

MANAGEMENT LETTER

LINCOLN COUNTY, WISCONSIN

DECEMBER 31, 2009



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To the County Board
Lincoln County, Wisconsin

We have completed our audit of the basic financial statements of Lincoln County (the "County") for the year ended December 31, 2009. The County's financial statements, including our report thereon dated July 23, 2010, 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, OMB Circular A-133 and the State Single Audit Guidelines

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 County'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. We also considered internal control over compliance with requirements that could have a direct and material effect on major federal and state programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State Single Audit Guidelines.

As part of obtaining reasonable assurance about whether the County'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. Also in accordance with OMB Circular A-133 and the State Single Audit Guidelines, we examined, on a test basis, evidence about the County's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" and the State Single Audit Guidelines applicable to each of its major federal and state programs for the purpose of expressing an opinion on the County's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County'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 County as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the County'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 County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 County 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 2009. We noted no significant transactions entered into by the County 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. We proposed seven audit entries as the result of our audit. The audit entries were posted by the County.

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 July 23, 2010.

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 County'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 July 23, 2010 on the financial statements of the County, is intended solely for the information and use of the County Board, management, and others within the County, 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
July 23, 2010

LINCOLN COUNTY, WISCONSIN

December 31, 2009

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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 County Board
Lincoln County, 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 Lincoln County, Wisconsin, as of and for the year ended December 31, 2009, which collectively comprise the County's basic financial statements and have issued our report thereon dated July 23, 2010. 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 Lincoln County, 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 Lincoln County, Wisconsin's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lincoln County, Wisconsin's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lincoln County, 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*.

We noted certain matters that we reported to management of Lincoln County, Wisconsin in a separate section of this communication.



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

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Certified Public Accountants
Green Bay, Wisconsin
July 23, 2010

SUMMARY FINANCIAL INFORMATION

1. Governmental Fund Balances

Presented below is a summary of the County's governmental fund balances on December 31, 2009, including a comparison to the prior year. This information is provided for assisting management in assessing financial results for 2009 and for indicating financial resources available at the start of the 2010 budget year.

	12/31/2009	12/31/2008
General Fund		
Reserved for:		
Prepaid items	\$ 203,951	\$ 162,799
Insurance deposits	55,422	74,558
Delinquent property taxes	1,145,506	1,086,905
Advance to other funds	345,431	401,626
Grant and program fees	200,986	-
Unreserved		
Designated for:		
Carryover into subsequent year budget	301,480	97,869
Capital improvement projects	1,741,900	1,908,257
Other projects	318,967	-
Cash flow purposes	5,511,764	5,735,944
Undesignated	554,869	372,127
Total General Fund	<u>10,380,276</u>	<u>9,840,085</u>
Special Revenue Funds		
County roads and bridges	291,620	(78,088)
Social services	700,668	988,856
Developmental disabilities	50,000	50,000
County health	527,932	429,251
Commission on aging	105,482	67,522
Dog license	1,000	1,000
Community development	66,426	67,153
Emergency medical	242,765	360,385
Jail assessment	10,610	28,466
Total Special Revenue Funds	<u>1,996,503</u>	<u>1,914,545</u>
Debt Service Fund		
Reserved for debt service	<u>44,324</u>	<u>65,765</u>
Capital Project Fund	<u>(1,056,505)</u>	<u>1,356,493</u>
Total Governmental Fund Balances	<u>\$ 11,364,598</u>	<u>\$ 13,176,888</u>

Designated General Fund

The County has designated general fund balances to indicate that funds are earmarked for specific purposes and currently unavailable to finance general County operations, including \$5,511,764 which has been set aside for working capital needs of the County. Detail of amounts designated can be found on page 49 of the County's financial statements.

Undesignated General Fund

The undesignated general fund balance represents the County's available and unappropriated cash available for any County purpose. The County's undesignated general fund balance totaled \$554,869. The increase in undesignated cash is primarily due to a transfer from the forestry fund.

Special Revenue Funds

The County's special revenue funds total \$1,996,503 as of December 31, 2009 compared to \$1,914,545 for the prior year. As shown above the County Roads and Bridges fund has a positive balance of \$291,620 after reporting a negative balance of (\$78,088) in 2008. This increased primarily due to a transfer in of \$250,000.

2. Health Self-Insurance Fund

The County has established a self-insurance internal service fund to provide health insurance coverage to County employees and retirees. A summary of 2009 transactions, including a comparison to 2008, is presented below:

	2009	2008
Operating Revenues		
Charges to county departments and retirees	\$ 4,994,826	\$ 4,907,198
Operating Expenses		
Insurance payments and claims	4,352,150	4,521,873
Administrative and fiscal services	700,505	591,053
Total Operating Expenses	<u>5,052,655</u>	<u>5,112,926</u>
Operating Loss	<u>(57,829)</u>	<u>(205,728)</u>
Nonoperating Revenues		
Interest revenue	<u>66,542</u>	<u>233,686</u>
Change in net assets	8,713	27,958
Net Assets - January 1	<u>3,858,896</u>	<u>3,830,938</u>
Net Assets - January 31	<u>\$ 3,867,609</u>	<u>\$ 3,858,896</u>

The self-insurance fund generated an operating loss of \$57,829 compared to an operating loss of \$205,728 for the prior year. The County currently has approximately 77% of its annual expenses in net assets at year end and is very good financial condition.

3. Solid Waste Landfill

The County has a Solid Waste Landfill operating as a proprietary fund. A summary of 2009 transactions, including a comparison to 2008, is presented below:

	2009	2008
Revenues		
Public charges for services	\$ 1,457,947	\$ 1,201,239
Interdepartmental charges for services	293	-
Intergovernmental charges for services	185,938	193,361
Miscellaneous	6,675	10,388
Total Revenues	1,650,853	1,404,988
Expenses		
General services	854,142	775,726
Future closing costs	630,919	257,335
Depreciation and amortization	568,709	572,577
Total Expenditures	2,053,770	1,605,638
Operating Loss	(402,917)	(200,650)
Nonoperating Revenues		
Interest income	36,737	173,523
Grant income	1,200	10,000
Total Nonoperating Revenues	37,937	183,523
Loss before Transfers	(364,980)	(17,127)
Transfer out	(200,000)	-
Change in Net Assets	(564,980)	(17,127)
Net Assets - January 1	5,887,978	5,905,105
Net Assets - December 31	\$ 5,322,998	\$ 5,887,978

The Solid Waste Landfill reported an operating loss of \$402,917 and \$200,650 for the years ending December 31, 2009 and 2008, respectively. Current assets and restricted cash total \$6.4 million while liabilities are \$3.5 million.

4. Forestry

The County's forestry operations are accounted for as a proprietary fund. A summary of 2009 transactions, including a comparison to 2008, is presented below:

	2009	2008
Revenues		
Public charges for services	\$ 838,516	\$ 1,205,093
Interdepartmental charges for services	1,750	1,750
Miscellaneous	2,770	3,000
Total Revenues	<u>843,036</u>	<u>1,209,843</u>
Expenses		
General services	846,267	901,206
Depreciation and amortization	65,559	89,437
Total Expenditures	<u>911,826</u>	<u>990,643</u>
Operating Income (Loss)	<u>(68,790)</u>	<u>219,200</u>
Nonoperating Revenues		
Grant income	<u>241,085</u>	<u>301,423</u>
Income before Transfers	172,295	520,623
Transfer out	<u>(476,863)</u>	<u>(139,458)</u>
Change in Net Assets	(304,568)	381,165
Net Assets - January 1	<u>4,579,611</u>	<u>4,198,446</u>
Net Assets - December 31	<u>\$ 4,275,043</u>	<u>\$ 4,579,611</u>

At December 31, 2009, the fund has cash and investments of \$1,823,113. In addition to the transfer of funds to the general fund, the general fund also retains interest earned on Forestry fund cash balances as part of its general fund budget.

GENERAL COUNTY

PRIOR YEAR COMMENTS AND RECOMMENDATIONS

As part of our audit, we reviewed the status of our prior year comments and recommendations. Our review indicates policies and procedures have been implemented to produce the suggested improvements recommended in our 2008 management letter for the comments identified below. Accordingly, we do not feel any further review is necessary.

Included in our prior year management letters were various comments and recommendations for changing County policies and procedures which, if implemented, would occur over a period of time. The comments consisted of the following:

- Responsibility for Development of Department Financial Systems and Procedures
- Documentation of Financial Policies and Procedures

As indicated, implementing these comments would occur over a period of time. We will monitor the County's progress in future audits.

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

Fund Balance Reporting

In February 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The statement establishes new hierarchy of classifications based on the extent which a government is to observe constraints placed on fund balance. While this latest GASB standard will not affect the calculation of fund balance, it significantly changes fund balance components to eliminate inconsistency in how fund balance is reported between governments making fund balance classifications more easily understood by financial statement users.

GASB Statement No. 54 establishes five components of fund balance as follows:

Nonspendable

Nonspendable fund balance includes amounts that cannot be spent because they are either not in a spendable form or legally or contractually required to be remained intact. This classification includes but is not limited to prepaid items, inventory, long-term receivables and principal amounts of an endowment.

Restricted

Restricted fund balance includes amounts that cannot be spent because they are 1) externally imposed by creditors (through debt covenants), grantors, donors or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation.

Committed

Committed fund balance includes amount that cannot be spent pursuant to constraints imposed by formal action of the County Board which must occur prior to the end of the reporting period. These committed amounts cannot be used for any other purpose unless the County Board removes or changes the committed amount. The primary difference between restricted fund balance and committed fund balance is externally versus internally committed.

Assigned

Assigned fund balance includes amounts constrained by the County's intent to be used for a specific purpose, as established by the County Board, a designated committee or designated County official, but are neither restricted nor committed. This represents a balance that is easily removable or modifiable from the balance's current assignment. Since GASB 34 prohibits the reporting resources in a governmental fund that is not assigned to the purpose of that fund, with the exception of the general fund, any available financial resources in a particular governmental fund not classified under the previous three classifications would be reported as assigned.

Fund Balance Reporting (Continued)

Unassigned

Unassigned fund balance is the amount that has not been previously classified to the other classifications. A positive balance may be reported only in the general fund while, if financial resources of other governmental funds are less than nonspendable, restricted and committed fund balance components, the negative balance will be recorded as unassigned.

GASB Statement No. 54 also revised the definition of the general, special revenue, debt service, capital projects and permanent funds. The primary clarification involves the use of special revenue funds by establishing a requirement that special revenue funds be used to "account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects". Based on these definitions, it is likely many governments will need to eliminate certain special revenue funds because the government no longer expects substantial inflows of restricted or committed revenue sources and report the activity in the general fund.

While the new standard is effective for the County's financial statements ending December 31, 2011, we recommend the County review its current classifications to determine the proper reporting of governmental funds and fund balance. Early implementation is encouraged by the statement.

DEVELOPMENTAL DISABILITIES CENTER

Monitoring Timely Completion of Case Notes

During our current year audit, we noted one case worker continues to be behind in completing the required paperwork to record units and related costs for reporting to the State of Wisconsin. While all units appear to have been reported to the fiscal staff by the close-out of the contract year, reporting delays create the following potential problems:

- Fiscal staff needs to calculate the unit costs so the appropriate costs can be included in year end reporting. If substantial units are not properly reported throughout the year, the fiscal staff may not properly calculate the unit rate throughout the year. This could result in either over or under-reported costs. In addition, the year end settlement process is complex and reducing the time between when all units have been reported to fiscal staff and the state due dates increase the likelihood of errors which could result in audit findings.
- If records are not reported timely, the employee would need to create secondary records to ensure all units are reported properly. Delays in completing the reporting result in a greater risk that the County could over or under report units, resulting in potential audit findings or unreimbursed costs.

Accordingly, we recommend the County establish reasonable timeframes to complete the required paperwork to the fiscal staff and monitor closely any employee who consistently misses the due date.