Management Report

for

New City School
Minneapolis, Minnesota

June 30, 2021

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MMKR
CERTIFIED PUBLIC
ACCOUNTANTS

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To the Board and Management of New City School
Minneapolis, Minnesota

We have prepared this management report in conjunction with our audit of New City School's (the School) financial statements for the year ended June 30, 2021. We have organized this report into the following sections:

- Audit Summary
- Funding Public Education in Minnesota
- Financial Trends of Your School
- Legislative Summary
- 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 School, management, and those who have responsibility for oversight of the financial reporting process comments resulting from our audit process and information relevant to charter school financing in Minnesota. Accordingly, this report is not suitable for any other purpose.

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

Minneapolis, Minnesota
September 13, 2021

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 Board, administration, or those charged with governance of the School.

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, each major fund, and the aggregate remaining fund information of the School as of and for the year ended June 30, 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 and in our audit engagement letter. Professional standards also require that we communicate to you 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 School's financial statements for the year ended June 30, 2021:

- We have issued an unmodified opinion on the School's basic financial statements.
- We reported no deficiencies in the School's internal control over financial reporting that we considered to be material weaknesses.
- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards.*
- We reported no findings based on our testing of the School's compliance with Minnesota laws and regulations.

FOLLOW-UP ON PRIOR YEAR FINDINGS AND RECOMMENDATIONS

As a part of our audit of the School's financial statements for the year ended June 30, 2021, we performed procedures to follow-up on any findings and recommendations that resulted from our prior year audit. We reported the following findings that were corrected by the School in the current year:

- 2020-001 Collateral

  The School ensured that deposits in excess of available federal depository insurance were covered by adequate and appropriate collateral in the current year.

OTHER OBSERVATIONS AND RECOMMENDATIONS

Uniform Guidance Written Controls and Micro-Purchase Threshold

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

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

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

We recommend that the School review its current federal procurement policy. If the micro-purchase threshold in your currently adopted policy is below the allowable FAR limit of $10,000, you may want to consider a one-time amendment to the policy to adopt the $10,000 FAR limit. If you prefer to increase your federal micro-purchase threshold to something between the $10,000 FAR limit and $50,000, in addition to amending your federal procurement policy, the higher threshold and justification for using it must be certified ***annually*** by the School's Board.

SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School 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 fiscal year ended June 30, 2021.

We noted no transactions entered into by the School 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:

> General education revenue and certain other revenues are computed by applying an allowance per student to the number of students served by the School. Student attendance is accumulated in a state-wide database—MARSS. Because of the complexity of student accounting and because of certain enrollment options, student information is input by other schools and the MARSS data for the current fiscal year is not finalized until after the School has closed its financial records for the fiscal period. General education revenue and certain other revenues are computed using preliminary information on the number of students served in the resident school and also utilizing some estimates, particularly in the area of enrollment options.
>
> Special education state aid includes an adjustment related to tuition billings to other schools for special education services, which are computed using formulas derived by the Minnesota Department of Education (MDE). Because of the timing of the calculations, this adjustment for the current fiscal year is not finalized until after the School has closed its financial records for the fiscal period. The impact of this adjustment on the receivable and revenue recorded for state special education aid is calculated using preliminary information available to the School.
>
> The School has recorded activity for pension benefits in the statement of net position. This obligation is calculated using actuarial methodologies described in GASB Statement No. 68. This actuarial calculation includes significant assumptions, including projected changes, investment returns, retirement ages, proportionate share, and employee turnover.
>
> The depreciation of capital assets involves estimates pertaining to useful lives.

We evaluated the key factors and assumptions used by management to develop the estimates discussed above in determining that they are reasonable in relation to the 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 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 letter, 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 September 13, 2021.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School'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 School'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 and pension-related required supplementary information (RSI) that supplement 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 and the Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table, accompanying the financial statements, but are 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.

FUNDING PUBLIC EDUCATION IN MINNESOTA

Due to its complexity, it would be impossible to fully explain the funding of public education in Minnesota within this report. A summary of legislative changes affecting charter schools included later in this report gives an indication of how complicated the funding system is. This section provides some state-wide funding and financial trend information.

BASIC GENERAL EDUCATION REVENUE

The largest single funding source for Minnesota charter schools is basic general education aid. Each year, the Legislature sets a basic formula allowance. Total basic general education revenue is calculated by multiplying the formula allowance by the number of pupil units for which a school is entitled to aid. Pupil units are calculated using a legislatively determined weighting system applied to average daily membership (ADM). Over the years, various modifications have been made to this calculation, including changes in weighting and special consideration for declining enrollment schools.

The table below presents a summary of the formula allowance for the past decade and as approved for the next two fiscal years. The 2021 Legislature approved per pupil increases of $161 for fiscal 2022 and $135 for fiscal 2023. The amount of the formula allowance and the percentage change from year-to-year excludes temporary funding changes, the "roll-in" of aids that were previously funded separately, and changes that may vary dependent on actions taken by individual schools. The $529 increase in 2015 was offset by changes to pupil weightings and the general education aid formula that resulted in an increase equivalent to approximately $105, or 2.0 percent, state-wide.

Fiscal Year Ended June 30,	Formula Allowance Amount	Formula Allowance Percent Increase
2012	$ 5,174	1.00 %
2013	$ 5,224	1.00 %
2014	$ 5,302	1.50 %
2015	$ 5,831	2.00 %
2016	$ 5,948	2.00 %
2017	$ 6,067	2.00 %
2018	$ 6,188	2.00 %
2019	$ 6,312	2.00 %
2020	$ 6,438	2.00 %
2021	$ 6,567	2.00 %
2022	$ 6,728	2.45 %
2023	$ 6,863	2.00 %

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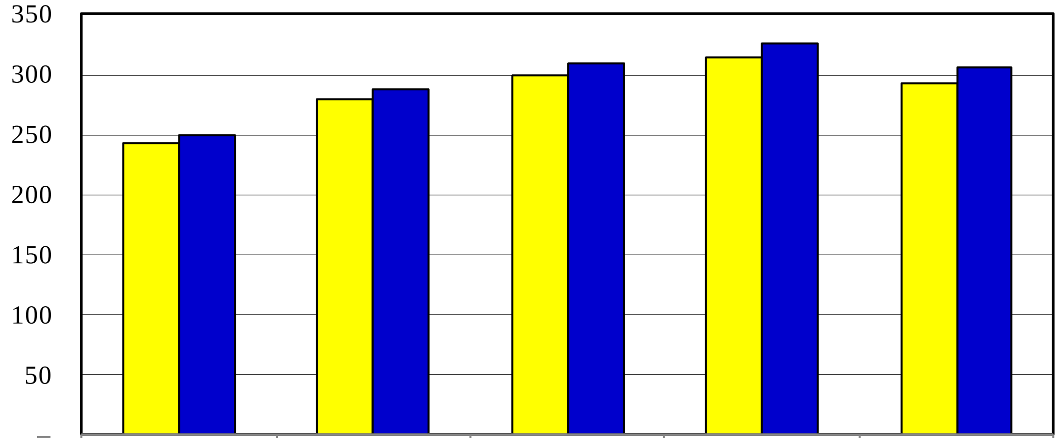
FINANCIAL TRENDS OF YOUR SCHOOL

AVERAGE DAILY MEMBERSHIP (ADM) AND PUPIL UNITS

The following graph summarizes the ADM and the pupil units served by the School over the last five years:

Students (Adjusted ADM)



	2017	2018	2019	2020	2021
ADM	243.46	278.53	299.69	313.71	291.93
Pupil Units	249.87	287.46	308.66	325.07	305.40

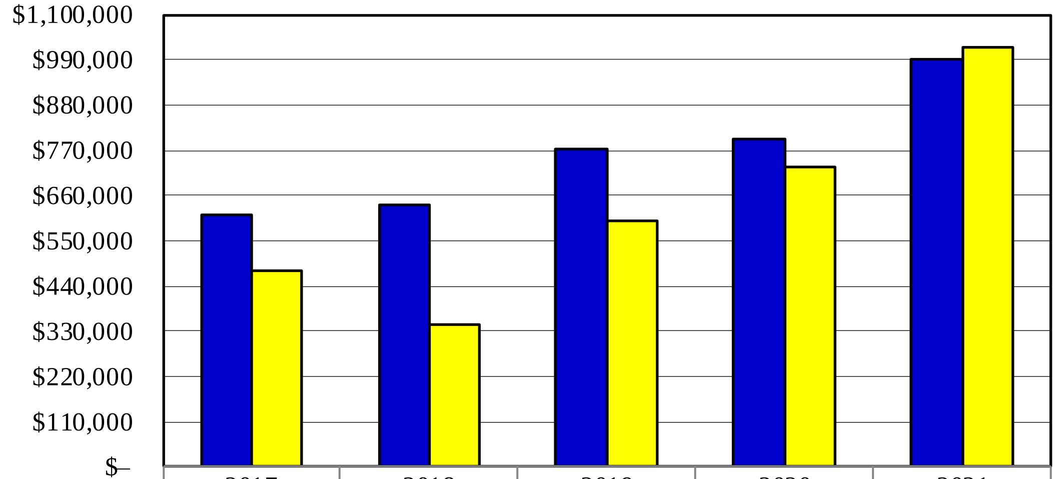
The School's ADM served for 2021 is estimated to be 292, which decreased by 22 ADM, or 6.9 percent, from fiscal 2020.

ADM is a measure of students attending class, which is then converted to pupil units (the base for determining revenue) using a statutory formula. Not only is the original budget based on ADM estimates, the final audited financial statements are based on updated, but still estimated, ADM since the counts are not finalized until around January of the following year. When viewing revenue budget variances, one needs to consider these ADM changes and the impact of the prior year final adjustments which affect this year's revenue.

GENERAL FUND OPERATIONS AND FINANCIAL POSITION

The following graph displays the School's General Fund financial position over the last five years:

General Fund Financial Position
Year Ended June 30, 2021



	2017	2018	2019	2020	2021
Total Fund Balance	$613,885	$635,127	$775,720	$798,291	$994,223
Cash and Inv. (Net of Borrowing)	$475,413	$345,043	$600,182	$728,224	$1,019,250

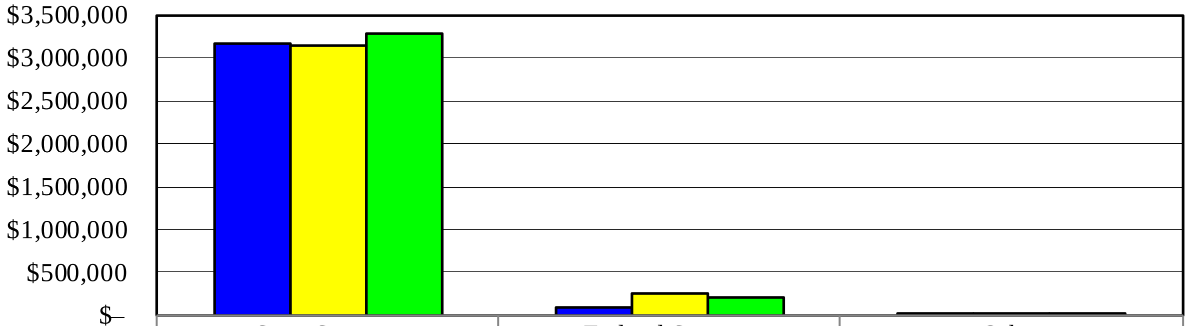
The School's General Fund ended 2021 with a total fund balance of $994,223, an increase of $195,932 from the prior year. The General Fund cash and investments balance (net of borrowing) at year-end was $1,019,250, an increase of $291,026 from the prior year. This increase was mainly due to the operating results in the current year and a decrease in the amount due from the MDE at the end of the year.

Unassigned fund balance as a percentage of expenditures is one key measure of a school's financial health. The resources represented by fund balance are critical to a school's ability to maintain adequate cash flow throughout the year, to retain its programs, and to cushion against the impact of unexpected costs or funding shortfalls. The School's fund balance policy is to maintain a minimum of 20.0 percent of the prior fiscal year's expenditures and a maximum of 25.0 percent of the prior fiscal year's expenditures within unassigned fund balance. At June 30, 2021, the unassigned fund balance of the General Fund was 25.5 percent of fiscal 2021 expenditures.

GENERAL FUND REVENUE AND EXPENDITURES

The following graphs summarize the School's General Fund revenue and expenditures for 2021:

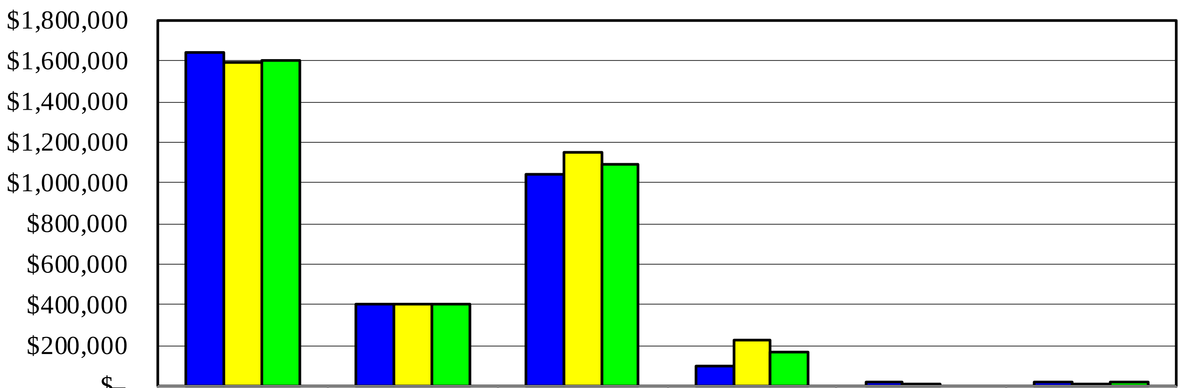
General Fund Revenue
Budget and Actual



	State Sources	Federal Sources	Other
Prior Year	$3,161,021	$90,792	$28,057
Budget	$3,154,251	$253,762	$18,500
Actual	$3,273,922	$213,657	$9,200

Total General Fund revenues for 2021 were $3,496,779, an increase of $216,909 from the prior year, and $70,266 over budget. Revenue was mainly over budget in state sources totaling $119,671 as general education aid was higher than estimated. Federal sources were higher than prior year by $122,865, mainly from COVID-19-related funding.

General Fund Expenditures
Budget and Actual



	Salaries	Benefits	Purchased Services	Supplies and Materials	Capital	Other
Prior Year	$1,642,111	$397,439	$1,043,096	$95,369	$13,342	$22,168
Budget	$1,589,620	$402,738	$1,146,658	$229,496	$11,495	$6,580
Actual	$1,607,366	$400,331	$1,092,986	$162,830	$–	$14,983

Total General Fund expenditures for 2021 were $3,278,496, an increase of $64,971 from the prior year and $108,091 under budgeted amounts. Expenditure increases were mainly in lease related costs. Expenditures were mainly under budget in regular instruction costs for purchased services and supplies and materials, due to the impact of COVID-19 on school operations.

FOOD SERVICE SPECIAL REVENUE FUND

The Food Service Special Revenue Fund experienced an $8,852 increase in fund balance. Over the years, we have emphasized to our charter school clients that food service operations should be self-sustaining, and should not become an additional burden on general education funds.

COMMUNITY SERVICE SPECIAL REVENUE FUND

The Community Service Special Revenue Fund expenditures exceeded revenues by $13,231. In order to eliminate the deficit in this fund, the Board approved a transfer of $22,351 from the General Fund. Over the years, we have emphasized to our charter school clients that community service operations should be self-sustaining, and should not become an additional burden on general education funds.

ENTITY-WIDE FINANCIAL STATEMENTS

The School's financial statements include fund-based information that focuses on budgetary compliance, and the sufficiency of the School's current assets to finance its current liabilities. The governmental reporting model also requires the inclusion of two entity-wide financial statements designed to present a clear picture of the School as a single, unified entity. These entity-wide financial statements provide information on the total cost of delivering educational services, including capital assets and long-term liabilities.

Theoretically, net position represents the resources the School has leftover to use for providing services after its debts are settled. However, those resources are not always in expendable form, or there may be restrictions on how resources can be used. Therefore, the statement divides net position into three components: net investment in capital assets, restricted, and unrestricted. The following table presents a summarized conversion of the School's governmental fund balances (as individually discussed earlier) to net position, and separate components of net position for the last two years:

	June 30, 2021	June 30, 2020	Change
Net position – governmental activities			
Total fund balances – governmental funds	$ 1,003,075	$ 789,171	$ 213,904
Total capital assets, net of depreciation	4,466	9,141	(4,675)
Net pension-related items	(2,216,717)	(1,986,983)	(229,734)
Total net position – governmental activities	$ (1,209,176)	$ (1,188,671)	$ (20,505)
Net position			
Net investment in capital assets	$ 4,466	$ 9,141	$ (4,675)
Restricted	24,714	15,626	9,088
Unrestricted	(1,238,356)	(1,213,438)	(24,918)
Total net position	$ (1,209,176)	$ (1,188,671)	$ (20,505)

Some of the School's fund balances translate into restricted net position by virtue of external restrictions (statutory restrictions) or by the nature of the fund they are in (e.g., Food Service Special Revenue Fund balance can only be spent for food service program costs). The unrestricted net position category consists mainly of the General Fund unrestricted fund balances, offset against noncapital long-term obligations, such as pension-related liabilities.

Total net position decreased $20,505 in fiscal 2021, mostly related to the change in unfunded pension liabilities and deferrals in state-wide pension plans, a portion of which is allocated to the School and reported in the School's financial report. This is offset by increases in fund balances during the fiscal year totaling $213,904, as previously discussed.

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LEGISLATIVE SUMMARY

In a typical year, the primary focus of the 2021 Minnesota legislative session would have been the development of the state's fiscal year (FY) 2022–2023 biennial budget. However, given the significant events of the preceding year, including the COVID-19 pandemic and death of George Floyd while in police custody, the focus of the regular session shifted to legislation responding to the pressing issues that resulted from these events. The business of setting a biennial budget and passing an education finance bill were ultimately not addressed until a June special session.

There was positive news on the state's budget outlook entering the session. A May 2020 special pandemic budget projection had predicted the state would finish the FY 2020–2021 biennium with a $2.4 billion shortfall. By the regular budget and economic forecast in February 2021, the state's fiscal outlook had improved, projecting a positive budgetary variance of $940 million at the end of the biennium, reducing the threat of potential funding cuts to local government programs. The resulting education finance bill passed and signed by the Governor on June 30, 2021, included appropriation increases of approximately $554 billion for the FY 2022–2023 biennium, and $668 billion for the FY 2024–2025 biennium.

The following is a brief summary of specific legislative changes from the 2021 regular and special sessions or previous legislative sessions impacting Minnesota charter schools in future years.

General Education Revenue – The Legislature approved annual increases of 2.45 percent and 2.00 percent to the basic general education formula allowance for FY 2022–2023 biennium. The per pupil allowance will increase $161 to $6,728 for FY 2022, and another $135 to $6,863 for FY2023.

English Learner Cross-Subsidy Aid – Approved annual appropriations of $2 million to provide English learner cross-subsidy aid for FY 2022 through FY 2025. This new funding will be allocated annually to school districts and charter schools based on their proportionate share of English learner and concentration revenue from the preceding fiscal year, and must be used and accounted for within the basic skills program.

Voluntary Pre-Kindergarten (VPK) and School Readiness Plus (SRP) – The Legislature approved continued funding for FY 2022 and FY 2023 to maintain 4,000 state-wide VPK and SRP seats set to expire after FY 2021.

Hiring Bonuses – Districts or schools were authorized to offer hiring or retention bonus of $2,500–$5,000 to attract teachers who are American Indians or persons of color, or $4,000–$8,000 to meet staffing needs in shortage areas and to attract teachers who are American Indians or persons of color.

Sales Tax Exemption – A previous sales tax exemption for sales made by school-associated student groups for funding extracurricular student activities, that was eliminated by the 2019 omnibus education bill, was restored.

Lunch Shaming Prohibited – Students approved for free or reduced-price meal status must be served reimbursable meals irrespective of any outstanding individual student lunch account debt.

Corporal Punishment – Charter schools are now subject to and must comply with the corporal punishment prohibitions set forth for school districts in Minnesota Statutes § 121A.58.

Authorizer Corrective Action – Effective July 1, 2022, if the state Commissioner of Education finds that a charter school authorizer has not met the requirements of Minnesota Statutes § 124E.05, the Commissioner may subject the authorizer to a corrective action plan, which may last no longer than 130 business days. A charter school board may submit to the Commissioner a request to transfer to a new authorizer without the approval or consent of the current authorizer, if that current authorizer has been under a corrective action plan for more than 130 business days.

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ACCOUNTING AND AUDITING UPDATES

The following is a summary of GASB standards expected to be implemented in the next few years. Due to the COVID-19 outbreak, 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 this lease 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 fiscal years 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 after December 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.

A SBITA is defined as a contract that conveys control of the right to use another party's (a 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 other post-employment benefit (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 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.

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