CITY OF EVANSTON, ILLINOIS

MANAGEMENT LETTER

For the Year Ended December 31, 2018
The Honorable City Mayor  
Members of the City Council  
City of Evanston, Illinois

In planning and performing our audit of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Evanston, Illinois (the City) as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the City’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. In addition, we reviewed the status of the deficiencies dated December, 31, 2017. The status of these is included in Appendix A

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis.

This communication is intended solely for the information and use of the Mayor, City Council and management and is not intended to be, and should not be, used by anyone other than these specified parties.

Sikich LLP
Naperville, Illinois
June 27, 2019
OTHER COMMENTS

Future Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued a number of pronouncements that will impact the City in the future.

GASB Statement No. 83, Certain Asset Retirement Obligations, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This statement requires disclosure of information about the nature of a government’s AROs, the methods and assumptions used for the estimate of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this statement are effective for the fiscal year ending December 31, 2019. Earlier application is encouraged.

GASB Statement No. 84, Fiduciary Activities, is intended to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement establishes criteria for identifying fiduciary activities of all state and local governments and the criteria is generally focused on (1) whether a government is controlling the assets of a fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The requirements of this statement are effective for the fiscal year ending December 31, 2019. Earlier application is encouraged.

GASB Statement No. 87, Leases, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset and aims to enhance comparability of financial statements among governments. This statement also requires additional notes to the financial statements related to the timing, significance, and purpose of a government’s leasing arrangements. The requirements of this statement are effective for the fiscal year ending December 31, 2020. Earlier application is encouraged.

GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements, was issued in March 2018 and provides guidance on improving disclosures in the notes to the financial statements related to debt, including direct borrowings and direct placements of debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement is effective for fiscal years ending December 31, 2019.

GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. This statement is effective for the fiscal year ending December 31, 2020.
OTHER COMMENTS (Continued)

Future Accounting Pronouncements (Continued)

GASB Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*, was issued in August 2018. The primary objectives of this Statement are to improve the consistency in the measurement and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This Statement establishes that ownership of a majority equity interest in a legal separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. This statement is effective for the fiscal year ending December 31, 2019.

We will advise the City of any progress made by GASB in developing this and other future pronouncements that may have an impact on the financial position and changes in financial position of the City.
SIGNIFICANT DEFICIENCY

Foreign Fire Insurance

During the course of our audit, we noted that the City’s general ledger did not contain the cash account or the activity for the City’s Foreign Fire Insurance Board. The City’s staff accumulated the financial data for the year in order to create the adjustment to record the appropriate activity. We recommend that the City record all funds and their activity for which it is responsible on the general ledger.

Status - Comment implemented at December 31, 2018.