

MANAGEMENT LETTER
VILLAGE OF SISTER BAY, WISCONSIN
DECEMBER 31, 2008

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, Wisconsin (the "Village") for the year ended December 31, 2008. The Village's financial statements, including our report thereon dated April 3, 2009, are presented in a separate audit report document. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities Under U.S. Generally Accepted Auditing Standards.

As stated in our engagement letter, 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.

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Village'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. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Village's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our correspondence about planning matters.

Significant Audit Findings

Consideration of Internal Control

In planning and performing our audit of the financial statements of the Village as of and for the year ended December 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Village's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

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

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 a 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 a 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. We consider the following deficiency to be a significant deficiency in internal control:

Finding 2008-1 Year End Financial Reporting
Finding 2008-2 Assistance with Capital Assets Records

Qualitative Aspects of Accounting Practices

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 Village are described in Note A to the financial statements. We noted no significant transactions entered into by the Village during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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. We are not aware of any particularly sensitive accounting estimates used by management in the preparation of the financial statements.

Difficulties Encountered in Performing the Audit

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

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. The financial statements reflect all accounting adjustments proposed during our audit. Copies of the audit adjustments are available from management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, 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.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 3, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Village's financial statements or a determination of the type of auditor's 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.

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 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.

In addition, during our audit, we noted certain other matters that are presented for your consideration. We will review the status of these comments during our next audit engagement. Our comments and recommendations are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these matters in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized in the memorandum attached to this letter.

This communication, which does not affect our report dated April 3, 2009 on the financial statements of the Village, is intended solely for the information and use of the Village Board, management, and others within the Village, 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
April 3, 2009

VILLAGE OF SISTER BAY, WISCONSIN

December 31, 2008

TABLE OF CONTENTS

	<u>Page No.</u>
INTERNAL CONTROL COMMUNICATIONS	
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	1 - 2
Schedule of Findings and Responses	3 - 4
SUMMARY FINANCIAL INFORMATION	
1. Governmental Fund Balances	5
2. Marina Operations	6
3. Capital Projects Fund	7
4. Water Department Operations	8
5. Wastewater Department Operations	9
6. Restricted Cash and Investments - Water and Wastewater Department	10

**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, 2008, which collectively comprise the Village basic financial statements and have issued our report thereon dated April 3, 2009. 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.

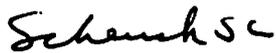
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control 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
April 3, 2009

VILLAGE OF SISTER BAY, WISCONSIN
Schedule of Findings and Responses
For the Year Ended December 31, 2008

Section I - Internal Control Over Financial Reporting

Finding No.	Control Deficiencies
2008-01	<p>Year End Closing and Financial Reporting</p> <p>Condition: While the current staff of the Village maintain financial records which accurately report revenues and expenditures throughout the year, preparing year end 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.</p> <p>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.</p> <p>Cause: The additional costs associated with training staff to prepare GASB 34 conversion entries and financial reports outweigh the derived benefits.</p> <p>Recommendation: We recommend the Village continue reviewing the 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.</p> <p>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.</p>

VILLAGE OF SISTER, BAY, WISCONSIN
 Schedule of Findings and Responses (Continued)
 For the Year Ended December 31, 2008

Section I - Internal Control Over Financial Reporting (Continued)

Finding No.	Control Deficiencies
-------------	----------------------

2008-02 Assistance with Capital Assets Records

Condition: The Village's personnel provides us with the current year asset additions and disposals, the method and rate of depreciation and the salvage value of the assets. From this information, we assist the Village in recording the capital asset additions and disposals and calculating 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 calculating depreciation and assisting the Village in maintaining its capital asset records as the Village staff have not had sufficient 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 employing additional staff with the relevant expertise would outweigh the benefits to be received.

Management Response: Management believes that the cost of hiring additional staff to maintain capital asset records outweighs 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, 2008.

SUMMARY FINANCIAL INFORMATION

1. Governmental Fund Balances

Presented below is a summary of the Village's governmental fund balances on December 31, 2008, including a comparison to the prior year. This information is provided for assessing financial results for 2008 and for indicating financial resources available for 2009 and subsequent years.

	12/31/08	12/31/07
Governmental Funds		
General Fund		
Reserved for investment in joint fire department	\$ 459,433	\$ -
Reserved for inventories and prepaid items	17,889	-
Unreserved		
Designated for debt service	-	96,866
Designated for capital improvements	-	20,998
Undesignated	394,431	329,317
Total General Fund	<u>871,753</u>	<u>447,181</u>
Special Revenue Funds		
Designated for subsequent years' expenditures		
Ice rink operations	4,101	5,862
Marina operations	403,683	353,053
Skate park donations	3,608	3,595
Total Special Revenue Funds	<u>411,392</u>	<u>362,510</u>
Debt Service Fund	<u>5,244</u>	<u>(10,587)</u>
Capital Projects Fund		
Capital Projects		
Unexpended debt proceeds	622,340	1,461,229
Designated for specific projects	475,353	469,657
Total	<u>1,097,693</u>	<u>1,930,886</u>
Tax Incremental District	(12,020)	-
Total Capital Projects Fund	<u>1,085,673</u>	<u>1,930,886</u>
Total Governmental Fund Balances	<u>\$ 2,374,062</u>	<u>\$ 2,729,990</u>

The December 31, 2008 general fund balance included the Village's equity in a joint venture fire department. In 2008, the agreement with the Town of Liberty Grove was clarified to provide for distribution of fire department net assets to the Village and Town upon dissolution.

The Village's current undesignated fund balance of \$394,431 represents approximately 28% of the 2009 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 capital projects fund is presented in comment No. 2 and No. 3, respectively.

2. Marina Operations

A comparative analysis of the Marina operations for the years ended December 31, 2008 and 2007 follows:

	2008	2007
Revenues		
Public charges for services	\$ 313,999	\$ 309,516
Marina Fest	6,398	7,265
Miscellaneous	450	478
Interest on investments	13,030	18,164
Total Revenues	<u>333,877</u>	<u>335,423</u>
Expenditures		
Operation and maintenance	<u>115,588</u>	<u>112,510</u>
Excess of Revenues Over Expenditures	<u>218,289</u>	<u>222,913</u>
Other Financing Sources (Uses)		
Transfer out to general fund	(68,469)	(57,501)
Transfer out to debt service fund	(64,813)	(61,275)
Payment in lieu of taxes	(29,225)	(15,468)
Transfer out to capital project fund	(5,152)	(5,800)
Total Other Financing Sources (Uses)	<u>(167,659)</u>	<u>(140,044)</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Uses	50,630	82,869
Fund Balance - January 1	<u>353,053</u>	<u>270,184</u>
Fund Balance - December 31	<u>\$ 403,683</u>	<u>\$ 353,053</u>

3. Capital Projects Fund

A summary of the revenues, expenditures and changes in fund balance of the capital projects fund for 2008 and 2007 is presented below:

	2008	2007
Revenues		
State aid	\$ -	\$ 7,879
Interest on investment	36,309	25,000
Donations	2,797	-
Other	1,000	-
Total Revenues	<u>40,106</u>	<u>32,879</u>
Expenditures		
As budgeted:		
Fire station sound system	4,799	-
Sports complex trees	662	-
Park beautification/trees	4,000	7,804
Post office sidewalk repairs	3,692	-
Stormwater master plan	-	7,153
Al Johnson's sidewalk repairs	3,988	-
Parks cub cadet mower	2,400	-
Administration building remodel	-	7,925
Marina dock improvements	-	5,800
Board meeting chairs	-	289
Soccer nets	-	2,029
Beach water quality	-	1,488
Stormwater undetermined	22,961	4,546
Collating copier	-	8,566
WPS - bike trail lighting	-	5,000
Old school	3,500	-
Move baseball field	153,761	-
Parks grass mower	7,750	-
Commercial kiosk	5,152	-
From debt proceeds:		
Waterfront property acquisition	-	4,900,000
Waterfront planning contract	-	38,000
Waterfront Development	184,295	-
Bathometric study	21,000	33,000
Surveys	-	12,158
Environmental study	-	5,300
Site preparation/demolition	-	2,389
Sports complex planning	-	4,607
Sports complex development	471,489	-
Planning meetings	-	1,798
Total Expenditures	<u>889,449</u>	<u>5,047,852</u>
Excess of Revenues Over (Under) Expenditures	<u>(849,343)</u>	<u>(5,014,973)</u>
Other Financing Sources (Uses)		
Long term debt issued	-	6,500,000
Debt issuance costs	-	(41,519)
Transfer in from other funds	26,150	5,800
Capital outlays	(10,000)	-
Total Other Financing Sources (Uses)	<u>16,150</u>	<u>6,464,281</u>
Excess of Revenues and Other Financing Sources Over Expenditures	<u>(833,193)</u>	<u>1,449,308</u>
Fund Balance - January 1	<u>1,930,886</u>	<u>481,578</u>
Fund Balance - December 31	<u>\$ 1,097,693</u>	<u>\$ 1,930,886</u>

4. Water Department Operations

A comparative analysis of the water department's income account for the years ended December 31, 2008 and 2007 follows:

	2008	2007
Operating Revenues		
General customers	\$ 246,176	\$ 200,321
Public fire protection	91,459	53,192
Miscellaneous	20,618	10,462
Total Operating Revenues	<u>358,253</u>	<u>263,975</u>
Operating Expenses		
Operation and maintenance	212,728	207,828
Depreciation	95,158	83,158
Taxes	6,463	6,468
Total Operating Expenses	<u>314,349</u>	<u>297,454</u>
Operating Income (Loss)	<u>43,904</u>	<u>(33,479)</u>
Nonoperating Revenues (Expenses)		
Interest income (estimated allocation)	18,629	26,031
Impact fees	3,547	17,736
Interest on long-term debt (estimated allocation)	(23,038)	(25,831)
Miscellaneous	979	-
Total Nonoperating Revenues (Expenses)	<u>117</u>	<u>17,936</u>
Net Income (Loss)	<u>\$ 44,021</u>	<u>\$ (15,543)</u>

5. Wastewater Department Operations

A comparative analysis of the wastewater department's income account for the years ended December 31, 2008 and 2007 follows:

	2008	2007
Operating Revenues		
General customers	\$ 332,641	\$ 352,921
Service to other systems	49,954	49,379
Other sewage service	75,031	72,668
Miscellaneous	2,618	6,274
Total Operating Revenues	<u>460,244</u>	<u>481,242</u>
Operating Expenses		
Operation and maintenance	478,918	403,600
Depreciation	323,602	325,323
Taxes	10,562	9,142
Total Operating Expenses	<u>813,082</u>	<u>738,065</u>
Operating Income (Loss)	<u>(352,838)</u>	<u>(256,823)</u>
Nonoperating Revenues (Expenses) and Transfers		
Interest income (estimated allocation)	42,674	80,069
Contribution and subsidies for debt retirement	81,784	82,179
Connection fees	3,600	18,000
Impact fees	1,567	7,836
Amortization of debt discount	(26,537)	(26,535)
Interest on long-term debt (estimated allocation)	(68,289)	(76,310)
Miscellaneous	-	1,780
Transfer in for debt service	132,011	139,183
Miscellaneous	561	-
Total Nonoperating Revenues (Expenses)	<u>167,371</u>	<u>226,202</u>
Change in Net Assets	<u>\$ (185,467)</u>	<u>\$ (30,621)</u>

The above operating losses result from the wastewater department not recovering sufficient revenues from customers to fund annual depreciation expense of \$323,602 and \$325,323 for 2008 and 2007, 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, 2008 follows:

Fund	Amount	Description
Water		
Plant and system replacement	\$ 277,582	To be used for the replacement of equipment and other assets of the water plant. (internally restricted by Village Board.)
Wastewater		
Debt loan proceeds	416,845	Prior year debt proceeds and other capital revenue sources
Plant replacement	633,270	To be used for the replacement of specific equipment and other assets of wastewater treatment plant. (Required by the DNR.)
Impact fee collections	111,963	Restricted for capital improvements as set forth in ordinance.
Total Restricted Cash and Investments	<u><u>\$ 1,439,660</u></u>	