



**CITY OF EVANSTON, ILLINOIS**

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COMMUNICATION OF DEFICIENCIES  
IN INTERNAL CONTROL AND  
OTHER COMMENTS TO CITY COUNCIL

For the Year Ended December 31, 2024



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## **COMMUNICATION OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER COMMENTS TO CITY COUNCIL**

Mr. Luke Stowe, City Manager  
Mr. Hitesh Desai, City Treasurer/Chief Financial Officer  
City of Evanston, Illinois

As part of the annual audit, we are required to communicate internal control matters that we classify as significant deficiencies and material weaknesses to those charged with governance. 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 significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. 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 City's financial statements will not be prevented, or detected and corrected, on a timely basis.

During our audit, we also identify certain matters which we communicate only to management. While many of these matters are operational in nature, they may include internal control deficiencies that do not meet the definition of a significant deficiency or material weakness. We have chosen to communicate these matters in this communication. As discussed on the following pages, we identified certain deficiencies in internal control. This letter does not affect our report dated June 26, 2025, on the financial statements of the City.

The City's written responses to these matters identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with Hitesh Desai, City Treasurer/Chief Financial Officer and Jess Tapia, Sr. Financial Analyst and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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

*SiKich CPA LLC*

Naperville, Illinois  
June 26, 2025

## **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. 102, *Certain Risk Disclosures*, provides users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact. The requirements of this Statement are effective for the fiscal year ended December 31, 2025.

GASB Statement No. 103, *Financial Reporting Model Improvements*, improves key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This statement also addresses certain application issues. This Statement requires that the information presented in MD&A be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions. Furthermore, this Statement stresses that the detailed analyses should explain why balances and results of operations changed rather than simply presenting the amounts or percentages by which they changed. This Statement describes unusual or infrequent items as transactions and other events that are either unusual in nature or infrequent in occurrence. This Statement requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses. Operating revenues and expenses are defined as revenues and expenses other than nonoperating revenues and expenses. Nonoperating revenues and expenses are defined as (1) subsidies received and provided, (2) contributions to permanent and term endowments, (3) revenues and expenses related to financing, (4) resources from the disposal of capital assets and inventory, and (5) investment income and expenses. This Statement requires governments to present each major component unit separately in the reporting entity's statement of net position and statement of activities if it does not reduce the readability of the statements. This Statement requires governments to present budgetary comparison information using a single method of communication—RSI. Governments also are required to present (1) variances between original and final budget amounts and (2) variances between final budget and actual amounts. An explanation of significant variances is required to be presented in notes to RSI. The requirements of this Statement are effective for fiscal years ending December 31, 2026. Earlier application is encouraged.

## **OTHER COMMENTS (Continued)**

### **Future Accounting Pronouncements (Continued)**

GASB Statement No. 104, *Disclosure of Certain Capital Assets*, requires certain types of capital assets to be disclosed separately in the capital asset note disclosures. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. This Statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset. The requirements of this Statement are effective for fiscal years ending December 31, 2026. Early application is encouraged. 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.

**APPENDIX A**  
**STATUS OF COMMENTS FROM DECEMBER 31, 2023**

**DEFICIENCIES**

**Fund Balance Adjustments**

Throughout the year, certain adjustments associated with recreation program activities were recorded directly to fund balance accounts, which resulted in a variance from the previous year reported balance. The City should avoid recording adjustments directly to fund balance accounts, except when recording restatements or to record fiscal year end close activity. We recommend the City review fund balance accounts on a regular basis to determine whether adjustments are being made in error to these accounts. At year-end close, a reconciliation of fund balance should be performed to ensure balances agree to the prior year final balances.

Status: Comment considered implemented at December 31, 2024.

**Revenue Recognition**

During testing of grants, it was noted that grant revenues related to fiscal year 2023 expenditures were reported as deferred revenue. An adjustment was proposed to properly recognize the revenue in the current fiscal year. Deferred revenue accounts should be evaluated as part of the City's year end close process to determine if any balances previously deferred are able to be recognized.

Status: Comment considered implemented at December 31, 2024.

**Governmental Fund Reporting**

Governmental funds report activity using the modified accrual basis of accounting. Adjustments were proposed to remove long-term assets and amortization expense incorrectly recorded in governmental funds. Long term assets and associated depreciation or amortization related to governmental fund activity should only be reported at the Governmental Activities entity-wide level.

Status: Comment still applicable at December 31, 2024.

**OTHER COMMENTS**

**Deficit Fund Balances**

The following deficit balances were reported as of December 31, 2023:

<u>Fund</u>	<u>Deficit</u>
Capital Improvements	\$ 8,173,411
Five Fifths Tax Increment District	<u>137,389</u>
<b>TOTAL</b>	<b><u>\$ 8,310,800</u></b>

The City should continue to monitor all funds reporting deficits, particularly the Capital Improvements Fund to determine if transfers are necessary to alleviate deficit balances resulting from increased capital outlay.

Status: Comment still applicable at December 31, 2024. The City reported the following deficit balances at December 31, 2024:

<u>Fund</u>	<u>Deficit</u>
Capital Improvements	\$ 8,090,525
Chicago Main Tax Increment District	<u>165,099</u>
<b>TOTAL</b>	<b><u>\$ 8,255,624</u></b>

**Management Response**

Capital Improvements Fund is expected to have a positive fund balance with potential bond proceeds later this year. Chicago Main Tax Increment District is expected to close the Fiscal 2025 with a positive balance mainly because of incremental revenues in 2025 exceeding fund expenditures.