MANAGEMENT COMMUNICATIONS

VILLAGE OF SISTER BAY, WISCONSIN

DECEMBER 31, 2010

VILLAGE OF SISTER BAY, WISCONSIN
December 31, 2010

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Schenck
CPAs AND SO MUCH MORE.

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, 2010. The Village's financial statements, including our report thereon dated April 7, 2011, 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, 2010, 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 report on internal control over financial reporting and on compliance and other matters is presented on pages 39 - 40 of the annual report.

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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 certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies to be significant deficiencies in internal control:

Finding 2010-01 Year End Closing and Financial Reporting
Finding 2010-02 Assistance with Capital Asset Records

These findings are described in detail in the schedule of findings and responses on pages 41 - 42 of the annual report.

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. No new accounting policies were adopted and the application of existing policies was not changed during 2010. 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. 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 estimate included in the financial statements was:

> Management's estimate of the depreciable life of the capital assets is based upon analysis of the expected useful life of the capital assets. We evaluated the key factors and assumptions and the consistency in these factors and assumptions used to develop the depreciable life in determining that it is reasonable in relation to the financial statements taken as a whole.

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 7, 2011. The management representation letter follows this communication.

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 a certain other matter that is presented for your consideration. We will review the status of this comment during our next audit engagement. Our comment and recommendation is intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss this matter in further detail at your convenience, perform any additional study of this matter, or assist you in implementing the recommendation. Our comment is summarized in the comments and observations section of this report.

This communication, which does not affect our report dated April 7, 2011 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,

Schenck SC

Certified Public Accountants
Green Bay, Wisconsin
April 7, 2011

April 7, 2011

Schenck SC
2200 Riverside Drive
P.O. Box 23819
Green Bay, WI 54305-3819

We are providing this letter in connection with your audit of the basic financial statements of the Village of Sister Bay as of December 31, 2010 and for the year then ended for the purpose of expressing opinions as to whether the basic financial statements present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Village of Sister Bay and the respective changes in the financial position and the cash flows where applicable, 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 effective 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 if they involve an omission or misstatement of accounting information that, in 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, as of April 7, 2011, 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 and include all properly classified funds and other financial information of the Village as required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity. All funds that meet the quantitative criteria in GASB Statement No. 34 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

2. We have made available to you all-

   a. Financial records and related data.

   b. Minutes of the meetings of the Village Board or 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. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

6. 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.

7. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.

8. We have a process to track the status of audit findings and recommendations.

9. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

10. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.

11. The Village has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

12. The following, if any, have been properly recorded or disclosed in the financial statements:

    a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

    b. Guarantees, whether written or oral, under which the Village is contingently liable.

    c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.

    d. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations.

    e. Deposit and investment securities risk classifications.

    f. Provisions for uncollectible receivables.

    g. Interfund, internal, and intra-Village activity and balances.

    h. Special and extraordinary items.

    i. Capital assets, including infrastructure assets, and applicable depreciation.

j. 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.

k. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

l. Joint ventures, jointly governed organizations, and other related organizations.

m. Arrangements with financial institutions involving repurchase, reverse repurchase, or securities lending agreements, compensating balances, or other arrangements involving restrictions on cash balances and line of credit or similar arrangements.

n. Participation in a public entity risk pool.

13. 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.

14. We are responsible for compliance with the 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 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.

15. There are no—

    a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, 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. Unasserted claims or assessments 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.*

    c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.

    d. Reservations or designations of fund equity that were not properly authorized and approved.

16. As part of your audit, you assisted with preparation of the financial statements and related notes. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.

17. The Village 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.

18. The Village has complied with all aspects of contractual agreements that would have a material effect on the basic financial statements in the event of noncompliance.

19. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.

20. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.

21. The financial statements properly classify all funds and activities.

22. The fact that the amount of "uncollateralized" deposits or "uninsured, unregistered securities held by the counterparty, or by its trust department or agent but not in the entity's name" during the period significantly exceeded the amounts in those categories as of the balance sheet was properly disclosed in the financial statements.

23. The methods and significant assumptions used to determine fair values of financial instruments are as follows: Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The methods and significant assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.

24. Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the balance sheet date and have been appropriately reduced to their estimated net realizable value.

25. Capital assets have been evaluated for impairment as a result of significant and unexpected decline in service utility.

26. The Village has excluded short-term obligations totaling $5,350,000 from current liabilities because it intends to refinance the obligations on a long-term basis.

No 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.

Signed: Juliana Neuman
Title: Finance Director

Signed: [signature]
Title: Village Administrator

SUMMARY FINANCIAL INFORMATION

1. Governmental Fund Balances

Presented below is a summary of the Village's governmental fund balances on December 31, 2010, including a comparison to the prior year. This information is provided for assessing financial results for 2010 and for indicating financial resources available for 2011 and subsequent years.

	2010	2009
Governmental Funds		
General Fund		
Reserved for investment in joint fire department	$ 431,849	$ 459,433
Reserved for inventories and prepaid items	2,513	21,218
Unreserved		
Designated for subsequent year's budget	-	47,243
Undesignated	371,267	273,400
Total General Fund	805,629	801,294
Special Revenue Funds		
Reserved for inventories and prepaid items		
Marina operations	505	469
Designated for subsequent years' expenditures		
Ice rink operations	8,887	6,168
Marina operations	394,466	423,648
Skate park donations	15,031	3,786
Total Special Revenue Funds	418,889	434,071
Debt Service Fund	(380,633)	17,226
Capital Projects Funds		
Capital Projects		
Reserve for advance to debt service fund	400,000	-
Unexpended debt proceeds	-	49,165
Designated for specific projects	597,455	585,215
Total	997,455	634,380
Tax Incremental District	192,077	(47,269)
Total Capital Projects Funds	1,189,532	587,111
Total Governmental Fund Balances	$ 2,033,417	$ 1,839,702

The Village's current undesignated fund balance of $371,267 represents approximately 23% of the 2011 budgeted general fund expenditures. A general consensus of what represents an adequate undesignated fund balance is between 10 to 25% of the general fund expenditure total.

Additional information on the marina special revenue fund and capital projects funds are 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, 2010 and 2009 follows:

	2010	2009
Revenues		
Public charges for services	$ 347,493	$ 342,278
Marina Fest	2,281	3,326
Boathouse rental	11,068	-
Miscellaneous	143	111
Interest on investments	4,770	11,808
Total Revenues	365,755	357,523
Expenditures		
Operation and maintenance	110,700	120,622
Excess of Revenues Over Expenditures	255,055	236,901
Other Financing Sources (Uses)		
Transfer out to general fund	(78,247)	(71,034)
Transfer out to debt service fund	(71,000)	(68,063)
Transfer out to capital project fund	(26,616)	(19,579)
Payment in lieu of taxes	(108,338)	(57,791)
Total Other Financing Sources (Uses)	(284,201)	(216,467)
Net Change in Fund Balance	(29,146)	20,434
Fund Balance - January 1	424,117	403,683
Fund Balance - December 31	$ 394,971	$ 424,117

3. Capital Projects Fund

A summary of the revenues, expenditures and changes in fund balance of the capital projects fund for 2010 and 2009 is presented below:

	2010	2009
Revenues		
State grant	$ 551,197	$ -
Interest on investments	3,159	10,000
Total Revenues	554,356	10,000
Expenditures		
As budgeted:		
Fire truck reserve	286,249	-
Trees	345	2,532
Streets resurfacing	43,340	-
Board meeting chairs	3,327	-
Marina expansion	-	9,805
Administration building retaining wall	5,600	-
Skid steer loader	-	36,727
Various parks projects	1,301	-
Trackless snowblower	9,372	-
Marina commercial kiosk	-	9,774
Garbage containers	2,304	-
Picnic tables and benches	2,030	-
Bad debt - write-off grant receivable	-	7,880
TID projects	130,118	-
From debt proceeds:		
Waterfront development	-	51,595
Move baseball field	1,270	325,334
Bathometric study	-	6,000
Sports complex development	9,641	190,245
Total Expenditures	494,897	639,892
Excess of Revenues Over (Under) Expenditures	59,459	(629,892)
Other Financing Sources		
Transfer in from other funds	303,616	166,579
Net Change in Fund Balance	363,075	(463,313)
Fund Balance - January 1	634,380	1,097,693
Fund Balance - December 31	$ 997,455	$ 634,380

4. Water Department Operations

A comparative analysis of the water department's income account for the years ended December 31, 2010 and 2009 follows:

	2010	2009
Operating Revenues		
General customers	$ 243,436	$ 248,818
Public fire protection	91,851	91,812
Miscellaneous	29,555	25,143
Total Operating Revenues	364,842	365,773
Operating Expenses		
Operation and maintenance	228,863	204,002
Depreciation	95,535	95,357
Taxes	6,701	6,701
Total Operating Expenses	331,099	306,060
Operating Income	33,743	59,713
Nonoperating Revenues (Expenses)		
Interest income (estimated allocation)	6,074	10,386
Impact fees	6,416	-
Interest on long-term debt (estimated allocation)	(15,617)	(16,433)
Miscellaneous	-	1,195
Total Nonoperating Revenues (Expenses)	(3,127)	(4,852)
Net Income	$ 30,616	$ 54,861

The Water Utility had a rate of return of 4.65% in 2010 compared to 6.92% in 2009. The rate of return calculation is a formula establish by the Public Service Commission (PSC) who regulates and sets the Water Utility rates. The rate of return authorized by the PSC is 5%.

5. **Wastewater Department Operations**

A comparative analysis of the wastewater treatment plant and wastewater collection activities for the year ended December 31, 2010 follows:

Treatment Plant

	2010	2009
Operating Revenues		
General customers	$ 340,712	$ 293,590
Service to other systems	55,120	47,576
Other sewage service	76,465	78,019
Miscellaneous	2,526	2,475
Total Operating Revenues	474,823	421,660
Operating Expenses		
Operation and maintenance	382,463	356,954
Depreciation	260,614	260,285
Taxes	9,049	8,407
Total Operating Expenses	652,126	625,646
Operating Income (Loss)	(177,303)	(203,986)
Nonoperating Revenues (Expenses) and Transfers		
Interest income (estimated allocation)	16,893	26,060
Contribution and subsidies for debt retirement	-	14,122
Impact fees	2,318	-
Interest on long-term debt (estimated allocation)	(33,608)	(40,610)
Transfer in for debt service	-	130,781
Miscellaneous	-	(39,529)
Total Nonoperating Revenues (Expenses)	(14,397)	90,824
Change in Net Assets	$ (191,700)	$ (113,162)

Collection System

	2010	2009
Operating Revenues		
General customers	$ 177,326	$ 137,886
Service to other systems	943	1,143
Miscellaneous	3,038	2,875
Total Operating Revenues	181,307	141,904
Operating Expenses		
Operation and maintenance	98,788	107,610
Depreciation	63,740	63,580
Taxes	2,199	2,276
Total Operating Expenses	164,727	173,466
Operating Income (Loss)	16,580	(31,562)
Nonoperating Revenues (Expenses) and Transfers		
Interest income (estimated allocation)	17,946	3,039
Connection fees	5,325	-
Impact fees	2,087	-
Interest on long-term debt (estimated allocation)	(16,513)	(18,677)
Miscellaneous	2,508	2,233
Total Nonoperating Revenues (Expenses)	11,353	(13,405)
Change in Net Assets	$ 27,933	$ (44,967)

The above operating loss for the treatment plant resulted from not recovering sufficient revenues from customers to fund annual depreciation expense of $260,614 from the Wastewater Treatment Plant. However, the utility is generating positive cash flows as depreciation is not a current cash use and the principal payment on long-term debt for 2010 was $88,500. See the cash flow statement on page 16 of the financial statements.

6. Restricted Cash and Investments - Water and Wastewater Department

Detail of restricted cash and investments of the Water and Wastewater Utility on December 31, 2010 follows:

Fund Type	12/31/09 Balance	Used in 2010	2010 Interest Net of Fees	2010 Additions	12/31/10 Balance
Replacement Funds:					
Water System	$ 306,220	$ (7,718)	$ 2,376	$ 24,400	$ 325,278
DNR WWTP	689,769	(5,702)	14,035	65,103	763,205
Collection System	79,707	-	673	5,133	85,513
Bay Shore Drive Relay	-	-	-	858,975	858,975
Total Replacement Funds	1,075,696	(13,420)	17,084	953,611	2,032,971
Impact Fees:					
Wastewater Treatment Plant	39,265	-	380	2,318	41,963
Water Tower	73,727	-	713	5,025	79,465
Downtown Utilities	-	-	2	3,478	3,480
Total Impact Fees	112,992	-	1,095	10,821	124,908
Total Utility Department Restricted Cash and Investments	$ 1,188,688	$ (13,420)	$ 18,179	$ 964,432	$ 2,157,879

VILLAGE OF SISTER BAY, WISCONSIN
TAX INCREMENTAL FINANCING DISTRICT NO. 1
ANNUAL REPORT
For Year Ended December 31, 2010

Date Created: September 4, 2008

Latest Possible Termination Date: December 31, 2028

	Current Year	Cumulative
Expenditures		
Project costs paid by TID fund	$ 5,111,527	$ 5,158,796
Project costs paid by capital projects fund	163,540	295,729
Total Expenditures	$ 5,275,067	5,454,525
Revenues		
Other revenues	$ 873	873
Net Unreimbursed Costs at December 31, 2010		$ 5,453,652

During our current audit we reviewed the financial transactions and current status of the Village's Tax Incremental District No. 1 (TID). We also assisted the Village in completing the statutorily required TID annual reports required to be sent to each overlying taxing district by May 1.

It is important to note that the Village is responsible for making sure that all eligible TID costs are identified to ensure that all costs of the TID can be recovered through future incremental tax revenue.

COMMENTS AND OBSERVATIONS

Processing of Journal Entries

During our audit, we noted instances where journal entries did not provide an adequate explanation for the purpose of the entry or contain other supporting documentation. We also noted journal entries that were not reviewed and approved by someone other than the individual preparing the entry. While all journal entries reviewed during our audit were appropriate, we believe supporting documentation and, if practical, evidence of review should accompany all journal entries entered into the Village's general ledger.

We therefore recommend that the Village develop a policy for processing journal entries that includes 1) adequate explanation and documentation and, 2) if practical, the review of all journal entries prior to the entering into the Village's general ledger.