

CITY OF EAST MOLINE, ILLINOIS

MANAGEMENT LETTER

FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2023

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December 9, 2024

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, 2023, 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. FUNDS OVER BUDGET

Comment

During our current year-end audit procedures, we noted that the following funds had an excess of actual expenditures/expenses, exclusive of depreciation, over budget for the fiscal year:

Fund	12/31/23
Motor Fuel Tax	\$ 225,259
Municipal Swimming Pool	52,575
Library	475,997
Housing Rehabilitation	17,728
Employee Insurance	18,401
Insurance Reserve	89,303

Recommendation

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

Management Response

Management acknowledges this comment and will work to correct it in the coming year.

PRIOR RECOMMENDATIONS

1. 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.

2. FUNDS WITH DEFICIT FUND BALANCE/NET POSITION

Comment

Previously and during our current year-end audit procedures, we noted following funds/net position with deficit fund balance/net position. See the following funds December 31, 2022 fund balance/net position compared to the December 31, 2023 fund balance/net position:

<u>Government-Wide Financial Statements/Fund</u>	<u>12/31/22</u>	<u>12/31/23</u>
Riverfront - The Quarter TIF	\$ 290,430	392,030
Economic Development	68,016	31,843
Kennedy Drive TIF	1,092,795	757,736
EM Glass TIF	66,484	—
Debt Service	211,431	48,135
Insurance Reserve	118,425	—
Governmental Activities	—	55,923,691

PRIOR RECOMMENDATIONS - Continued

2. **FUNDS WITH DEFICIT FUND BALANCE/NET POSITION - Continued**

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.

UPCOMING STANDARDS

1. **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 PAs to determine the appropriate financial reporting for these activities under GASB Statement No. 94.

Status

As the City has no PPPs or APAs, this comment is considered implemented. The City and Lauterbach & Amen will continue to monitor PPPs and APAs in the future to determine if additional reporting is required.

2. **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.

Status

As the City has no material SBITAs, there was no impact on the financial statements in the current year, therefore this comment is considered implemented. The City and Lauterbach & Amen will continue to monitor SBITAs in the future to determine if additional reporting is required. This comment is implemented and will not be repeated.

UPCOMING STANDARDS - Continued

3. **GASB STATEMENT NO. 100 ACCOUNTING CHANGES AND ERROR CORRECTIONS**

Comment

In June 2022, the Governmental Accounting Standards Board (GASB) issued Statement No. 100, Accounting Changes and Error Corrections, which establishes accounting and financial reporting requirements for (a) accounting changes, and (b) the correction of an error in previously issued financial statements (error correction). Accounting changes are (a) changes in accounting principle, (b) changes in accounting estimates, or (c) changes to or within the financial reporting entity. Error corrections are (a) errors from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were issued, or (b) a change from (i) applying an accounting principle that is not generally accepted to transactions or other events that previously were significant to (ii) applying a generally accepted accounting principle to those transactions or other events is an error correction. GASB Statement No. 100 requires that (a) changes in accounting principal and error corrections are reported retroactively, (b) changes in accounting estimates are reported prospectively, and (c) changes to or within the financial reporting entity should be reported by adjusting the current reporting period's beginning net position, fund balance, or fund net position, as applicable, for the effect of the change as if the change occurred as of the beginning of the reporting period. GASB Statement No. 100, Accounting Changes and Error Corrections is applicable to the City's financial statements for the year ended December 31, 2024.

Recommendation

Lauterbach & Amen, LLP will work directly with the City to review any accounting changes or error corrections to determine the appropriate financial reporting for these activities under GASB Statement No. 100.

Management's Response

Management acknowledges this comment and, if applicable, will work to implement it when required by GASB.

4. **GASB STATEMENT NO. 101 COMPENSATED ABSENCES**

Comment

In June 2022, the Governmental Accounting Standards Board (GASB) issued Statement No. 101, Compensated Absences, which establishes standards of accounting and financial reporting for (a) compensated absences, and (b) associated salary-related payments, including certain defined contribution pensions and defined contribution other post-employment benefits (OPEB). The statement requires that a liability should be recognized for any type of leave that has not been used at year-end if (a) The leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Examples of leave that should be reviewed, and potentially measured under GASB Statement No. 101 are vacation leave, paid time off leave, holiday leave, and sick leave. Examples of leave that are excluded from GASB Statement No. 101 are parental leave, military leave, and jury duty leave. GASB Statement No. 101, Compensated Absences is applicable to the City's financial statements for the year ended December 31, 2024.

UPCOMING STANDARDS - Continued

4. **GASB STATEMENT NO. 101 COMPENSATED ABSENCES - Continued**

Recommendation

Lauterbach & Amen, LLP will work directly with the City to review the new compensated absences and associated salary-related payments, including certain defined contribution pensions and defined contribution other post-employment benefits criteria to determine the appropriate financial reporting for these activities under GASB Statement No. 101.

Management's Response

Management acknowledges this comment and, if applicable, will work to implement it when required by GASB.