CITY OF EVANSTON, ILLINOIS

COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE
AND MANAGEMENT

As of and for the Year Ended December 31, 2012
# CITY OF EVANSTON, ILLINOIS

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REQUIRED COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS IDENTIFIED IN THE AUDIT TO THOSE CHARGED WITH GOVERNANCE
To the Honorable Elizabeth B. Tisdahl, Mayor and
Members of the City Council
City of Evanston, Illinois

In planning and performing our audit of the financial statements of the City of Evanston as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing 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 its internal control. Accordingly, we do not express an opinion on the effectiveness of its internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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 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. We consider the following deficiency in the City's internal control to be a material weakness:

> Journal Entries

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. We consider the following deficiencies in the City's internal control to be significant deficiencies:

> Information Technology
> Cash Receipts Controls

The City of Evanston's written responses to the material weakness and significant deficiencies identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, those charged with governance, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

[Signature]

Oak Brook, IL
June 28, 2013
MATERIAL WEAKNESS

JOURNAL ENTRIES

The ability to prepare and initiate journal entries is delegated to various levels of finance employees. These entries do not post to the system until the Accounting Manager reviews and approves them. However, there is no review and approval of journal entries initiated and recorded by the Accounting Manager. An entry could be made or improperly supported without the City’s knowledge.

CITY RESPONSE:

The City believes there are adequate controls in place for journal entry management. It is not common for organizations to have three steps in journal entry review and is much more accepted to have entries done by one staff member and reviewed by the manager. To add another level of management review would be overly redundant and not cost efficient.
SIGNIFICANT DEFICIENCIES

INFORMATION TECHNOLOGY

As part of the audit, we were required to identify the processes in place that provide a controlled information technology (IT) environment for the applications, supporting systems and infrastructure determined to be critical to the financial statement audit. We documented the processes in place for each of the three main areas of focus: change management, logical access and IT operations. We then assessed the design effectiveness of each of these processes and noted the following opportunities to strengthen the City’s IT controls.

The City has some logical restrictions in place, such as requiring a unique user ID and password to access the systems. Through our discussions with the City and related observations, we noted that the Network password login from the active directory requires eight characters and is changed every 90 days; password complexity is required and the system remembers the last five passwords. Some of the City’s software systems such as AQUAS and PAL also follow these password criteria. Other of the City’s software systems such as CryWolf, JDE and RecTrac require passwords; however they are not in line with recommended password complexity standards. Best practices indicate that other steps could be taken to further ensure the integrity of the data. All passwords should be changed periodically. They should also meet the industry standards for length, expiration, characters, and history (passwords cannot be repeated). However, we understand that purchased software cannot always be modified in order to strengthen password complexity requirements.

CITY RESPONSE – Provided by Information Technology (IT):

The referenced systems – CryWolf, JDE and RecTrac are purchased packages and the City cannot change the password handling in these systems. The City has purchased and is in the process of installing a new system from New World Inc. in FY2013. The City will address user ID and password related issues during the implementation of a new system. The City prevents any issues with the utilization of the old software systems by requiring a system software password for the use of any City system. In effect, a user must enter a password that meets or exceeds the above referenced definitions (character length, complexity and history).

CASH RECEIPTS CONTROLS

In an optimal internal control environment, certain control processes and segregation of duties would exist in order to prevent a misstatement of financial information. This is accomplished when no single person can initiate, record, and control distribution of a single transaction or series of transactions. In some instances, the personnel constraints of many organizations do not always allow for ideal segregation of duties. However, it is our responsibility as auditors to communicate this deficiency.

During the course of our audit, we noted that the Operations Coordinator in the Collector’s Office is responsible for reconciling daily cash receipts collected by the cashiers, preparing the deposit for pickup by Garda, and posting receipts to the City’s accounting system. This presents a risk of the misappropriation of cash receipts to be concealed within the accounting system. We recommend that a second individual review the amount prepared for deposit in comparison to the original cash register reports and amounts posted to the general ledger for accuracy.

CITY RESPONSE:

Since 2011, Accounting Division has been posting batches prepared by Operations Coordinator.
OTHER COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE
TWO WAY COMMUNICATION REGARDING YOUR AUDIT

(SAS) NO. 114 The Auditor’s Communication With Those Charged with Governance

As part of our audit of your financial statements, we are providing communications to you throughout the audit process. Auditing requirements provide for two-way communication and are important in assisting the auditor and you with more information relevant to the audit.

As this past audit is concluded, we use what we have learned to begin the planning process for next year’s audit. It is important that you understand the following points about the scope and timing of our next audit:

a. We address the significant risks of material misstatement, whether due to fraud or error, through our detailed audit procedures.

b. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. We will obtain a sufficient understanding by performing risk assessment procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. We will use such knowledge to:
   > Identify types of potential misstatements.
   > Consider factors that affect the risks of material misstatement.
   > Design tests of controls, when applicable, and substantive procedures.

We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations, and provisions of contracts or grant programs. For audits done in accordance with Government Auditing Standards, our report will include a paragraph that states that the purpose of the report is solely to describe (a) the scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance, (b) the scope of testing internal control over compliance for major programs and major program compliance and the result of that testing and to provide an opinion on compliance but not to provide an opinion on the effectiveness of internal control over compliance and, (c) that the report is an integral part of an audit performed in accordance with Government Auditing Standards in considering internal control over financial reporting and compliance. The paragraph will also state that the report is not suitable for any other purpose.

c. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles while other matters are not important. In performing the audit, we are concerned with matters that, either individually or in the aggregate, could be material to the financial statements. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected.

We are very interested in your views regarding certain matters. Those matters are listed here:

a. We typically will communicate with your top level of management unless you tell us otherwise.

b. We understand that the City Council has the responsibility to oversee the strategic direction of your organization, as well as the overall accountability of the entity. Management has the responsibility for achieving the objectives of the entity.

c. We need to know your views about your organization’s objectives and strategies, and the related business risks that may result in material misstatements.

d. Which matters do you consider warrant particular attention during the audit, and are there any areas where you request additional procedures to be undertaken?

e. Have you had any significant communications with regulators or grantor agencies?
TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont.)

f. Are there other matters that you believe are relevant to the audit of the financial statements or the federal awards?

Also, is there anything that we need to know about the attitudes, awareness, and actions of the City concerning:

a. The City's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control?
   b. The detection or the possibility of fraud?

We also need to know if you have taken actions in response to developments in financial reporting, laws, accounting standards, governance practices, or other related matters, or in response to previous communications with us.

With regard to the timing of our audit, here is some general information. If necessary, we may do preliminary financial audit work during the month of December or January. Our final financial fieldwork is scheduled during the spring to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our financial audit procedures at our office and may issue drafts of our report for your review. Final copies of our report and other communications are issued after approval by your staff. This is typically 6-12 weeks after final fieldwork, but may vary depending on a number of factors.

Keep in mind that while this communication may assist us with planning the scope and timing of the audit, it does not change the auditor's sole responsibility to determine the overall audit strategy and the audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence.

We realize that you may have questions on what this all means, or wish to provide other feedback. We welcome the opportunity to hear from you.
COMMUNICATION OF RECOMMENDATIONS AND INFORMATIONAL POINTS TO MANAGEMENT THAT ARE NOT MATERIAL WEAKNESSES OR SIGNIFICANT DEFICIENCIES
RECOMMENDATION

DEFICIT FUND NET ASSETS

At December 31, 2012, the City’s Insurance Internal Activity Fund, reported deficit fund net assets of $7,376,499. The Insurance Fund began the period with a deficit net asset balance of $6,124,771. As this is an internal service fund, all revenues and transfers of net assets are supported by the City’s other funds including the General Fund, Water Fund, and Sewer Fund. These funds are expected to subsidize the Insurance Internal Service Fund’s improvement in future years.

CITY RESPONSE:

The City agrees with the above deficit fund net asset numbers for the Insurance Fund. The City started making inter-fund transfers from the other funds during the 2010-11 fiscal year to reflect proportionate estimated insurance costs for those funds. It is worth noting that the negative fund balance is mainly due to an accrual for short/long-term claims payable recorded for the potential liability in the fund financial statements for the year ended December 31, 2012.
INFORMATIONAL POINTS

UNITED STATES AUDITING STANDARDS REVISIONS

In an effort to make US generally accepted auditing standards (GAAS) easier to read, understand, and apply, the American Institute of CPAs redrafted all of the auditing sections in the Codification of Statements on Auditing Standards. This is also known as the Clarity Project. The new standards are intended to more clearly specify the objectives of the auditor and the requirements with which the auditor must comply when conducting an audit in accordance with GAAS.

Generally speaking, the Clarity Project was not intended to change what auditors actually do. However, there were several areas that resulted in changes to audit procedures. The following outlines some of the changes / areas of emphasis:

- Consideration of Laws and Regulations – The clarified standards require auditors to perform procedures to identify instances of noncompliance with those laws and regulations that may have a material effect on the financial statements, including the inspection of correspondence with relevant licensing or regulatory authorities.

- Communicating Internal Control Related Matters – The clarified standards require auditors to include an explanation of the potential effects of significant deficiencies and material weaknesses identified and communicated to those charged with governance.

- Group Audits – AU-C section 600 (Group Audits) is significantly broader in scope than the previous standard, which focused primarily on the involvement of “other” auditors. It establishes new terms such as “group” and “component”. A group includes all the components whose financial information is included in the group financial statements. A component is an entity or business activity that is required to be included in the group financial statements. Examples include: component units, departments with separate financial reporting systems, and joint ventures with an equity interest. A Group Audit can apply whether or not auditors are from different firms, different offices, or teams within the same firm; or even if it is the same team performing the audits of the group and all components.

- A significant change under AU-C section 600 is in the area of subsequent events identification. The group auditor must perform procedures to identify subsequent events between the date of the component auditor’s report and the date of the group auditor’s report, which often can cover a significant time period. Such procedures may involve group management and the various components, including:

  > Obtaining an understanding of any procedures that group management has established to ensure that subsequent events are identified

  > Reading available interim financial information of the component and making inquiries of group management

  > Inquiring of group management regarding currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position of the group, or results of operations for items that represent subsequent events

- Auditors’ Reports – The Auditors’ Report will now include the use of headings, expanded discussions of management’s responsibility for the financial reporting process, and the introduction of two new terms: emphasis-of-matter and other-matter paragraphs.

These changes became effective for the year ending December 31, 2012 and subsequent years.
INFORMATIONAL POINTS (cont.)

GASB STATEMENT NO. 61: THE FINANCIAL REPORTING ENTITY: OMNIBUS

The Governmental Accounting Standards Board (GASB) has issued Statement No. 61, which changed governmental financial reporting for component units. These changes will affect your financial statements for the year ending December 31, 2013, primarily the government-wide financial statements, and possibly the fund financial statements.

Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations in which the primary government did not appoint a majority of the organization’s board, but were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship now would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units; but that, nevertheless, should be included because the primary government’s management determines that it would be misleading to exclude them, this Statement clarifies the criteria to be considered in determining whether the organization is to be reported as a blended or discretely presented component unit, as discussed below.

Statement No. 61 amends the criteria for reporting component units as if they are part of the primary government (that is, blending) or separately (that is, discretely) presented. Component units should now be reported as part of the primary government (blended) if they meet any of the following circumstances:

- The governing bodies of both entities are substantially the same and there is a financial benefit or burden relationship, or management of the primary government has operational responsibility for the component unit
- The component unit provides services entirely, or almost entirely, to or that benefit the primary government
- The component unit’s total debt outstanding is expected to be repaid entirely, or almost entirely, with resources of the primary government

The blending provisions are also amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. This means that if the component unit has multiple fund types within its report, these funds should be reported within the same fund types of the primary government; except for the component unit’s general fund, which should be reported as a special revenue fund. Finally, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting. Component units should be consolidated into the single column presentation with condensed combining information presented in the notes to the financial statements.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit.

We are available to discuss these changes and the impact on your financial statements.
INFORMATIONAL POINTS (cont.)

**GASB Statement No. 65: Items Previously Reported As Assets and Liabilities**

Government Accounting Standards Board (GASB) Statement No. 65 – Items Previously Reported as Assets and Liabilities will result in a reclassification of some financial statement line items on the Statement of Net Position and Balance Sheet of governments. The new financial statement categories of deferred outflows of resources and deferred inflows of resources will become more commonly used upon implementation of this standard. In addition to reclassifications to these new categories, the standard will also result in a change in the accounting treatment for certain items, including debt issuance costs. This standard is effective for periods beginning after December 15, 2012, and was intended to complement Statement No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.

Some of the most significant changes of this standard that will impact many governments include:

- Debt issuance costs previously amortized will now be expensed in the period incurred
- Losses on refunding of debt will now be classified as a deferred outflow of resources, and consistent with the change noted previously, the formula for calculating the loss has been adjusted to exclude debt issuance costs (prospectively)
- Regulatory credits recorded by utilities will now be recorded either as a liability or a deferred inflow of resources, depending on how the credit will be applied in the future
- The terminology of deferred revenue is no longer permitted to be used. In addition, the items previously recorded as deferred revenue will need to be analyzed to determine if they will be presented as a deferred inflow of resources or a liability
- The major fund determination formula has been updated to include the new categories

We are available to discuss these changes and the impact on your financial statements.

**GASB Statement No. 67: Financial Reporting for Pension Plans**

The Governmental Accounting Standards Board (GASB) has issued Statement No. 67 which will change the financial reporting requirements for state and local government pension plans. This statement replaces the requirements of GASB Statement Nos. 25 and 50 as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. These changes will affect your plan’s financial statements for the year ending December 31, 2014.

This Statement applies specifically to pension plans in which a government’s contributions to the trust used to administer a pension plan are (1) irrevocable, (2) restricted to paying pension benefits, and (3) beyond the reach of creditors.

For defined benefit pension plans, the Statement establishes standards of financial reporting for separately issued financial reports. Distinctions are made regarding the particular requirements, depending upon the type of pension plan administered, as follows:

- Single employer pension plan – is a plan in which pensions are provided to the employees of only one employer
- Agent multiple employer pension plan – is a plan in which plan assets are pooled for investment purposes, but separate accounts are maintained for each individual employer so that each employer’s share of the pooled assets is legally available to pay the benefits of only its employees
- Cost-sharing multiple employer pension plan – is a plan in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.
INFORMATIONAL POINTS (cont.)

The new standards generally carry forward the existing framework of financial reporting for defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in trust for paying retirement benefits), and a statement of changes in fiduciary net position. This Statement details the disclosure requirements for the notes to the financial statements, as well as identifies certain required supplementary information for the ten most recent fiscal years that should be included in the plan’s financial statements.

The Statement specifies the required approach to measuring the pension liability of employers and non-employer contributing entities for benefits provided through the pension plan (the net pension liability), and contains requirements related to the actuarial cost method and certain other assumptions used in the preparation of an actuarial valuation. The Statement also establishes guidance related to the frequency of completing an actuarial valuation.

For defined contribution pension plans, the new standards generally do not change the existing reporting requirements.

We are available to further discuss these changes and the impact on your financial statements.

GASB STATEMENT NO. 68: ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS

The Governmental Accounting Standards Board (GASB) has issued Statement No. 68, which will change the accounting and financial reporting requirements for state and local governments that provide their employees with pensions. This Statement replaces the requirements of GASB Statement Nos. 27 and 50 as they relate to pensions that are provided through pension plans administered as trusts, or equivalent arrangements that meet certain criteria. These changes will affect your financial statements for the year ended December 31, 2015.

This Statement applies specifically to governments that provide their employees with pensions through pension plans in which a government’s contributions to the trust used to administer a pension plan are (1) irrevocable, (2) restricted to paying pension benefits, and (3) beyond the reach of creditors.

Government employers that provide their employees with a defined benefit pension are classified in one of the following categories for this Statement:

> Single employer – is an employer whose employees are provided with a defined benefit pension through a single employer pension plan
> Agent employer – is an employer whose employees are provided with a defined benefit pension through an agent multiple employer pension plan
> Cost-sharing employer – is an employer whose employees are provided with a defined benefit pension through a cost-sharing multiple employer pension plan

Under the new standards, in financial statements prepared using the economic resources measurement focus (accrual basis of accounting), the single or agent employer is required to recognize a liability equal to the net pension liability. The net pension liability is defined as the present value of projected benefit payments to be provided through the pension plan, to current and inactive employees, that is attributed to those employees’ past periods of service (total pension liability), less the amount of the pension plan’s net position.

The new Statement contains requirements related to the actuarial cost method and certain other assumptions used in the preparation of an actuarial valuation. The Statement also requires that an actuarial valuation of the total pension liability be performed at least every two years, with more frequent valuations encouraged. In addition, this Statement also requires disclosing certain information in the notes to the financial statements, as well as presenting certain required supplementary information (RSI) for the ten most recent fiscal years.
INFORMATIONAL POINTS (cont.)

For government employers that provide their employees with a defined contribution pension, the new standards generally carry forward the existing financial reporting requirements.

We are available to further discuss these changes and the impact on your financial statements.

GASB No. 69 – GOVERNMENT COMBINATIONS AND DISPOSALS OF GOVERNMENT OPERATIONS

The Governmental Accounting Standards Board has issued GASB No. 69 which is aimed at improving the accounting and reporting of combinations and disposals of government operations for US state and local governments. The term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities, and in which no significant consideration is exchanged. This Statement defines the term operations for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

A disposal of a government’s operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold.

This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. If you have any questions on how this might impact your audit, we are available to discuss this with you.

YELLOW BOOK (GOVERNMENT AUDITING STANDARDS) REVISIONS

In December 2011, the Government Accountability Office (GAO) released a revision to Generally Accepted Auditing Standards (GAGAS) which is also known as Yellow Book. This was the first revision since July 2007. The changes became effective for years ending December 31, 2012.

One of the most significant modifications of the new standards was the change to the conceptual framework for independence. Previously, the standards were more rules-based with identification of certain non-audit services that were either allowed or prohibited. The new framework provides a means for auditors to assess their independence based on the unique facts and circumstances of the work and the client. However, certain underlying concepts of the standards remain with the revision, including the fact that auditors cannot be part of your internal control system and cannot perform management functions.

Other changes to the revision include updates for new auditing standards, convergence with AICPA and international standards, and the retirement of the supplement containing select questions and answers on independence.
INFORMATIONAL POINTS (cont.)

If you have any questions on how the implementation of these revisions impacted your audit, we are available to discuss those questions with you.
REQUIRED COMMUNICATIONS BY THE AUDITOR WITH THOSE CHARGED WITH GOVERNANCE
June 28, 2013

To the Honorable Elizabeth B. Tisdahl, Mayor and
Members of the City Council
City of Evanston, Illinois

Thank you for using Baker Tilly Virchow Krause, LLP as your auditor.

We have completed our audit of the financial statements of the City of Evanston, Illinois for the year ended December 31, 2012, and have issued our report thereon dated June 28, 2013. This letter presents communications required by our professional standards.

**OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, GOVERNMENT AUDITING STANDARDS, AND OMB CIRCULAR A-133**

The objective of a financial statement audit is the expression of an opinion on the financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America, Government Auditing Standards and OMB Circular A-133. These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or the City Council of their responsibilities.

We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal or major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

Also, in accordance with OMB Circular A-133, Prado & Renteria CPAs will examine, on a test basis, evidence about the City’s compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of the City’s major programs for the purpose of expressing an opinion on the City’s compliance with those requirements. While the audit provides a reasonable basis for the opinion, it does not provide a legal determination on the City’s compliance with those requirements.

Prado & Renteria CPAs will issue a separate document which contains the results of our audit procedures to comply with OMB Circular A-133.
Honorable Elizabeth B. Tisdahl, Mayor and
Members of the City Council
City of Evanston, Illinois

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

Our responsibility does not extend beyond the audited financial statements identified in this report. We do not have any obligation to and have not performed any procedures to corroborate other information contained in client prepared documents, such as official statements related to debt issues.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated June 26, 2012.

QUALITATIVE ASPECTS OF THE ENTITY’S SIGNIFICANT ACCOUNTING PRACTICES

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Evanston, Illinois are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the City of Evanston, Illinois changed accounting policies related to deferred outflows of resources, deferred inflows of resources, and net position by adopting Statement of Governmental Accounting Standards (GASB) Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position in 2012. Accordingly, the effect of the accounting change as of the beginning of the year is reported in the Statement of Net Position. We noted no transactions entered into by the City of Evanston, Illinois during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

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:

- Depreciation expense
- Allowance for doubtful accounts
- Insurance claims payable
- OPEB liability

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

The disclosures in the financial statements are neutral, consistent, and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing our audit.
Honorable Elizabeth B. Tisdahl, Mayor and 
Members of the City Council 
City of Evanston, Illinois

**CORRECTED AND UNCORRECTED MISSTATEMENTS**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually, or in the aggregate, to the financial statements taken as a whole.

A summary of uncorrected financial statement misstatements follows this required communication. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

**DISAGREEMENTS WITH MANAGEMENT**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter 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.

**CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditors’ 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.

**MANAGEMENT REPRESENTATIONS**

We have requested certain representations from management that are included in the management representation letter. This letter follows this required communication.

**INDEPENDENCE**

We are not aware of any relationships between Baker Tilly Virchow Krause, LLP and the City of Evanston that, in our professional judgment, may reasonably be thought to bear on our independence.

Relating to our audit of the financial statements of the City of Evanston for the year ended December 31, 2012, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to the City in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants. We provided no services to the City other than audit services provided in connection with the audit of the current year’s financial statements and nonaudit services which in our judgment do not impair our independence.
OTHER MATTERS

With respect to the supplementary information accompanying the financial statements, 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.

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 City’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of those charged with governance and management and is not intended to be, and should not be, used by anyone other than these specified parties.

We welcome the opportunity to discuss the information included in this letter and any other matters. Thank you for allowing us to serve you.

Balazs Tally & Associates, LLP

Oak Brook, Illinois
June 28, 2013
City of Evanston  
SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS  
December 31, 2012

<table>
<thead>
<tr>
<th>Financial Statements Effect - Debit (Credit) to Financial Statement Total</th>
<th>Total Assets/ Deferred Outflows</th>
<th>Total Liabilities/ Deferred Inflows</th>
<th>Total Net Position/ Fund Balances</th>
<th>Total Revenues</th>
<th>Total Expenses/ Expenditures</th>
<th>Change in Net Position/ Fund Balances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governmental Activities</td>
<td>1,316,397</td>
<td>-</td>
<td>(453,981)</td>
<td>238,765</td>
<td>(891,576)</td>
<td>222,379</td>
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<tr>
<td>Business-Type Activities</td>
<td>(47,051)</td>
<td>(185,081)</td>
<td>232,132</td>
<td>-</td>
<td>465,297</td>
<td>(1,033)</td>
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<tr>
<td>General Fund</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(238,765)</td>
<td>(238,765)</td>
</tr>
<tr>
<td>Capital Improvement Fund</td>
<td>22,183</td>
<td>-</td>
<td>(22,183)</td>
<td>-</td>
<td>(22,183)</td>
<td>(22,183)</td>
</tr>
<tr>
<td>Water Fund</td>
<td>185,081</td>
<td>(185,081)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Parking Fund</td>
<td>99,462</td>
<td>-</td>
<td>(99,462)</td>
<td>-</td>
<td>(99,462)</td>
<td>(99,462)</td>
</tr>
</tbody>
</table>
June 28, 2013

Baker Tilly Virchow Krause, LLP
1301 W. 22nd Street, Suite 400
Oak Brook, IL 60523

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of the City of Evanston as of December 31, 2012 and for the year then ended for the purpose of expressing an opinion as to whether the primary government financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Evanston and the respective changes in financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.

2. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and other financial information of the primary government required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.

3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions we used in making accounting estimates are reasonable.
6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America.

7. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

8. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the basic financial statements taken as a whole. In addition, you have recommended adjusting journal entries, and we are in agreement with those adjustments.

9. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.

10. Guarantees, whether written or oral, under which the City of Evanston is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

11. We have provided you with:
   a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
   b. Additional information that you have requested from us for the purpose of the audit.
   c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
   d. Minutes of the meetings of the City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.

12. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

13. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

14. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
   a. Management,
   b. Employees who have significant roles in internal control, or
   c. Others where the fraud could have a material effect on the financial statements.

15. Except for situation disclosed to you during the audit, we have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.

16. There are no known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
17. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

18. We have disclosed to you all known related parties and all the related party relationships and transactions of which we are aware.

   Other

19. We have made available to you all financial records and related data.

20. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices. This excludes activities covered under the Single Audit Act.

21. We have taken timely and appropriate steps to remedy fraud, violations of laws, regulations, contracts or grant agreements, or abuse that you have reported to us.

22. We have a process to track the status of audit findings and recommendations.

23. We have identified to you any previous financial audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

24. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report.

25. The City of Evanston has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity. This excludes the impact of GASB pronouncements to be implemented in future years.

26. We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

27. There are no:

   a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance.

   b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.

28. In regards to the non-attest services performed by you listed below, we have 1) made all management decisions and performed all management functions; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.

   a. Compiled regulatory reports
This non attest service does not constitute an audit under generally accepted auditing standards, including Government Auditing Standards.

29. The City of Evanston has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

30. The City of Evanston has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.

31. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.

32. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.

33. The financial statements properly classify all funds and activities.

34. All funds that meet the quantitative criteria in GASB Statement No. 34 and No. 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

35. Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.

36. The City of Evanston has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.

37. Provisions for uncollectible receivables have been properly identified and recorded.

38. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

39. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

40. Inter-fund, internal, and intra-entity activity and balances have been appropriately classified and reported.

41. Deposits and investment securities are properly classified as to risk, and investments are properly valued.

42. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized.

43. We have appropriately disclosed the City of Evanston's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy. We have also disclosed our policy regarding how restricted and unrestricted fund balance is used when expenditure is incurred for which both restricted and unrestricted fund balance is available, including the spending hierarchy for committed, assigned, and unassigned amounts.

44. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
45. With respect to the combining and individual fund financial statements and schedules:

a. We acknowledge our responsibility for presenting the combining and individual fund financial statements and schedules in accordance with accounting principles generally accepted in the United States of America, and we believe the combining and individual fund financial statements and schedules, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the combining and individual fund financial statements and schedules have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

b. If the combining and individual fund financial statements and schedules is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

46. We assume responsibility for, and agree with, the findings of specialists in evaluating the post-employment benefits, Police Pension Fund and Firefighter's Pension Fund and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had impact on the independence or objectivity of the specialists.

Sincerely,

City of Evanston

Signed: Wally Bobkiewicz, City Manager

Signed: Martin Lyons, Assistant City Manager/Chief Financial Officer