

**LAKE COUNTY
PUBLIC WORKS DEPARTMENT WATERWORKS
AND SEWERAGE SYSTEMS FUND**

Libertyville, Illinois

COMMUNICATION TO THOSE CHARGED
WITH GOVERNANCE AND MANAGEMENT

As of and for the Year Ended November 30, 2014

LAKE COUNTY PUBLIC WORKS DEPARTMENT

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REQUIRED COMMUNICATIONS BY THE AUDITOR TO THOSE CHARGED WITH GOVERNANCE



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To the Public Works Committee
Lake County Public Works Department
Waterworks and Sewerage Systems Fund
Libertyville, Illinois

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

We have completed our audit of the financial statements of the Lake County Public Works Department (department) for the year ended November 30, 2014, and have issued our report thereon dated April 10, 2015. This letter presents communications required by our professional standards.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND GOVERNMENT AUDITING STANDARDS

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 and *Government Auditing Standards*. 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 Public Works Committee (committee) of their responsibilities.

As part of the audit we obtained an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. The audit was not designed to provide assurance on internal control or to identify deficiencies in internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the department's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

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.

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.

To the Public Works Committee
Lake County Public Works Department
Waterworks and Sewerage Systems Fund

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you.

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 department are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the department changed accounting policies related to reporting certain items previously reported as assets and liabilities by adopting Statement of Governmental Accounting Standards (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities* in 2014. Accordingly, the cumulative effect of the accounting change is reported in the current period. We noted no other transactions entered into by the department 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:

- > The allowance for uncollectible accounts receivable, which are evaluated in relation to actual collections in the subsequent year and collections made on a historical basis. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.
- > The other postemployment benefits obligation, which is supported by an actuarial study using employment data of the county and expected participation in benefit programs. We evaluated the key factors and assumptions used to develop the estimate in determining that it is 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.

To the Public Works Committee
Lake County Public Works Department
Waterworks and Sewerage Systems Fund

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. Management chose to pass on adjusting for the proper recording of unearned revenue associated with the amounts placed on deposit with the department by members of The North Lake County Water Special Services Planning Group. The effect of the uncorrected adjustment on the financial statements increases unearned revenue and decreases net position by \$207,232, and increases revenues and current year income by \$24,963.

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.

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. It was noted the department used an independent accounting firm to perform the following procedures:

- > Wholesale customer billing audits

MANAGEMENT REPRESENTATIONS

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

To the Public Works Committee
Lake County Public Works Department
Waterworks and Sewerage Systems Fund

INDEPENDENCE

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

Relating to our audit of the financial statements of the Lake County Public Works Department for the year ended November 30, 2014, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to the Lake County Public Works Department in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants. We provided no services to the department other than audit services provided in connection with the audit of the current year's financial statements and the following nonaudit services which in our judgment do not impair our independence.

- > Water and sewerage rate study
- > Wholesale sewer regional cost reports

None of these nonaudit services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.

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 Lake County Public Works Department's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

RESTRICTION ON USE

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.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
April 10, 2015

INFORMATIONAL POINTS TO MANAGEMENT

GASB UPDATES

The following is a schedule of GASB projects:

| Task or Event | Effective Date | Impact |
|--|---|--|
| GASB No. 68 – Accounting and Financial Reporting for Pensions | December 31, 2015 | The county belongs to the IMRF. The IMRF is two agent multi-employer defined-benefit, public employee pension plan. The IMRF has represented that it will provide the information necessary for the employers to implement GASB No. 68. The county's share of the net pension liability / asset will be reported in its full-accrual funds and the government-wide financial statements. The footnote disclosures will have significant changes. |
| GASB No. 70 – Accounting and Financial Reporting For Nonexchange Financial Guarantees | December 31, 2015 | This standard provides guidance for non-exchange financial guarantees that the county would become involved in. |
| 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 county. This will be addressed with the implementation of GASB No. 68. |
| Current Agenda Project: Fair Value Measurement | Proposed effective date – June 30, 2016 (Exposure Draft issued 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. |

GASB UPDATES (cont.)

| Task or Event | Effective Date | Impact |
|--|--|---|
| Current Agenda Project: Fiduciary Responsibilities | The GASB Board is expected to issue an Exposure Draft in October 2015 | 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 January 2016 | The objective of this project is to re-examine 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: Other Postemployment Benefits Accounting and Financial Reporting | Proposed effective date for plans – December 31, 2016; Proposed effective date for employers – December 31, 2017; Proposed effective dates for pensions not administered by a trust – June 30, 2017 (Exposure Drafts issued in May 2014) | 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. |
| Current Agenda Project: Blending Requirements for Certain Business-Type Activities | The GASB Board is expected to issue an Exposure Draft in June 2015 | The objective of this project would be improve financial reporting by addressing issues related to inconsistent presentation of component units in financial reporting of governments engaged only in business-type activities. |
| Current Agenda Project: External Investment Pools | The GASB Board is expected to issue an Exposure Draft in June 2015 | The objective of this project is to improve financial reporting by external investment pools and pool participants that report positions in investment pools. |
| Current Agenda Project: Irrevocable Charitable Trusts | The GASB Board is expected to issue an Exposure Draft in May 2015 | The objective of this project is to determine what accounting and financial reporting guidance, if any, should be established for irrevocable charitable trusts held for the benefit of governmental entities. |
| Current Agenda Project: Tax abatement Disclosures | Proposed effective date – December 31, 2016 (Exposure Draft issued in October 2014) | The objective of this project is to determine what disclosure guidance for governments that have granted tax abatements, if any, are essential to financial statement users. |

GASB UPDATES (cont.)

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 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 Nos. 37, 41, and No. 46 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. In addition, the GASB is revisiting debt extinguishments, which includes a reexamination of GASB Statement Nos. 7, 23, and 62. We will share updates with you as they become available.

Full lists of projects, as well as many resources, are available on GASB's website which is located at www.gasb.org.

MANAGEMENT REPRESENTATIONS



Peter E. Kolb
Director

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April 10, 2015

Baker Tilly Virchow Krause, LLP
Ten Terrace Court
P.O. Box 7398
Madison, WI 53707-7398

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of the Lake County Public Works Department as of November 30, 2014 and 2013 and for the years then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Lake County Public Works Department 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.
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, 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 misstatement related to the proper recording of unearned revenue associated with the amounts placed on deposit with the Department by members of North Lake County Water Special Services Planning Group is immaterial to the basic financial statements taken as a whole.
10. 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.
11. Guarantees, whether written or oral, under which the Lake County Public Works Department 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 our governing body 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 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.

19. The Lake County Public Works Department has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
20. 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.
21. 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. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.
 - d. Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.
22. 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. Utility rate consulting
- These non-attest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.
23. The Lake County Public Works Department 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.
24. The Lake County Public Works Department has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
25. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
26. Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
27. The Lake County Public Works Department has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.
28. Provisions for uncollectible receivables have been properly identified and recorded.
29. 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.

30. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
31. 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.
32. Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value.
33. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.
34. Tax-exempt bonds issued have retained their tax-exempt status.
35. We have appropriately disclosed the Lake County Public Works Department'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.
36. 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.
37. With respect to the supplementary information, (SI), 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.
38. With respect to the Management Discussion and Analysis, we acknowledge our responsibility for presenting the Management Discussion and Analysis in accordance with accounting principles generally accepted in the United States of America, and we believe the Management Discussion and Analysis, 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 Management Discussion and Analysis 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.
39. 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,

Lake County Public Works Department

Signed: _____

Steven E. Roll

Signed: _____

M. [Signature]

4/10/15