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May 20, 2011

To the Public Works Committee
Lake County Public Works Department
Waterworks and Sewerage Systems Fund
650 W. Winchester Road
Libertyville, IL 60048

Dear Committee Members:

We are presenting for your consideration our comments and recommendations on matters that came to our attention during the course of our audit of the financial statements of the Lake County Public Works Department (department) of Lake County, Illinois for the years ended November 30, 2010 and 2009 which we reported upon on May 20, 2011. A management letter will be issued in conjunction with the county's audit report to discuss internal control and accounting and management suggestions as they relate to the county as a whole. In addition, we would like to make comments and recommendations specifically related to the audits of the department.

PUBLIC WORKS DEPARTMENT EARNINGS

The department realized an operating income of \$4,362,000 in fiscal year 2010 compared to income of \$3,108,000 in 2009. Operating revenues increased \$2,226,000, while operating expenses, not including depreciation, increased \$900,000 or 3.4%. The increase in revenues is due to the implementation of new rates throughout 2010. The increase in operating expenses is mainly due to an increase in non-capitalized equipment and wholesale purchased water and sewage treatment expenses. The fiscal year 2010 utility debt coverage ratios were 3.19 and 2.58 compared to 1.50 and 1.25 required by bond covenants.

CURRENT YEAR COMMENTS

INVENTORY

During our 2010 inventory observation, we noted the inclusion of minuscule items (bolts, washers, etc.) in the material and supplies listing. Since these items are insignificant to the inventory value as a whole, we recommend the department implement a policy which includes only items specifically related to repairing and maintaining the water and sewer system. This will reduce employee time spent during inventory counts.

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PRIOR YEAR COMMENTS

CUSTOMER CONSUMPTION

Over the last few years, customer consumption and usage for utilities as a whole have declined. The contributing factors to this reduction are the current condition of the economy and increasing conservation efforts. During our audit, we noted that the department has also been impacted by this change. We will address this issue during our upcoming rate study to positively position the department for future fiscal viability and soundness.

Status 11/30/2010

The department is currently reviewing user rates to address this issue.

REQUIRED COMMUNICATION TO THE AUDIT COMMITTEE OR ITS EQUIVALENT

We have completed our audit of the financial statements of Lake County Public Works Department for the year ended November 30, 2010, and have issued our report thereon dated May 20, 2011. This letter presents communications required by our professional standards.

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

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. 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 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.

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 OF THE AUDIT

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

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REQUIRED COMMUNICATION TO THE AUDIT COMMITTEE OR ITS EQUIVALENT (cont.)

QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES

Accounting Policies

Management has the responsibility for 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 Lake County Public Works Department are described in Note 1 to the financial statements.

We noted no transactions entered into by Lake County Public Works 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 was 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.
- > The other postemployment benefits obligation, which is supported by an actuarial study using employment data of the county and expected participation in benefit programs.

FINANCIAL STATEMENT DISCLOSURES

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

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no difficulties in dealing with management in performing our audit.

AUDIT ADJUSTMENTS

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

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Lake County Public Works Department's financial reporting process. Matters underlying adjustments proposed by the auditor could potentially cause future financial statements to be materially misstated. Matters underlying adjustments proposed by the auditor could potentially cause future financial statements to be materially misstated. During the audit we did not propose any audit adjustments.

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REQUIRED COMMUNICATION TO THE AUDIT COMMITTEE OR ITS EQUIVALENT (cont.)

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 is attached.

INDEPENDENCE

We are not aware of any relationships between Baker Tilly Virchow Krause, LLP and 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 for the year ended November 30, 2010, Baker Tilly Virchow Krause, LLP hereby confirms in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants, that we are, in our professional judgment, independent with respect to Lake County Public Works Department and provided no services to Lake County Public Works Department other than the audit of the current year's financial statements and the following nonaudit services which, in our judgment, do not impair our independence:

- > Financial statement processing
- > Regional wholesale sewer customer agreed-upon procedures reports
- > Cash flow analysis
- > Water and sewerage rate study

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.

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

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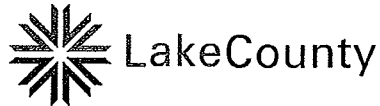
CLOSING COMMENT

We welcome the opportunity to discuss the information included in this letter and any other matters. We acknowledge and appreciate the courtesy and assistance extended to us during the course of our audit. If you have any questions on our comments, please contact us.

Sincerely,

BAKER TILLY VIRCHOW KRAUSE, LLP

Baker Tilly Virchow Krause LLP



Department of Public Works

Peter E. Kolb
Director

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Libertyville, Illinois 60048
Phone 847 377 7500
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May 20, 2011

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

Dear Auditors:

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, 2010 and 2009 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 respective 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 in the financial statements of financial position, results of operations and cash flows 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 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.

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

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. We have made available to you all –
 - a. Financial records and related data.
 - b. Minutes of the meetings of our governing body and summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

5. All known audit and bookkeeping adjustments have been included in our financial statements.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - 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.
8. We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities or fund equity.
9. The following, if any, have been properly recorded or disclosed in the financial statements:
 - a. Joint ventures
 - b. Related party transactions, including revenues, expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - c. Collateralization agreements with financial institutions.
 - d. Guarantees, whether written or oral, under which the utility is contingently liable.
 - e. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.
10. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including debt contracts and debt covenants; and we have identified and disclosed to you all 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, including legal and contractual provisions for reporting specific activities in separate funds.
11. There are no –
 - a. Violations or possible violations of budget ordinances, provisions of contracts and grant agreements, laws or regulations 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.
 - b. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.
 - c. Violations of restrictions placed on revenues as a result of a bond resolution covenants – such as revenue distribution, or debt service funding.
 - d. Unasserted claims, assessments or pending lawsuits that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*.
 - e. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5.
12. Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value.
13. We have satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral other than liens created by our revenue debt.

14. We have complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
15. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) are properly classified.
16. Provisions for uncollectible receivables have been properly identified and recorded.
17. Interfund activity and balances have been appropriately classified and reported.
18. Special and extraordinary items are appropriately classified and reported.
19. Deposits and investment securities are properly classified in category of custodial credit risk.
20. Capital assets are properly capitalized and depreciated.
21. Required supplementary information (RSI) is measured and presented within prescribed guidelines.
22. We have appropriately applied revenue recognition requirements related to contribution revenue and have deemed all contribution revenue recorded at December 31, 2010 as substantially earned as of the balance sheet date.

To the best of our knowledge and belief, no events, including instances of noncompliance, have occurred subsequent to November 30, 2010 and through the date of this letter that would require adjustment to, or disclosure in, the aforementioned financial statements.

Signed

Peter E. Roll
Title/Date Director 5/20/2011

Signed

M. P. M. M.
Title/Date Finance Manager 5/20/2011