


CITY OF EAST MOLINE, ILLINOIS

MANAGEMENT LETTER

FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2022

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June 21, 2023

The Honorable Mayor
Members of the City Council
City of East Moline, Illinois

In planning and performing our audit of the financial statements of the City of East Moline (the City), Illinois, for the year ended December 31, 2022, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

We do not intend to imply that our audit failed to disclose commendable aspects of your system and structure. For your consideration, we herein submit our comments and suggestions which are designed to assist in effecting improvements in internal controls and procedures. Those less-significant matters, if any, which arose during the course of the audit, were reviewed with management as the audit field work progressed.

The accompanying comments and recommendations are intended solely for the information and use of Members of the City Council, management, and others within the City of East Moline, Illinois.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel. We would be pleased to discuss our comments and suggestions in further detail with you at your convenience, to perform any additional study of these matters, or to review the procedures necessary to bring about desirable changes.

We commend the finance department for the well prepared audit package and we appreciate the courtesy and assistance given to us by the entire City staff.

Lauterbach & Amen, LLP
LAUTERBACH & AMEN, LLP

CURRENT RECOMMENDATION

1. GASB STATEMENT NO. 96 SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS

Comment

In May 2020, the Governmental Accounting Standards Board (GASB) issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, which provides guidance regarding the information needs of financial statement users by improving accounting and financial reporting for Subscription-Based Information Technology Arrangements (SBITAs) by governments. It establishes uniform accounting and financial reporting requirements for SBITAs, improves the comparability of financial statements among governments that have entered into SBITAs, and enhances the understandability, reliability, relevance, and consistency of information about SBITAs. GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* is applicable to the City's financial statements for the year ended December 30, 2023.

Recommendation

Lauterbach & Amen, LLP will work directly with the City to review the new SBITA criteria in conjunction with the City's current arrangements to determine the appropriate financial reporting for these activities under GASB Statement No. 96.

Management Response

The City has engaged with Debtbook to assist in the determination and proper recording of all SBITAs to be implemented with the FY2023 audit.

2. GASB STATEMENT NO. 94 PRIVATE-PUBLIC AND PUBLIC-PUBLIC PARTNERSHIPS AND AVAILABILITY PAYMENT ARRANGEMENTS

Comment

In March, the Governmental Accounting Standards Board (GASB) issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which provides guidance regarding the information needs of financial statement users to better meet the information needs of financial statement users by improving the comparability of financial statements among governments that enter into public-private and public-public partnerships (PPPs) and availability payment arrangements (APAs) and by enhancing the understandability, reliability, relevance, and consistency of information about PPPs and APAs. GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* is applicable to the City's financial statements for the year ended December 31, 2023.

Recommendation

Lauterbach & Amen, LLP will work directly with the City to review the new criteria associated with PPPs and PPAAs to determine the appropriate financial reporting for these activities under GASB Statement No. 94.

Management's Response

The City will review and comply with the requirements of GASB Statement No. 94, if applicable.

PRIOR RECOMMENDATIONS

1. **GASB STATEMENT NO. 87 LEASES**

Comment

In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*, which provides guidance regarding the information needs of financial statement users by improving accounting and financial reporting for leases by governments. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. 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. In accordance with GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which was issued as temporary relieve to governments and other stakeholders in light of the COVID-19 pandemic, GASB Statement No. 87, *Leases* is applicable to the City's financial statements for the year ended December 31, 2022.

Recommendation

Lauterbach & Amen, LLP will work directly with the City to review the new lease criteria in conjunction with the City's current leases to determine the appropriate financial reporting for these activities under GASB Statement No. 87.

Status

This comment has been implemented and will not be repeated in the future.

2. **FUND BALANCE POLICY**

Comment

Previously and during our current year-end audit procedures, we noted that the City does not have a formal fund balance policy. A fund balance policy establishes a minimum level at which the projected end-of-year fund balance/net position should be maintained, taking into account the constraints imposed upon the resources reported by the governmental and proprietary funds. A fund balance policy assists in providing financial stability, cash flow for operations, and the assurance that the City will be able to respond to emergencies with fiscal strength.

It is essential to maintain adequate levels of funds balance/net position to mitigate current and future risks and to ensure tax rates. Fund balance/net position levels are also crucial consideration in long-term financial planning. Credit rating agencies carefully monitor levels of fund balance/net position and unassigned fund balance in the General Fund to evaluate the City's continued creditworthiness.

Recommendation

We recommended the City create and adopt a fund balance policy to be in compliance with GASB Statement No. 54. The City should address fund balance reporting categories (nonspendable, restricted, committed, assigned, and unassigned) as well as review minimum fund balance policies.

Status

This comment has not been implemented and will be repeated in the future.

Management Response

The City will continue to review the recommended fund balance policy that is associated with best practices from GFOA, and as soon as the minimum requirements can be met, the policy will be implemented.

PRIOR RECOMMENDATIONS - Continued

3. INTERFUND RECEIVABLES AND PAYABLES

Comment

Previously, we noted a significant number of long-term and short-term loans between funds; some of which have been outstanding for several years. As of December 31, 2020, the interfund receivable and payable balances between funds exceeded \$5.0 million.

Recommendation

We recommended that the City evaluate all outstanding interfund balances to determine which balances are expected to be repaid.

Status

This comment has been implemented and will not be repeated in the future.

4. FUNDS WITH DEFICIT FUND BALANCE/NET POSITION

Comment

Previously and during our current year-end audit procedures, we noted numerous funds with deficit fund balance/net position. See the following funds and the December 31, 2022 fund balance/net position compared to the December 31, 2021 fund balance/net position:

<u>Fund</u>	<u>12/31/22</u>	<u>12/31/21</u>
Riverfront - The Quarter TIF	\$ (290,430)	(769,127)
Economic Development	(68,016)	—
Kennedy Drive TIF	(1,092,795)	(1,067,764)
EM Glass TIF	(66,484)	(73,709)
Debt Service	(211,431)	(367,218)
Insurance Reserve	(118,425)	(29,796)

Recommendation

We recommended the City investigate the causes of the various deficits and adopt appropriate future funding measures.

Status

This comment has not been implemented and will be repeated in the future.

Management Response

The City is working towards the correction of this item with the implementation of a fund balance policy, the correction of our interfund receivable and payables, as well as the growth in tax increment from development in that various TIF areas will also correct this issue.

PRIOR RECOMMENDATIONS - Continued

5. **FUNDS OVER BUDGET**

Comment

Previously, we noted that the following funds had an excess of actual expenditures over budget for the fiscal year:

<u>Fund</u>	<u>12/31/22</u>	<u>12/31/21</u>
General	\$ —	1,157,049
Non-Home Rule Sales Tax	—	821

Recommendation

We recommended the City investigate the causes of the funds over budget and adopt appropriate future funding measures.

Status

This comment has been implemented and will not be repeated in the future.