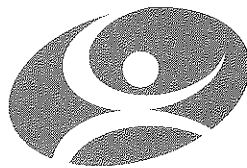


MANAGEMENT COMMUNICATIONS

LINCOLN COUNTY, WISCONSIN

DECEMBER 31, 2010



Schenck
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CPAs AND SO MUCH MORE.

LINCOLN COUNTY, WISCONSIN

December 31, 2010

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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, 2010. The County's financial statements, including our report thereon dated July 15, 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, 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, 2010, 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.

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.

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 did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 2010. 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. 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 estimates included in the financial statements were:

Management's estimate of accumulated sick leave is based upon analysis of the employees sick leave balance. We evaluated the key factors and assumptions and the consistency in these factors and assumptions used to develop the accumulated sick leave in determining that it is reasonable in relation to the financial statements taken as a whole.

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.

Management's estimate of the incurred, but not reported (IBNR) insurance reserves are based on actuarial projections of the expected cost of the ultimate settlement and administration of claims. We evaluated the key factors and assumptions used to develop the reserves 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. 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 15, 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 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.

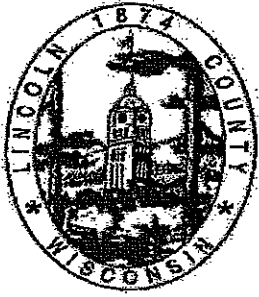
In addition, during our audit, we noted certain other matters that are presented for your consideration. We will review the status of these comments during our next audit engagement. Our comments and recommendations are intended to improve the internal control or result in other operating efficiencies. 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 prior comments and recommendations section of this letter.

This communication, which does not affect our report dated July 15, 2011 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 15, 2011



LINCOLN COUNTY
801 N SALES STREET
MERRILL, WI 54452
Phone: (715) 536-0370
FAX: (715) 536-0472

July 15, 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 Lincoln County 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 Lincoln County 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 internal control, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items in No. 26 are considered material based on the materiality criteria specified in OMB Circular A-133 and the *State Single Audit Guidelines* issued by the Wisconsin Department of Administration. 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 July 15, 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 County as required by accounting principles generally accepted in the United States of America. 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 County Board or summaries of actions of recent meetings for which minutes have not yet been prepared.

4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or the schedules of expenditures of federal awards and state financial assistance.
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 County 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 County received in communications from employees, former employees, analysts, regulators, short sellers, 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 County 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 County 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-County 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. 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 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) ASC 450, Contingencies.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, Contingencies.
 - d. Reservations or designations of fund equity that were not properly authorized and approved.
16. As part of your audit, you have assisted with the preparation of the basic financial statements and the draft notes, the schedule of expenditures of federal awards, and the schedule of state financial assistance. 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 these statements and notes, the schedule of expenditures of federal awards, and the schedule of state financial assistance.
17. The County 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 except as disclosed in the notes to the financial statements.
18. The County 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. We agree with the findings of specialists in evaluating the incurred but not reported claims and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists
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. With respect to federal and state award programs:
 - a. We are responsible for understanding and complying with and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *State Single Audit Guidelines* issued by the Wisconsin Department of Administration including requirements relating to preparation of the schedule of federal awards and the schedule of state financial assistance.
 - b. We have prepared the schedule of expenditures of federal awards in accordance with OMB Circular A-133 and the schedule of state financial assistance in accordance with *State Single Audit Guidelines*, and have identified and disclosed in the schedules of expenditures of federal awards and state financial assistance, expenditures made during the audit period for all awards provided by federal and state agencies in the form of grants, cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.
 - c. We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of OMB Circular A-133 §310:b and the schedule of state financial assistance (SSFA) in accordance with the requirements of the *State Single Audit Guidelines* and we believe the SEFA and SSFA, including their form and content, are fairly presented in accordance with the Circular and the Guidelines. The methods of measurement and presentation of the SEFA and SSFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA and SSFA.
 - d. If the SEFA and SSFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
 - e. We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133 and the *State Single Audit Guidelines*.
 - f. We are responsible for understanding and complying with, and have complied with in all material respects, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal and state programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal and state program.

- g. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal and state programs that provide reasonable assurance that we are managing our federal and state awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal and state programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in the internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to control deficiencies reported in the schedule of findings and questioned costs.
- h. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal and state agencies or pass-through entities relating to each major federal and state programs.
- i. We have received no requests from a federal or state agency to audit one or more specific programs as a major program.
- j. We have complied, in all material respects, with the compliance requirements, including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement* and the *State Single Audit Guidelines*, relating to federal and state awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal and state awards, including the results of other audits or program reviews.
- k. We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the applicable compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- l. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken up to the date of the auditor's report.
- m. Amounts claimed or used for matching were determined in accordance with relevant guidelines in *OMB Circular A-87, Cost Principles for State, Local, and Tribal Governments*, and *OMB's Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- n. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- o. We have made available to you all documentation related to the compliance requirements, including information related to federal and state program financial reports and claims for advances and reimbursements.
- p. Federal and state program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- q. We have charged costs to federal and state awards in accordance with applicable cost principles.
- r. The copies of federal and state program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal and state agency or pass-through entity, as applicable.
- s. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by *OMB Circular A-133* and the *State Single Audit Guidelines* and we have provided you with all information on the status of the follow-up on prior audit findings by federal and state awarding agencies and pass-through entities, including all management decisions.

- t. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133.
- u. We are responsible for preparing and implementing a corrective action plan for each audit finding.

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 or in the schedule of findings and questioned costs except as disclosed in the notes to the financial statements.

Signed: 

Dan Leydet, Finance Director

SUMMARY FINANCIAL INFORMATION

1. Governmental Fund Balances

Presented below is a summary of the County's governmental fund balances on December 31, 2010, including a comparison to the prior year. This information is provided for assisting management in assessing financial results for 2010 and for indicating financial resources available at the start of the 2011 budget year.

	12/31/10	12/31/09
General Fund		
Reserved for:		
Prepaid items	\$ 229,190	\$ 203,951
Insurance deposits	58,983	55,422
Delinquent property taxes	1,320,926	1,145,506
Advance to other funds	289,236	345,431
Grant and program fees	183,445	200,986
Unreserved		
Designated for:		
Carryover into subsequent year budget	1,592,562	301,480
Capital improvement projects	2,118,110	1,741,900
Other projects	181,754	318,967
Cash flow purposes	3,394,082	5,511,764
Undesignated	900,252	554,869
Total General Fund	10,268,540	10,380,276
Special Revenue Funds		
County roads and bridges	566,929	291,620
Social services	672,699	700,668
Developmental disabilities	177,269	50,000
County health	544,462	527,932
Commission on aging	62,466	105,482
Dog license	1,000	1,000
Community development	271,451	66,426
Emergency medical	304,874	242,765
Jail assessment	31,646	10,610
Total Special Revenue Funds	2,632,796	1,996,503
Debt Service Fund		
Reserved for debt service	40,185	44,324
Capital Project Fund	507,285	(1,056,505)
Total Governmental Fund Balances	\$ 13,448,806	\$ 11,364,598

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 \$3,394,082 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 \$900,252.

Special Revenue Funds

The County's special revenue funds total \$2,632,796 as of December 31, 2010 compared to \$1,996,503 for the prior year. The increase is primarily due to the county roads and bridges and community development funds.

Capital Project Fund

The County's capital project fund balance of \$507,285 as of December 31, 2010 compared to a deficit of \$1,056,505 for the prior year. The increase is primarily due to the issuance of long-term debt to finance prior and current year capital acquisitions.

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 2010 transactions, including a comparison to 2009, is presented below:

	2010	2009
Operating Revenues		
Charges to county departments and retirees	\$ 4,952,572	\$ 4,994,826
Operating Expenses		
Insurance payments and claims	5,716,847	4,352,150
Administrative and fiscal services	818,356	700,505
Total Operating Expenses	6,535,203	5,052,655
Operating Loss	(1,582,631)	(57,829)
Nonoperating Revenues		
Interest revenue	57,033	66,542
Change in net assets	(1,525,598)	8,713
Net Assets - January 1	3,867,609	3,858,896
Net Assets - December 31	\$ 2,342,011	\$ 3,867,609

The self-insurance fund generated an operating loss of \$1,582,631 compared to an operating loss of \$57,829 for the prior year. At year end, based on 2010 claims paid, the net asset balance represents approximately 41% of its annual claims expenses compared to 89% for the prior year. The decrease relates primarily to the unexpected and substantial claim expenses in 2010 compared to prior years.

In addition to its net asset balance, the County has accrued a claims liability of \$1,070,590 for claims related to services provided but not paid prior to the end of January, 2011.

3. County Highway Internal Service Fund

The County's highway department operates as an internal service fund, with County road maintenance and construction costs financed by a special revenue fund. A summary of 2010 transactions, including a comparison to 2009, is presented below:

	2010	2009
Operating Revenues		
Interdepartmental charges for services	\$ 3,360,686	\$ 3,437,153
Intergovernmental charges for services	2,216,913	2,341,633
Other operating revenue	20,249	4,362
Total Operating Revenues	5,597,848	5,783,148
Operating Expenses		
General services	5,607,693	5,313,544
Administrative and fiscal services	343,985	430,185
Depreciation and amortization	530,030	577,879
Total Operating Expenses	6,481,708	6,321,608
Operating Loss	(883,860)	(538,460)
Nonoperating Revenues (Expenses)		
Sale of capital assets	117,044	(5,633)
Donations and other nonoperating revenues	58,672	27,663
Total Nonoperating Revenues (Expenses)	175,716	22,030
Change in Net Assets	(708,144)	(516,430)
Net Assets - January 1	5,246,110	5,762,540
Net Assets - December 31	\$ 4,537,966	\$ 5,246,110

The highway department's operating loss increased from \$538,460 to \$883,860 as charges for services decreased while operating costs increased despite an improvement in the County's machinery cost pool (loss of \$270,961 compared to a loss of \$546,042 in 2009). At year end, the highway department had cash and cash equivalents of \$26,591.

In 2010, many County highway departments experienced operating losses as economic conditions and budget constraints have limited road maintenance and construction at both the state and local levels. Since many of the costs of the County's highway department are fixed, it is often difficult to reduce costs to achieve positive operating results; however, the department cannot continue to generate operating losses. At December 31, 2010, the unrestricted portion of the fund's net assets is only \$122,097.

We therefore recommend the County develop an operating plan, recognizing available County funding in the County's special revenue fund and anticipated state and local government utilization of the department, to determine what changes need to be made to increase profitability of the department. We believe the plan would address the following:

- What is the current level of funding in the County road and bridges special revenue fund for maintenance and construction? Is this funding level sufficient to maintain the County's road infrastructure at an appropriate level?
- Based on available funding and the anticipated usage by the state and other local governments, what level of operating costs, including machinery, can be supported? What operational changes can be made to align operating costs with estimated funding.

4. Solid Waste Landfill

The County has a Solid Waste Landfill operating as a proprietary fund. A summary of 2010 transactions, including a comparison to 2009, is presented below:

	2010	2009
Revenues		
Public charges for services	\$ 1,468,165	\$ 1,457,947
Interdepartmental charges for services	215	293
Intergovernmental charges for services	274,529	185,938
Miscellaneous	7,583	6,675
Total Revenues	1,750,492	1,650,853
Expenses		
General services	1,402,978	854,142
Future closing costs	532,336	630,919
Depreciation and amortization	338,784	568,709
Total Expenditures	2,274,098	2,053,770
Operating Loss	(523,606)	(402,917)
Nonoperating Revenues		
Interest income	83,394	36,737
Grant income	-	1,200
Total Nonoperating Revenues	83,394	37,937
Loss before Transfers	(440,212)	(364,980)
Transfer out	(200,000)	(200,000)
Change in Net Assets	(640,212)	(564,980)
Net Assets - January 1	5,322,998	5,887,978
Net Assets - December 31	\$ 4,682,786	\$ 5,322,998

The Solid Waste Landfill reported an operating loss of \$523,606 and \$402,917 for the years ending December 31, 2010 and 2009, respectively. Current assets and restricted cash total \$6.9 million while liabilities are \$4.3 million.

4. Forestry

The County's forestry operations are accounted for as a proprietary fund. A summary of 2010 transactions, including a comparison to 2009, is presented below:

	2010	2009
Revenues		
Public charges for services	\$ 990,034	\$ 838,516
Interdepartmental charges for services	1,990	1,750
Miscellaneous	-	2,770
Total Revenues	<u>992,024</u>	<u>843,036</u>
Expenses		
General services	793,511	846,267
Depreciation and amortization	33,239	65,559
Total Expenditures	<u>826,750</u>	<u>911,826</u>
Operating Income (Loss)	<u>165,274</u>	<u>(68,790)</u>
Nonoperating Revenues		
Grant income	210,768	241,085
Donations	5,515	-
Sale of capital assets	3,300	-
Total Nonoperating Revenues	<u>219,583</u>	<u>241,085</u>
Income before Transfers	384,857	172,295
Transfer out	<u>(412,456)</u>	<u>(476,863)</u>
Change in Net Assets	(27,599)	(304,568)
Net Assets - January 1	<u>4,275,043</u>	<u>4,579,611</u>
Net Assets - December 31	<u>\$ 4,247,444</u>	<u>\$ 4,275,043</u>

At December 31, 2010, the fund has cash and investments of \$1,848,593. 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.

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 2009 management letter for the comment identified below. In addition, the conversion to Family Care has eliminated the program where we noted a delay in completing case notes. Accordingly, we do not feel any further review is necessary.

- Monitoring Timely Completion of Case Notes

Included in our prior year management letters were other 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:

- Fund Balance Reporting

GASB 54 will be effective for the County's 2011 audit report and the County intends to adopt the appropriate fund balance policies during 2011.

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

Fraud Prevention Considerations

The County is responsible to design and implement procedures and controls to prevent, deter and detect fraud. It is important that the County periodically consider where fraud may occur in your organization and establish procedures, based on cost benefit analysis, that minimize the County's risk for fraud. Generally, in order for fraud to occur, the following three elements generally are present (often known as the fraud triangle):

- Pressure
- Opportunity
- Rationalization

Pressure relates to what causes a person to commit fraud, which can be anything from expensive spending habits, gambling or other addictions or financial issues. Opportunity involves controls which can be easily overridden or poor management oversight. This is the one area that the County has the most control of and needs to continue to communicate the importance of following established procedures and controls to its employees. The final element, rationalization, is often the most crucial because an individual committing fraud against an organization has to "rationalize" their behavior.

In the past six months, changes in the ability of labor unions to collectively bargain and changes in employee benefits, including required pension contributions, along with budget constraints that have limited salary increases have occurred. These changes could create an ability to "rationalize" taking some County revenues or other financial assets to compensate them for lost earnings. Therefore, we believe governments need to be more vigilant in monitoring controls and management oversight.

Specifically, we recommend the County:

- Complete an evaluation of known fraud risks. If possible, design procedures to minimize known fraud risks. Known fraud risks should be communicated to the appropriate committee or County Board.
- Frequently communicate the importance of established controls to employees and take prompt and corrective action for any known departure.
- Review current procedures for monitoring that established controls are being followed by employees.
- Assess the impact of employees experiencing significant financial difficulties or spending beyond their means. While this is often difficult to know, these employees are generally more likely to engage in fraudulent activities.

Our audit did not disclose any issues regarding fraud or control weaknesses that need to be addressed. We included this comment as another reminder that fraud can occur in any organization and organizations which periodically review, assess and address fraud risks as part of their normal business practices can reduce their susceptibility to fraud.

The above comment is presented for information purposes.