

CITY OF EVANSTON, ILLINOIS

COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE AND MANAGEMENT

As of and for the Year Ended December 31, 2013

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, 2013, 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 certain deficiencies in internal control that we consider to be material weaknesses 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 deficiencies in the City's internal control to be material weaknesses:

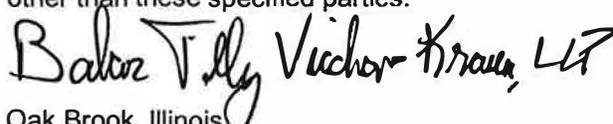
- > Journal Entries
- > External Financial Reporting

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.


Oak Brook, Illinois
July 2, 2014

MATERIAL WEAKNESSES

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 several steps in journal entry review and is much more acceptable to have entries done by one staff member and reviewed by the manager. To make the process more efficient, most of the journals are now entered by one of the accountants and approved by the Accounting Manager with the exception of very few journals as a result of budget/Audit compliance or directives from CFO.

EXTERNAL FINANCIAL REPORTING

The system of internal controls over financial reporting is addressed by auditing standards. In theory, a good system of internal controls staffed with enough people with enough training would provide your organization with the ability to not only process and record monthly transactions, but also to prepare a complete set of annual financial statements.

The current standard makes it clear that the definition of a material weakness in internal control should now include consideration of the year-end financial reporting process. To avoid the auditor reporting a material weakness in internal controls, your system of controls would need to be able to accomplish the following:

1. Present the books and records to the auditor in such a condition that the auditor is not able to identify any material journal entries for the current or prior periods as a result of our audit procedures. This is very rare indeed for most of our clients.
2. Prepare a complete set of year-end financial statements with a very high level of accuracy. The current standard requires that the level of accuracy be such that there is only a remote likelihood that the auditor discovers a material change to the statements or footnotes. While a number of our clients prepare their own statements, it may not be cost beneficial to scrutinize those statements internally to the same degree that the auditor will do later. If the auditor, therefore, discovers a material change to the statements, by definition, the system of internal controls over financial reporting must have a material weakness.

To accomplish such a high level of internal control over financial reporting is a difficult task for most governments. During the course of our audit, it was discovered that receivables and revenue in the Sewer Fund were materially misstated resulting in audit adjusting entries prepared by the City. The adjustments to the financial statements increased reimbursement receivable and revenue by \$860,353.

This entry was necessary to ensure that the financial statements are fairly stated and, in our judgment, was material to the financial statements. Management subsequently recorded these amounts.

As noted above, the design and implementation of internal controls over financial reporting are the responsibility of the City as emphasized in Statement of Auditing Standards statement No. 115, *Communicating Internal Control Related Matters in an Audit*. We have observed that the improper design and implementation of controls (a complete and documented review of subsequent transactions for proper inclusion/exclusion in the current year financial statements) is normally a constraint of cost containment and lack of staffing available to public entities.

MATERIAL WEAKNESSES (cont.)

CITY RESPONSE:

The City received the above payment from MWRD in the month of March 2014. As the MWRD didn't make the final acceptance (for payment) until 2014, the finance staff reported the funds as Grant revenue in the current fiscal year. The Auditors felt that since the grant was a reimbursement for work done last summer, it should be reported as revenue in the FY2013.

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 City has purchased and is in the process of completing the implementation of a new financial system to replace JDE. This new software, New World Systems, is active-directory integrated and utilizes user's Windows credentials. This login requires eight characters, is changed every 90 days, password complexity requirements, and remembers the last five passwords. Aquas and PAL (Accela) are also active-directory integrated. RecTrac is not active-directory integrated, but does not allow the reuse of previous 5 password, has password complexity requirements, and must change every 90-days. The City will evaluate if active-directory integration is possible for this and all third-party systems.

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 sending the batch receipts to the City's accounting department for posting. However, the Operations Coordinator still has the ability to post entries in the 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.

SIGNIFICANT DEFICIENCIES (cont.)

CITY RESPONSE:

Since 2011, Accounting Division has been posting batches prepared by Operations Coordinator. With the implementation of New World Systems in 2014, Operation Coordinator has no ability to post the batches in the Accounting System.

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.
- d. Your financial statements contain components, as defined by auditing standards generally accepted in the United States of America, which we also audit.

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.

TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont.)

- 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?
- 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 POSITION

At December 31, 2013, the City's Insurance Internal Activity Fund, reported deficit fund net position of \$3,727,663. The Insurance Fund began the period with a deficit net position balance of \$7,376,499. 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 position 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 net position 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, 2013.

INFORMATIONAL POINTS

The following is a schedule of GASB projects:

Task or Event	Effective Date	Impact
GASB No. 67 – Financial Reporting for Pension Plans	December 31, 2014	This standard is applicable to the Illinois Municipal Retirement Fund (IMRF) plan and the City's Police Pension and Firefighters' Pension plans.
GASB No. 68 – Accounting and Financial Reporting for Pensions	December 31, 2015	The City belongs to the Illinois Municipal Retirement Fund (IMRF) and has the Police and Firefighters' Pension plans. IMRF is an agent, multiple-employer, defined-benefit, public employee retirement system. IMRF has represented that it will provide the information necessary for the employers to implement GASB No. 68. The City's Police and Firefighters' Pension plans are single employer, defined-benefit retirement systems. The City will need to calculate the information necessary to report the net pension liability/ asset for the Police and Firefighters' Pension plans. The City's net pension liability / asset will be reported in its government-wide financial statements. The footnote disclosures will have significant changes.
GASB No. 69 – Government Combinations and Disposals of Government Operations	December 31, 2014	This standard provides the guidance necessary for government combinations and disposals of government operations. This is unlikely to impact the City
GASB No. 70 – Accounting and Financial Reporting For Non-exchange Financial Guarantees	December 31, 2015	This standard provides guidance for non-exchange financial guarantees. This would impact the City only to the extent it enters into such transactions.
GASB No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68	December 31, 2015	The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of GASB No. 68 in the accrual-basis financial statements of the City. This will be addressed along with the implementation of GASB No. 68.
Current Agenda Topic: Conceptual Framework - Measurement	The GASB Board is scheduled to issue a final Concepts Statement in March 2014	The objective of this project is to consider the measurement concepts that should be used in governmental financial statements. A measurement approach determines whether an asset or liability presented in a financial statement should be (1) reported at an amount that reflects a value at the date that the asset was acquired or the liability was incurred or (2) remeasured and reported at an amount that reflects a value at the date of the financial statements.

INFORMATIONAL POINTS (cont.)

Task or Event	Effective Date	Impact
Current Agenda Project: Fair Value Measurement	The GASB Board is scheduled to issue an Exposure Draft in May 2014	The objective of this project is to review and consider alternatives for the further development of the definition of fair value, the methods used to measure fair value and the applicability of fair value guidance to investments and other items currently reported at fair value, and the potential disclosures about fair value.
Current Agenda Project: Fiduciary Responsibilities	The GASB Board is expected to issue an Exposure Draft on this project in September 2014	This project is to assess what additional guidance should be developed regarding the application of the fiduciary responsibility criteria in deciding whether and how governments should report fiduciary activities in their financial reports.
Current Agenda Project: Leases	The GASB Board is scheduled to issue an Exposure Draft in November 2014	The objective of this project is to reexamine issues associated with lease accounting, consider improvements to existing guidance, and provide a basis for the GASB Board to consider whether the current guidance is appropriate based on the definitions of assets and liabilities.
Current Agenda Project: Postemployment Benefits Accounting and Financial Reporting: Other Postemployment Benefits Accounting and Financial Reporting	During the first part of 2014, the GASB Board will review remaining issues before issuing Exposure Drafts on employer and plan OPEB accounting and financial reporting and pensions not within the scope of Statement 68	The Board will consider the possibility of modifications to the existing standards of accounting and financial reporting for other postemployment benefits (OPEB) by state and local governmental employers and by the trustees, administrators, or sponsors of OPEB plans. GASB has stated that their objectives are to increase financial reporting transparency and to improve the usefulness of information to the various users of the financial statements.

The GASB has two other projects which are on hold. They include the conceptual framework for recognition and economic condition reporting – financial projections.

The GASB also revisits GASB standards ten (10) years after issuance. The GASB is currently revisiting GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis for State and Local Governments*, as well as reporting model-related pronouncements including Statements No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis-for State and Local Governments; Omnibus*, No. 41, *Budgetary Comparison Schedules – Perspective Differences*, and No. 46, *Net Assets Restricted by Enabling Legislation*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. The GASB has indicated that they are revisiting the following major provisions of these standards: management’s discussion and analysis, government-wide financial statements, fund financial statements, capital asset reporting, budgetary comparisons, special purpose government reporting, and related notes to financial statements. We will share updates with you as they become available.

A full list of projects, as well as many resources, is available on GASB’s website at www.gasb.org.

REQUIRED COMMUNICATIONS BY THE AUDITOR WITH THOSE CHARGED WITH GOVERNANCE

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, 2013, and have issued our report thereon dated July 2, 2014. 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 28, 2013.

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 inclusion of certain component units in the financial reporting entity and their reporting by adopting Governmental Accounting Standards (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* and changed accounting policies related to reporting certain items previously reported as assets and liabilities by adopting Statement No. 65, *Items Previously Reported as Assets and Liabilities* in 2013. 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.

As noted, in the required communication of internal control related matters identified in the audit to those charged with governance section of this report, we identified a material adjustment to the City's financial statements that was subsequently recorded by management.

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, 2013, 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.

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

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.



Oak Brook, Illinois
July 2, 2014

SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS

City of Evanston
SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS

As of and for the Year Ended December 31, 2013

	Financial Statements Effect - Debit (Credit) to Financial Statement Total						
	<u>Total Assets/ Deferred Outflows</u>	<u>Total Liabilities/ Deferred Inflows</u>	<u>Total Net Position/ Fund Balances</u>	<u>Total Revenues</u>	<u>Total Expenses/ Expenditures</u>	<u>Change in Net Position/ Fund Balances</u>	<u>Beginning Net Position/ Fund Balances</u>
Governmental Activities	(848,797)	-	615,436	-	943,109	943,109	(94,312)
Business-Type Activities	848,797	149,192	(997,989)	-	(729,307)	(729,307)	(268,682)
Discretely Presented Component Uni	114,906	-	(114,906)	(114,906)	-	(114,906)	-
General Fund	(66,512)	(149,192)	66,512	66,512	645,972	712,484	(496,780)
Capital Improvement Fund	-	-	-	-	(233,361)	(233,361)	233,361
Parking Fund	-	149,192	(149,192)	-	(149,192)	(149,192)	-

MANAGEMENT REPRESENTATIONS



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Wally Bobkiewicz
City Manager

July 2, 2014

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, 2013 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, 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 and all component units 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 other 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. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
9. 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.
10. The effects of all known actual or potential litigation, claims, and assessments have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.
11. Guarantees, whether written or oral, under which the City of Evanston is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

12. 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 financial records and related data, 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.
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. 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. We have no knowledge of 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 related parties and all the related party relationships and transactions of which we are aware.

Other

18. 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.

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

20. 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.

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

22. The City of Evanston has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity as of December 31, 2013.

23. 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.

24. 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.
- c. Nonspendable, restricted, committed, or assigned fund balances that were not properly authorized and approved.
- d. Rates being charged to customers that have not been authorized by the applicable authoritative body (either City Council or City Management).
- e. Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.

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25. In regards to the nonattest service 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 service.

a. Compiled regulatory reports

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

26. 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.

27. 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.

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

29. 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.

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

31. 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.

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

33. 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.

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

35. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.

36. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

37. Deposits and investment securities are properly classified as to risk, and investments are properly valued. Collateralization agreements with financial institutions, if any, have been properly disclosed.

38. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.

39. 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 an expenditure is incurred for which both restricted and unrestricted fund balance is available, including the spending hierarchy for committed, assigned, and unassigned amounts.

40. 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.
41. With respect to the supplementary information, (SI):
- a. We acknowledge our responsibility for presenting the SI in accordance with accounting principles generally accepted in the United States of America, and we believe the SI, 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 SI 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 SI 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.
42. 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.
43. We have implemented GASB Statement No. 65 and believe that all deferred outflows and deferred inflows have been identified and properly classified in the financial statements and any other required classifications have been computed in compliance with the Standard.

Sincerely,

City of Evanston

Signed: 

Signed: 