997,027	$1,035,525
Oper Inc (Loss)	$(13,428)	$(28,666)	$(163,973)	$242,157	$416,159

The Sewer Fund ended 2021 with a total net position of $4,433,124, an increase of $367,636 from the prior year. The Sewer Fund had a net investment in capital assets of $2,862,297, net position restricted for debt service of $304,394, and unrestricted net position of $1,266,433 at year-end.

Sewer Fund operating revenue for fiscal 2021 was $1,451,684, an increase of $212,500 (17.1 percent) from the prior year, due to increases in rates and usage from the prior year.

Operating expenses for 2021 were $1,035,525, an increase of $38,498 (3.9 percent), mainly due to increases in Metropolitan Council Environmental Services disposal charges ($29,816), and contracted maintenance services.

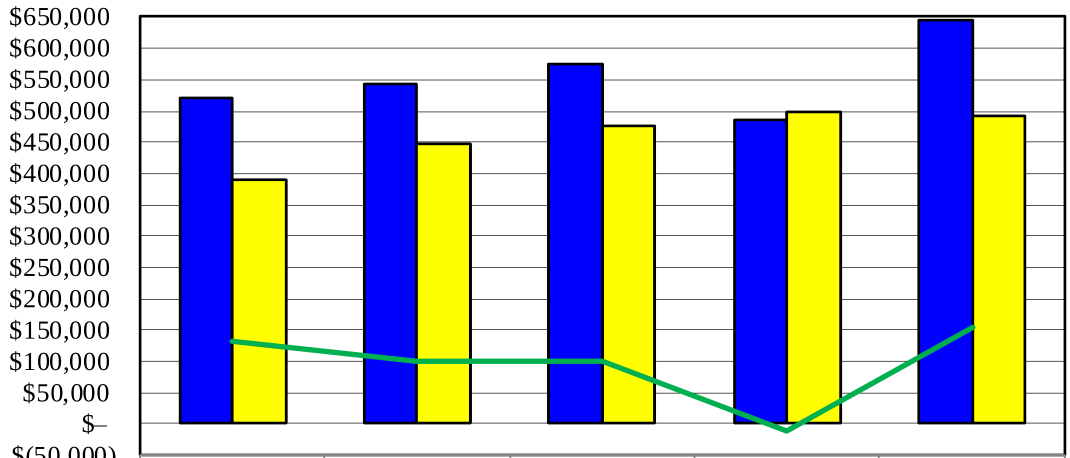
After nonoperating revenues and expenses, the Sewer Fund had income before contributions and transfers of $399,526.

The Sewer Fund received $57,543 of contributed capital from special assessments and access charges to finance the sewer portion of street improvement projects. The Sewer Fund also transferred out $58,433 to finance equipment purchases, and $31,000 to support the General Fund.

LICENSING FUND

The following graph presents five years of operating results for the Licensing Fund:

Licensing Fund
Year Ended December 31,



	2017	2018	2019	2020	2021
Oper Rev	$521,062	$544,247	$576,066	$486,862	$646,473
Oper Exp	$390,442	$445,935	$477,605	$497,307	$493,355
Oper Inc (Loss)	$130,620	$98,312	$98,461	$(10,445)	$153,118

The Licensing Fund ended 2021 with an unrestricted deficit net position of $207,159, an improvement of $71,727 from the prior year.

Licensing Fund operating revenues for 2021 were $646,473, an increase of $159,611 (32.8 percent) from the prior year, which primarily reflects a recovery from the impact of COVID-19 restrictions in the prior year.

Operating expenses for 2021 were $493,355, a small decrease of $3,952 (0.8 percent), from last year, mainly in salaries and benefits.

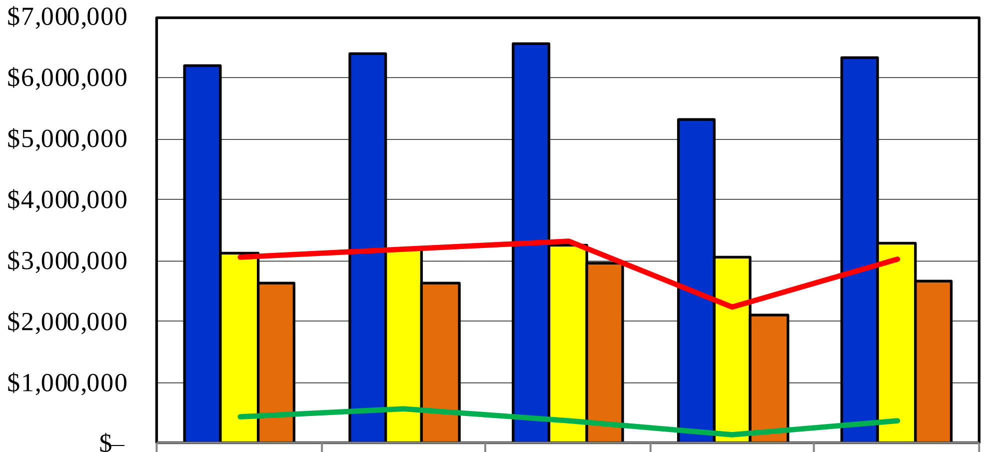
After nonoperating revenues, the Licensing Fund had net income before transfers of $152,727.

The Licensing Fund transferred out $25,000 to finance general construction projects, and $56,000 to support the General Fund.

LIQUOR FUND

The following graph presents five years of operating results for the Liquor Fund:

Liquor Fund
Year Ended December 31,



	2017	2018	2019	2020	2021
Sales	$6,184,891	$6,395,736	$6,551,840	$5,300,300	$6,325,674
Cost of Sales	$3,127,367	$3,198,367	$3,241,073	$3,064,216	$3,296,647
Oper Exp	$2,625,555	$2,636,737	$2,954,045	$2,112,067	$2,671,831
Gross Profit	$3,057,524	$3,197,369	$3,310,767	$2,236,084	$3,029,027
Oper Inc (Loss)	$431,969	$560,632	$356,722	$124,017	$357,196

The Liquor Fund ended 2021 with a total net position of $1,730,233, an increase of $153,779 from the prior year. The Liquor Fund's net investment in capital assets was $1,279,516, leaving unrestricted net position of $450,717 at year-end.

Liquor Fund gross sales for 2021 were $6,325,674, an increase of $1,025,374 from the prior year, due primarily, to the easing of COVID-19 restrictions on the bar and grill. Gross sales for the liquor store decreased $56,438 (1.7 percent), while increasing by $1,081,812 (57.4 percent) for the bar and grill. Gross profits for 2021 increased $792,943 (35.5 percent), overall.

Operating expenses of $2,671,831 represented an increase of $559,764 (26.5 percent) from the prior year, with personal service costs up by $533,284, due to the bar and grill being closed or at reduced capacity for much of the previous year.

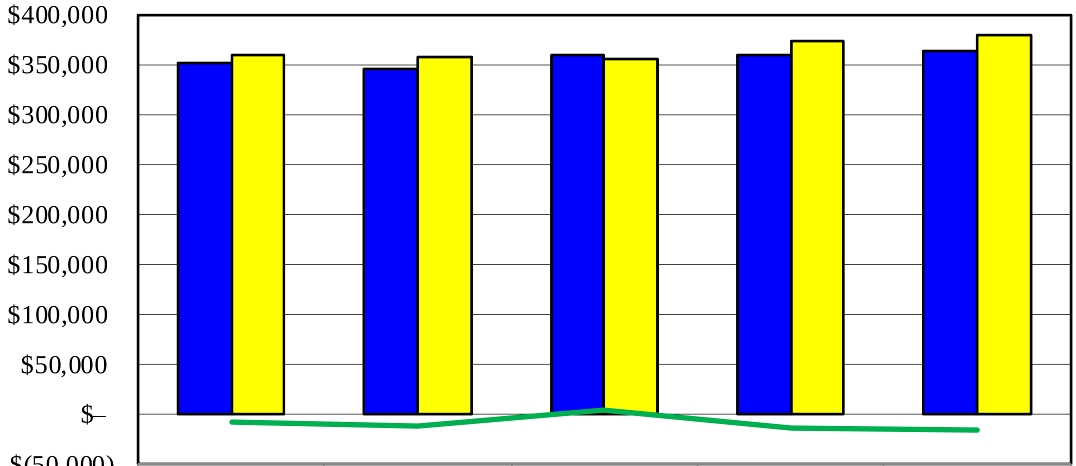
After nonoperating revenues and expenses, the Liquor Fund had income before contributions and transfers of $328,779.

The Liquor Fund transferred out $175,000 to support the General Fund.

SOLID WASTE FUND

The following graph presents five years of operating results for the Solid Waste Fund:

Solid Waste Fund
Year Ended December 31,



	2017	2018	2019	2020	2021
Oper Rev	$351,457	$347,048	$360,373	$361,003	$363,556
Oper Exp	$359,495	$358,758	$356,087	$374,985	$379,117
Oper Inc (Loss)	$(8,038)	$(11,710)	$4,286	$(13,982)	$(15,561)

The Solid Waste Fund ended 2021 with an unrestricted net position of $279,645, a decrease of $999 from the prior year.

Operating revenues for 2021 were $363,556, an increase of $2,553 (0.7 percent) from last year.

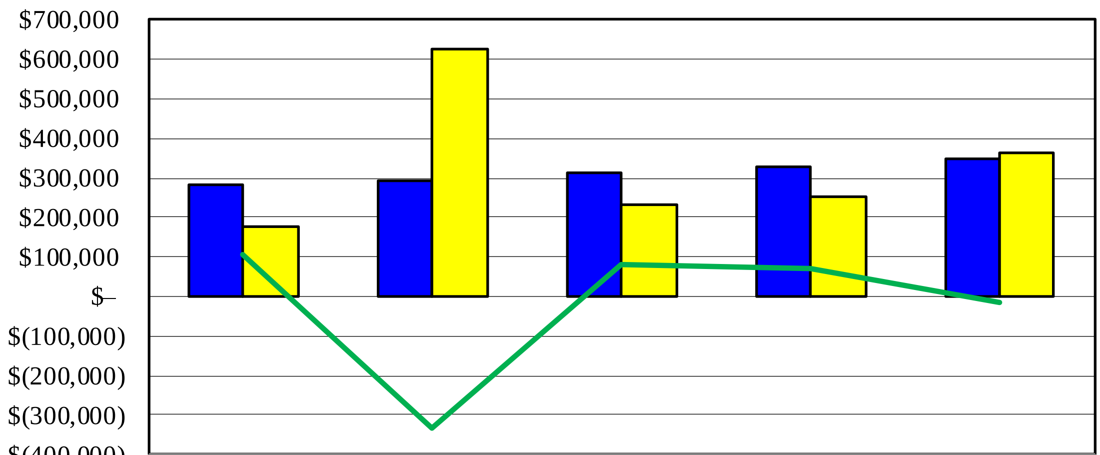
Operating expenses for 2021 were $379,117, an increase of $4,132 (1.1 percent) from the previous year, mainly in recycling fees.

After nonoperating revenues, including a county recycling grant of $16,314, the Solid Waste Fund had a decrease in net position of $999.

STORMWATER FUND

The following graph presents five years of operating results for the Stormwater Fund:

Stormwater Fund
Year Ended December 31,



	2017	2018	2019	2020	2021
Oper Rev	$283,696	$294,936	$314,307	$326,762	$346,557
Oper Exp	$178,786	$628,207	$231,015	$254,133	$363,297
Oper Inc (Loss)	$104,910	$(333,271)	$83,292	$72,629	$(16,740)

The Stormwater Fund ended 2021 with a total net position of $3,941,495, a decrease of $85,267 from the prior year. The Stormwater Fund's net investment in capital assets was $3,512,842 at year-end, leaving an unrestricted net position of $428,653.

Stormwater Fund operating revenue for 2021 was $346,557, an increase of $19,795 (6.1 percent) from last year, mainly due to a 5.0 percent increase in rates.

Operating expenses for 2021 were $363,297, an increase of $109,164 (43.0 percent) from last year, mainly in contracted maintenance services.

After nonoperating revenues, the Stormwater Fund had a net loss before contributions and transfers of $20,267.

The Stormwater Fund transferred out $55,000 to finance street improvement construction projects, and $10,000, to support the General Fund.

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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 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 City's components of net position as of December 31, 2021 and 2020:

	As of December 31,		
	2021	2020	Change
Net position – primary government			
Governmental activities			
Net investment in capital assets	$ 40,102,438	$ 38,314,544	$ 1,787,894
Restricted	4,936,452	5,141,057	(204,605)
Unrestricted	8,703,230	8,755,748	(52,518)
Total governmental activities	53,742,120	52,211,349	1,530,771
Business-type activities			
Net investment in capital assets	13,481,147	13,540,628	(59,481)
Restricted	1,177,638	1,307,471	(129,833)
Unrestricted	3,781,892	2,852,654	929,238
Total business-type activities	18,440,677	17,700,753	739,924
Total net position – primary government	$ 72,182,797	$ 69,912,102	$ 2,270,695
Net position – HRA component unit			
Net investment in capital assets	$ 2,092,900	$ 2,092,900	$ –
Restricted	762,116	62,588	699,528
Unrestricted	(1,611,940)	(773,640)	(838,300)
Total net position – HRA component unit	$ 1,243,076	$ 1,381,848	$ (138,772)

The City (excluding the HRA), ended 2021 with a combined total net position of $72,182,797, an increase of $2,270,695 from the prior year. The City's net investment in capital assets increased $1,728,413 between the governmental and business-type activities, primarily due to capital contributions from the HRA, and other sources that financed a significant portion of the governmental activity capital assets constructed in 2021. The increase in the unrestricted net position of the business-type activities was due to the positive operating results in the City's enterprise fund operations, as previously discussed.

The City's HRA discretely presented component unit ended the year with a total net position of $1,243,076, a decrease of $138,772.

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 (primary government), and the HRA (discretely presented component unit) for the year ended December 31, 2021:

	Expenses	Program Revenues	Net Change Primary Government	Net Change Component Unit – HRA
Primary government				
Governmental activities				
General government	$ 2,202,811	$ 773,100	$ (1,429,711)	$ –
Public safety	2,856,299	1,112,549	(1,743,750)	–
Public works	2,192,961	2,398,678	205,717	–
Culture and recreation	1,675,930	791,072	(884,858)	–
Interest on long-term debt	379,829	–	(379,829)	–
Business-type activities				
Water	902,015	1,219,721	317,706	–
Sewer	1,043,863	1,509,490	465,627	–
Licensing	493,355	646,941	153,586	–
Liquor	6,005,401	6,341,700	336,299	–
Solid Waste	379,117	379,890	773	–
Stormwater	363,297	346,617	(16,680)	–
Total – primary government	$ 18,494,878	$ 15,519,758	(2,975,120)	–
Component unit – HRA	$ 3,888,563	$ –	–	(3,888,563)
General revenues				
Property taxes and tax increments			5,097,764	3,754,156
Franchise taxes			157,679	–
Unrestricted grants and contributions			106,406	–
Investment earnings (charges)			(116,127)	(4,365)
Other revenues			93	–
Total general revenues			5,245,815	3,749,791
Change in net position			$ 2,270,695	$ (138,772)

One of the goals of this statement is to provide a side-by-side comparison to illustrate the difference in the way governmental and business-type operations are financed. The table clearly illustrates the dependence of the City's governmental operations and those of the HRA on general revenues, such as property taxes, tax increments, and unrestricted grants. 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.

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.