

**MANAGEMENT LETTER**  
**VILLAGE OF SISTER BAY, WISCONSIN**  
**DECEMBER 31, 2006**



**Schenck**

Government & Not-For-Profit Solutions

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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, 2006. The Village's financial statements, including our report thereon, are presented in a separate audit report document. Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, noncompliance with the provisions of laws, regulations, contracts and grants or other illegal acts may exist and not be detected by us.

Professional standards require us to consider the Village's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Village's financial statements but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. As part of our audit, we have not performed procedures specifically to identify deficiencies in internal control or to express an opinion on the effectiveness of your internal control.

Audit standards were changed in 2006 by the American Institute of Certified Public Accountants (AICPA) to lower the definition of control deficiencies that we must communicate to management and the Village Board as part of our audit. In addition, the revised standard clarifies that the significance of a control deficiency is dependent on the *potential* for misstatement, not whether a misstatement actually occurred. As a result, the number of control deficiencies reported by auditors will significantly increase.

Statement of Auditing Standards No. 112, *Communicating Internal Control Related Matters Identified in an Audit*, requires us to:

- a. Evaluate identified control deficiencies and determine whether these deficiencies, individually or in combination, are significant deficiencies or material weaknesses.
- b. Communicate in writing to management and the Village Board control deficiencies that are considered significant deficiencies or material weaknesses, including those identified in previous audits that have not yet been corrected.

**Responsibility of Management and the Auditor**

The new standard is expected to generate additional discussion of internal controls and their importance between management and the auditors. The Village is responsible for establishing, maintaining and monitoring internal controls, and for the fair presentation of the Village's financial statements, including notes, in conformity with accounting principles generally accepted in the United States of America. An effective internal control system includes anti-fraud controls, controls to ensure accurate and timely financial reporting and to ensure safeguarding of the Village's assets.



Management is responsible for making decisions concerning costs to be incurred to provide internal control and related benefits of these controls. We are responsible for communicating significant deficiencies and material weaknesses in accordance with professional standards, regardless of management's decisions.

We understand that not all control deficiencies can be corrected by the Village without incurring significant additional costs. The Village may already know of the existence of significant deficiencies or material weaknesses and may have made a conscious decision to accept that degree of risk because of cost or other considerations. For example, the Village annually contracts with us to make various routine adjusting and closing entries and prepare your financial statements in conformity with generally accepted accounting principles. The new standard indicates that we cannot be considered part of your internal controls.

Summary of Internal Control Communications

Included in this document is the following 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 nothing came to our attention to indicate that the Village was not in compliance with laws, regulations, contracts and grants for which noncompliance with could have a material effect on the Village's financial statements. The above report also discloses the following control deficiencies:

Finding 2006-1: Year End Closing and Financial Reporting

Finding 2006-2: Maintenance of Capital Assets Records

It is important to realize that control deficiencies reported during our current year audit may have existed in prior years; however, prior auditing standards did not require us to communicate these control deficiencies to you.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Village personnel, and we will be pleased to discuss them in further detail at your convenience.

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

Sincerely,



Certified Public Accountants  
Green Bay, Wisconsin  
May 25, 2007

**VILLAGE OF SISTER BAY, WISCONSIN**

December 31, 2006

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**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**

To the Village Board  
Village of Sister Bay, Wisconsin

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Sister Bay, Wisconsin, as of and for the year ended December 31, 2006, which collectively comprise the Village basic financial statements and have issued our report thereon dated May 25, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Village of Sister Bay, Wisconsin's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the Village of Sister Bay, Wisconsin's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village of Sister Bay, Wisconsin's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described in the accompanying schedule of findings and responses are material weaknesses.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Sister Bay, Wisconsin's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*

Village of Sister Bay, Wisconsin's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Village of Sister Bay, Wisconsin's response and, accordingly, we express no opinion on it.

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



Certified Public Accountants  
Green Bay, Wisconsin  
May 25, 2007

**VILLAGE OF SISTER BAY, WISCONSIN**  
 Schedule of Findings and Responses  
 For the Year Ended December 31, 2006

**Section I - Internal Control Over Financial Reporting**

Finding No.	Control Deficiencies
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**2006-01                    Year End Closing and Financial Reporting**

**Condition:** While the current staff of the Village maintain financial records which accurately report revenues and expenditures throughout the year, preparing year end adjusting, closing and GASB 34 conversion entries necessary to prepare financial statements, including related notes, state financial reports and public service commission reports require additional expertise that would entail additional training and staff time to develop. The Village contracts with Schenck and their knowledge of current accounting principles and regulatory requirements of the Wisconsin Department of Revenue and the Public Service Commission of Wisconsin to prepare required journal entries and financial reports for the Village in an efficient manner.

**Criteria:** The review of financial statements by staff with expertise in financial reporting is an internal control intended to prevent, detect and correct a potential misstatement in the financial statements or notes.

**Cause:** The additional costs associated with hiring staff experienced in preparing year end adjusting, closing, and GASB 34 conversion entries and financial reports, including additional training time outweigh the derived benefits.

**Recommendation:** We recommend the Village continue reviewing the adjusting, closing and GASB 34 conversion entries along with the financial reports prepared by Schenck. While it may not be cost beneficial to hire additional staff to prepare these items, a thorough review of this information by appropriate staff of the Village is necessary to obtain an adequate understanding of the Village's financial report.

**Management Response:** Management believes the cost for additional staff time and training to prepare year end closing entries and reports outweigh the benefits to be received, but agrees with the recommendation regarding review of the entries and reports.

**VILLAGE OF SISTER, BAY, WISCONSIN**  
 Schedule of Findings and Responses (Continued)  
 For the Year Ended December 31, 2006

**Section I - Internal Control Over Financial Reporting (Continued)**

Finding No.	Control Deficiencies
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**2006-02                      Maintenance of Capital Assets Records**

Condition: As part of our audit engagement, we maintain the Village's capital assets records. The Village's accounting personnel provide us with the current year asset additions and disposals. We record the capital asset additions and disposals and calculate the annual depreciation.

Criteria: The maintenance of detailed capital assets records is an internal control intended to safeguard assets and to prevent a potential misstatement in the financial records.

Cause: Our audit engagement includes maintaining the Village's capital asset records as the Village does not have staff with available time to maintain these records in accordance with generally accepted accounting principles.

Recommendation: We recommend the accounting personnel and the Village Board continue to review the capital assets records of the Village. We believe the costs of additional staff time would outweigh the benefits to be received.

Management Response: Management believes the cost for additional staff time to maintain the capital asset records outweigh the benefits to be received.

**Section II - Compliance and Other Matters**

There are no findings related to compliance and other matters that are required to be reported under governmental auditing standards generally accepted in the United States of America for the year ended December 31, 2006.

## SUMMARY FINANCIAL INFORMATION

### 1. Governmental Fund Balances

Presented below is a summary of the Village's governmental fund balances on December 31, 2006, including a comparison to the prior year. This information is provided for assessing financial results for 2006 and for indicating financial resources available for 2007 and subsequent years.

	12/31/06	12/31/05
Governmental Funds		
General Fund		
Undesignated	\$ 267,779	\$ 207,724
Special Revenue Funds		
Designated for subsequent years' expenditures		
Ice rink operations	4,750	6,843
Marina operations	270,184	208,443
Skate park operations	3,575	-
Total Special Revenue Funds	278,509	215,286
Capital Projects Fund		
Designated for specific projects		
Street resurfacing projects	40,802	30,802
Fire truck	20,000	10,000
Acquisition of waterfront property	55,000	55,000
Old fire station demolition	20,000	20,000
Moving of baseball field	80,000	60,000
Park maintenance building	190,164	120,909
Administrative building remodeling	4,760	5,000
Stormwater master plan	650	15,286
Marina projects	921	921
Total designated for specific projects	412,297	317,918
Unallocated	69,281	183,755
Total Capital Projects Funds	481,578	501,673
Total Governmental Fund Balances	\$ 1,027,866	\$ 924,683

The Village's current undesignated fund balance of \$267,779 represents approximately 22% of the 2007 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, 2006 and 2005 follows:

	2006	2005
Revenues		
Public charges for services	\$ 309,437	\$ 281,548
Interest on investments	9,864	12,857
Total Revenues	319,301	294,405
Expenditures		
Operation and maintenance	117,700	108,247
Excess of Revenues Over (Under) Expenditures	201,601	186,158
Other Financing Sources (Uses)		
Transfer out to general fund	(42,748)	(51,240)
Transfer out to debt service fund	(71,173)	(82,632)
Transfer out to capital project fund	(25,936)	(15,000)
Total Other Financing Sources (Uses)	(139,857)	(148,872)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	61,744	37,286
Fund Balance - January 1	208,443	171,157
Fund Balance - December 31	\$ 270,187	\$ 208,443

### 3. Capital Projects Fund

In the 2006 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 2006 and 2005 is presented below:

	2006	2005
<b>Revenues</b>		
General property taxes	\$ 51,401	\$ 118,326
State aid	32,430	-
<b>Total Revenues</b>	<b>83,831</b>	<b>118,326</b>
<b>Expenditures</b>		
Fire station/sports complex	2,340	28,917
Fire truck	16,309	176,792
Park	711	-
Bayshore storm sewer	574	104,756
Storm water master plan	14,638	34,713
Bike path	-	70,585
Barn roof repair	10,997	-
Mill Road	18,117	597,243
Lawnmower	-	39,245
Truck	-	20,936
Marina dock	25,936	-
Marina restroom	-	14,079
Other	240	39,610
<b>Total Expenditures</b>	<b>89,862</b>	<b>1,126,876</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(6,031)</b>	<b>(1,008,550)</b>
<b>Other Financing Sources</b>		
Transfer out to debt service fund	-	(84,765)
Transfer in from marina fund	25,936	15,000
Proceeds from bank loan	-	550,000
<b>Total Other Financing Sources</b>	<b>25,936</b>	<b>480,235</b>
<b>Excess of Revenues and Other Financing Sources Over (Under) Expenditures</b>	<b>19,905</b>	<b>(528,315)</b>
<b>Fund Balance - January 1</b>	<b>461,673</b>	<b>989,988</b>
<b>Fund Balance - December 31</b>	<b>\$ 481,578</b>	<b>\$ 461,673</b>

#### 4. Water Department Operations

A comparative analysis of the water department's income account for the years ended December 31, 2006 and 2005 follows:

	2006	2005
Operating Revenues		
General customers	\$ 178,902	\$ 180,854
Public fire protection	44,292	43,412
Miscellaneous	12,382	14,096
Total Operating Revenues	<u>235,576</u>	<u>238,362</u>
Operating Expenses		
Operation and maintenance	207,912	197,919
Depreciation	81,999	80,047
Taxes	5,534	5,221
Total Operating Expenses	<u>295,445</u>	<u>283,187</u>
Operating Income (Loss)	<u>(59,869)</u>	<u>(44,825)</u>
Nonoperating Revenues (Expenses)		
Interest income (estimated allocation)	18,336	18,710
Impact fees	29,560	19,214
Interest on long-term debt (estimated allocation)	(29,829)	(36,026)
Total Nonoperating Revenues (Expenses)	<u>18,067</u>	<u>1,898</u>
Net Income (Loss)	<u>\$ (41,802)</u>	<u>\$ (42,927)</u>

As shown above, the water utility incurred an operating loss of \$59,869 for the year. Because of the continuing operating losses, the Village is submitting an application to increase water rates to the Public Service Commission.

## 5. Wastewater Department Operations

A comparative analysis of the wastewater department's income account for the years ended December 31, 2006 and 2005 follows:

	2006	2005
Operating Revenues		
General customers	\$ 339,204	\$ 284,504
Service to other systems	52,745	45,903
Other sewage service	61,012	52,480
Miscellaneous	6,840	4,229
Total Operating Revenues	<u>459,801</u>	<u>387,116</u>
Operating Expenses		
Operation and maintenance	359,789	320,201
Depreciation	322,807	321,446
Taxes	7,365	6,879
Total Operating Expenses	<u>689,961</u>	<u>648,526</u>
Operating Income (Loss)	<u>(230,160)</u>	<u>(261,410)</u>
Nonoperating Revenues (Expenses)		
Interest income (estimated allocation)	72,215	36,320
Contribution and subsidies for debt retirement	151,503	165,265
Connection fees	36,000	37,200
Impact fees	13,060	13,582
Amortization of debt discount	(26,535)	(26,535)
Interest on long-term debt (estimated allocation)	(82,995)	(76,228)
Miscellaneous	2,060	948
Total Nonoperating Revenues (Expenses)	<u>165,308</u>	<u>150,552</u>
Net Income (Loss)	<u>\$ (64,852)</u>	<u>\$ (110,858)</u>

The above net losses result from the wastewater department not recovering sufficient revenues from customers to fund annual depreciation expense of \$322,807 and \$321,446 for 2006 and 2005, respectively.

**6. Restricted Cash and Investments - Water and Wastewater Department**

Detail of restricted cash and investments of the Water and Wastewater Utility on December 31, 2006 follows:

Fund	Amount	Description
<b>Water</b>		
Plant and system replacement	\$ 220,099	To be used for the replacement of equipment and other assets of the water plant. (internally restricted by Village Board.)
<b>Wastewater</b>		
Bank loan proceeds	381,987	Restricted for capital expenditures in accordance with loan resolution.
Plant replacement	577,834	To be used for the replacement of specific equipment and other assets of wastewater treatment plant. (Required by the DNR.)
Impact fee collections	75,190	Restricted for capital improvements as set forth in ordinance.
<b>Total Restricted Cash and Investments</b>	<u><u>\$ 1,255,110</u></u>	

## OTHER REQUIRED COMMUNICATION

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. The adjustments included various end-of-year payable, receivable and reclassification entries. These entries are considered routine in nature and normally do not vary significantly from year to year. 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.