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MANAGEMENT LETTER
VILLAGE OF SISTER BAY, WISCONSIN
DECEMBER 31, 2005

To the Village Board
Village of Sister Bay, Wisconsin

We have completed our audit of the basic financial statements of the Village of Sister Bay for the year ended December 31, 2005. The Village's basic financial statements, including our report thereon, are presented in a separate audit report document. Included in the Village's audit report is the following additional auditors' report required by government auditing standards:

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The above report states that our consideration of the internal control structure did not disclose any conditions that we believe to be material weaknesses and that nothing came to our attention to indicate that the Village was not in compliance with laws, regulations, contracts and grant agreements for which noncompliance with could have a material effect on the Village's basic financial statements.

Our responsibility under auditing standards, as prescribed by auditing standards generally accepted in the United States of America promulgated by the American Institute of Certified Public Accountants (AICPA) and *Government Auditing Standards* issued by the Comptroller General of the United States, is to plan and perform our audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* does not provide absolute assurance or guarantee the accuracy of the financial statements and is subject to the inherent risk that errors, irregularities (or illegal acts), or noncompliance with the provisions of laws, regulations, contracts and grant agreements, if existing, have not been detected. Such standards require that we obtain a sufficient understanding of the Village's internal control structure to plan the audit. However, such understanding and any tests performed with respect to such internal controls, or as to compliance with laws, regulations, contracts and grant agreements, were for the purpose of expressing our opinion on the Village's basic financial statements and not to form an opinion or provide any assurance concerning such internal control structure or compliance. We could, however, as a separate engagement, be engaged to perform agreed-upon procedures or examine and report on management's assertion about the internal control structure or that management complied with specified laws and regulations. Such engagements would be conducted in accordance with AICPA standards for attestation engagements.

Presented on the following page is a table of contents for enclosed information and comments about financial and administrative matters that came to our attention during our audit of the Village's basic financial statements. The basic purpose of the enclosed is to provide recommendations for improving the internal control structure and to provide financial information to assist management in the decision making process.

Certified Public Accountants
Green Bay, Wisconsin
June 9, 2006

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SUMMARY FINANCIAL INFORMATION

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1. Governmental Fund Balances

Presented below is a summary of the Village's governmental fund balances on December 31, 2005, including a comparison to the prior year. This information is provided for assessing financial results for 2005 and for indicating financial resources available for 2006 and subsequent years.

	12/31/05	12/31/04
Governmental Funds		
General Fund		
Undesignated	\$ 207,724	\$ 243,285
Special Revenue Fund		
Designated for subsequent years' expenditures		
Ice rink operations	6,843	9,301
Marina operations	208,443	171,157
Total Special Revenue Fund	<u>215,286</u>	<u>180,458</u>
Capital Projects Fund		
Designated for specific projects		
Fire station and sports complex	-	322,580
Storm sewer/watermain project	-	266,993
Mill road	-	109,915
Street resurfacing projects	30,802	20,000
Fire truck	-	60,000
Acquisition of waterfront property	45,000	60,000
Old fire station demolition	20,000	10,000
Moving of baseball field	40,000	20,000
Park maintenance building	120,909	110,000
Park sprinkler system	-	2,500
Park mower	-	8,000
Administrative building remodeling	5,000	-
Stormwater master plan	15,286	-
Marina projects	921	-
Total	<u>277,918</u>	<u>989,988</u>
Unallocated	<u>183,755</u>	<u>-</u>
Total Capital Projects Funds	<u>461,673</u>	<u>989,988</u>
Total Governmental Fund Balances	<u>\$ 884,683</u>	<u>\$ 1,413,731</u>

The Village's current undesignated fund balance of \$207,724 represents approximately 19% of the 2006 budgeted general fund expenditures.. A general consensus of what represents an adequate undesignated fund balance is to have an undesignated fund balance of between 10 to 25% of the general fund.

Additional information on the marina special revenue fund and the capital projects fund is presented in comments No. 2 and 3, respectively.

2. Marina Operations

A comparative analysis of the Marina operations for the years ended December 31, 2005 and 2004 follows:

	2005	2004
Revenues		
Public charges for services	\$ 281,548	\$ 260,073
Interest on investments	12,857	3,402
Total Revenues	294,405	263,475
Expenditures		
Operation and maintenance	108,247	134,811
Capital outlay	-	46,934
Debt service		
Principal of note	-	79,500
Interest on note	-	20,405
Total Expenditures	108,247	281,650
Excess of Revenues Over (Under) Expenditures	186,158	(18,175)
Other Financing Sources (Uses)		
Transfer out to general fund	(44,240)	-
Transfer out to debt service fund	(82,632)	-
Transfer out to capital project fund	(15,000)	-
Total Other Financing Sources (Uses)	(141,872)	-
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	44,286	(18,175)
Fund Balance - January 1	171,157	189,332
Fund Balance - December 31	\$ 215,443	\$ 171,157

3. Capital Projects Fund

In the 2005 financial statements a capital projects fund was created to account for debt proceeds issued for various capital projects of the Village. A summary of the revenues, expenditures and changes in fund balance of the capital projects fund for 2005 and 2004 is presented below:

	2005	2004
Revenues		
General property taxes	\$ 118,326	\$ -
Reimbursement from Door County	-	292,855
State aid - bike path	-	181,760
Total Revenues	118,326	474,615
Expenditures		
Fire station/ambulance building	28,917	1,546,529
Fire truck	176,792	-
Sports complex development	-	483,809
Bayshore storm sewer	139,469	208,007
Bike path	70,585	210,177
Promissory note payment	-	50,000
Mill Road	597,243	34,045
Lawnmower	39,245	-
Truck	20,936	-
Marina restroom	14,079	-
Other	39,610	15,098
Total Expenditures	1,126,876	2,547,665
Excess of Revenues Over (Under) Expenditures	(1,008,550)	(2,073,050)
Other Financing Sources		
Transfer out to debt service fund	(84,765)	-
Transfer in from general fund	-	532,976
Transfer in from marina fund	15,000	-
Proceeds from bank loan	550,000	475,000
Proceeds from bank construction loans	-	100,000
Proceeds from state trust fund loan	-	1,249,979
Total Other Financing Sources	480,235	2,357,955
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	(528,315)	284,905
Fund Balance - January 1	989,988	705,083
Fund Balance - December 31	\$ 461,673	\$ 989,988

4. Water Department Operations

Operating Results

A comparative analysis of the water department's income account for the years ended December 31, 2005 and 2004 follows:

	2005	2004
Operating Revenues		
General customers	\$ 180,854	\$ 164,888
Public fire protection	43,412	51,930
Miscellaneous	14,096	9,845
Total Operating Revenues	238,362	226,663
Operating Expenses		
Operation and maintenance	197,919	147,833
Depreciation	80,047	76,416
Taxes	5,221	4,021
Total Operating Expenses	283,187	228,270
Operating Income (Loss)	(44,825)	(1,607)
Nonoperating Revenues (Expenses)		
Interest income (estimated allocation)	18,710	7,464
Interest on long-term debt (estimated allocation)	(36,026)	(29,165)
Total Nonoperating Revenues (Expenses)	(17,316)	(21,701)
Net Income (Loss)	\$ (62,141)	\$ (23,308)

As shown above, the water utility incurred an operating loss of \$44,825 for the year. Although operations resulted in a loss, the utility did have a positive cash flow for the year. An operating loss indicates the utility did not entirely recover depreciation on its capital assets. Because of the operating loss, the Village is eligible for a rate increase.

5. Wastewater Department Operations

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A comparative analysis of the wastewater department's income account for the years ended December 31, 2005 and 2004 follows:

	2005	2004
Operating Revenues		
General customers	\$ 284,504	\$ 221,512
Service to other systems	45,903	35,807
Other sewage service	52,480	41,937
Miscellaneous	4,229	2,668
Total Operating Revenues	<u>387,116</u>	<u>301,924</u>
Operating Expenses		
Operation and maintenance	320,201	266,882
Depreciation	321,446	296,178
Taxes	6,879	6,727
Total Operating Expenses	<u>648,526</u>	<u>569,787</u>
Operating Income (Loss)	<u>(261,410)</u>	<u>(267,863)</u>
Nonoperating Revenues (Expenses)		
Interest income (estimated allocation)	36,320	14,488
Contribution and subsidies for interest charges	165,265	61,155
Amortization of debt discount	(26,535)	(26,535)
Interest on long-term debt (estimated allocation)	(76,228)	(61,155)
Miscellaneous	948	18,996
Total Nonoperating Revenues (Expenses)	<u>99,770</u>	<u>6,949</u>
Net Income (Loss)	<u>\$ (161,640)</u>	<u>\$ (260,914)</u>

The above net losses result from the wastewater department not recovering sufficient revenues from customers to fund annual depreciation expense of \$321,446 and \$296,178 for 2005 and 2004, respectively. Because of the operating losses and additional funds needed for debt retirement, the Village is completing an analysis to determine increased rates.

6. Restricted Cash and Investments - Water and Wastewater Department

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Detail of restricted cash and investments of the Water and Wastewater Utility on December 31, 2005 follows:

<u>Fund</u>	<u>Amount</u>	<u>Description</u>
Water		
Plant replacement	\$166,250	To be used for the replacement of equipment and other assets of the water plant. (internally restricted by Village Board.)
Wastewater		
Bank loan proceeds	366,512	Restricted for capital expenditures in accordance with loan resolution.
Plant replacement	456,216	To be used for the replacement of specific equipment and other assets of wastewater treatment plant. (Required by the DNR.)
Impact fee collections	32,813	Restricted for capital improvements as set forth in ordinance.
	<hr/>	
Total Restricted Cash and Investments	<u>\$1,021,791</u>	

1. Status of Village's Accounting System

At the time of our audit fieldwork in March of this year, we reviewed the status of the Village's accounting system with Village officials. As a result of that review, the Village has realigned some employee duties and it is in the process of developing procedures to provide for an ongoing review and verification of monthly accounting financial transactions.

In our opinion, the changes made by the Village have provided increased internal control over Village financial transactions through review of accounting entries and subsidiary records. In addition, the changes have also expanded the knowledge of the Village's financial system to other employees and provided additional backup in the case of emergencies. We are informed that additional changes in procedures are being considered in 2006.

2. Delinquent Personal Property Taxes

On December 31, 2005, approximately \$5,800 was due the Village in delinquent personal property taxes. The delinquent amounts were from the 2003 and 2004 tax rolls and remain the responsibility of the Village since Door County does not settle with local districts for unpaid personal property taxes.

Currently, the Village has not developed formal records of the individual taxpayers that owe the unpaid amounts or established procedures to invoice the delinquent taxpayers. This was not considered prior to 2004 because unpaid personal property taxes were not significant and consisted of only small amounts due from a few taxpayers. Accordingly, we recommend the Village develop records and procedures to determine the amounts due from individual taxpayers and begin a process to collect the delinquent amounts.

In accordance with the requirements of government auditing standards generally accepted in the United States of America, the following disclosures are presented:

1. **Significant Accounting Policies**

The significant accounting policies used in the preparation of the financial statements are disclosed in Note A to the basic financial statements. There have been no material unusual transactions or controversial accounting issues.

2. **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. We are not aware of any particularly sensitive accounting estimates used by management in the preparation of the financial statements.

3. **Significant Audit Adjustments**

The financial statements reflect all accounting adjustments proposed during our audit. None of the adjustments were considered significant to the financial condition or operating results of the Village. Copies of the audit adjustments are available from management.

4. **Other Information in Documents Containing Audited Financial Statements**

All the information included in the basic financial statements has been audited. Our responsibilities are addressed in the Independent Auditors' Report.

5. **Disagreements with Management**

We have had no material disagreements with management. For the purposes of this disclosure, professional accounting standards define a disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report.

6. **Consultations with Other Auditors**

To the best of our knowledge, management has not consulted with or obtained opinions from other independent auditors on auditing and accounting matters during the past year.

7. **Issues Discussed Prior to the Current Audit**

We have discussed various accounting and financial issues, including the application of any new and changed accounting principles or auditing standards, with management prior to conducting the audit. These discussions occurred in the normal course of our professional relationship and our responses were not a condition to completing the services as your auditor.

8. **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing the audit.