

MANAGEMENT COMMUNICATIONS

**TOWN OF LIBERTY GROVE
DOOR COUNTY, WISCONSIN**

DECEMBER 31, 2012

TOWN OF LIBERTY GROVE
DOOR COUNTY, WISCONSIN
December 31, 2012

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To the Town Board
Town of Liberty Grove
Sister Bay, Wisconsin

We have completed our audit of the basic financial statements of the Town of Liberty Grove, Wisconsin (the "Town") as of and for the year ended December 31, 2012. The Town's financial statements, including our report thereon dated May 7, 2013, 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 Town'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 Town'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 Town'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 Town as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Town'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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control. Our report on internal control over financial reporting and on compliance and other matters is presented on pages 24 - 25 of the annual report.

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 consider the following deficiencies to be significant deficiencies in internal control:

Finding 2012-01	Preparation of Annual Financial Report
Finding 2012-02	Adjustments to the Town's Financial Records

These findings are described in detail in the schedule of findings and responses on pages 26 - 27 of the annual financial 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 Town are described in Note A to the financial statements. The Town implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* for the fiscal year ended December 31, 2012. We noted no significant transactions entered into by the Town during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. We are not aware of any particularly sensitive accounting estimates used by management in the preparation of the financial statements.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The financial statements reflect all accounting adjustments proposed during our audit. Copies of the audit adjustments are available from management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' 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 May 7, 2013. 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 Town'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. 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 other comments and observations section of this letter.

This communication, which does not affect our report dated May 7, 2013 on the financial statements of the Town, is intended solely for the information and use of the Town Board, management, and others within the Town, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Certified Public Accountants
Green Bay, Wisconsin
May 7, 2013



TOWN OF LIBERTY GROVE

County of Door

Town Hall: 11161 Old Stage Road
Sister Bay, Wisconsin 54234
Phone: 920-854-2934
Fax: 920-854-7366
tlibertygrove@dcwis.com

Schenck SC
2200 Riverside Drive
P.O. Box 23819
Green Bay, WI 54301

This representation letter is provided in connection with your audit of the primary government financial statements of the Town of Liberty Grove, Wisconsin ("the Town") which comprise the respective financial position of the governmental activities, business-type activities, and each major fund as of December 31, 2012, and the respective changes in the financial position and cash flows, where applicable, for the year then ended, and the related notes to the primary government financial statements for the purpose of expressing opinions as to whether the financial statements of the governmental activities and the major governmental fund are presented fairly, in all material respects, on the modified cash basis of accounting, which differs from accounting principles generally accepted in the United States of America and the business-type activities and the major enterprise fund are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, 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 May 7, 2013, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated January 10, 2013.
2. The primary government financial statements referred to above are fairly presented on the cash (governmental activities and general fund) or accrual (business-type activities and water and sewer utility enterprise fund) basis of accounting, and include all properly classified funds and other financial information of the Town required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity. The cash basis of accounting used by the Town to measure financial transactions for its governmental activities and general fund differs from accounting principles generally accepted in the United States of America.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions we used in making accounting estimates are reasonable.
6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America.
7. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America requires adjustment or disclosure have been adjusted or disclosed. 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.
8. We are in agreement with the adjusting journal entries you have proposed, and they have been posted to the Town's accounts.
9. We are not aware of any pending or threatened litigation, claims or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements, and we have not consulted a lawyer concerning litigation, claims, or assessments.
10. Guarantees, whether written or oral, under which the Town is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

11. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the Town Board or summaries of actions of recent meetings for which minutes have not yet been prepared.
12. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
13. We have made an assessment of the risk that the financial statements may be materially misstated as a result of fraud. We have disclosed the results of our assessment as follows:
 - a. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - i. Management,
 - ii. Employees who have significant roles in internal control, or
 - iii. Others where the fraud could have a material effect on the financial statements.
 - b. We have no knowledge of any allegations of fraud or suspected fraud affecting the Town's financial statements communicated by employees, former employees, regulators, or others.

14. We have disclosed to you all known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
15. We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements, and we have not consulted a lawyer concerning litigation, claims, or assessments.
16. We have disclosed to you the identity of the Town's related parties and all the related party relationships and transactions of which we are aware.

Government - specific


17. We have made available to you all financial records and related data.
18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
19. We have a process to track the status of audit findings and recommendations.
20. 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.
21. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
22. The Town has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
23. 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.
24. There are no 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.
25. As part of your audit, you assisted with preparation of the financial statements and related notes and the state financial report. 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 and the state financial report.
26. In regard to the capital asset depreciation services performed by you, we have –
 - a. Made all management decisions and performed all management functions.
 - b. Designated an individual with suitable skill, knowledge, or experience to oversee the services.

- c. Evaluated the adequacy and results of the services performed.
 - d. Accepted responsibility for the results of the services.
27. The Town 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.
 28. The Town has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
 29. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
 30. The financial statements properly classify all funds and activities.
 31. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 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.
 32. Components of net position (net investment in capital assets, restricted, and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned and unassigned) are properly classified and, if applicable, approved.
 33. Provisions for uncollectible receivables have been properly identified and recorded.
 34. 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.
 35. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
 36. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
 37. Deposits and investment securities and derivative transactions are properly classified as to risk and are properly disclosed.
 38. We have appropriately disclosed the Town's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy.
 39. We acknowledge our responsibility for presenting the supplementary information in accordance with accounting principles generally accepted in the United States of America, and we believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
 40. 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 Town's name" during the period significantly exceeded the amounts in those categories as of the balance sheet was properly disclosed in the financial statements.

41. 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.
42. 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.
43. Expenditures of federal awards were below the \$500,000 threshold in the year ended December 31, 2012, and we were not required to have an audit in accordance with *OMB Circular A-133*.
44. We have evaluated and classified any subsequent events as recognized or nonrecognized through the date of this letter. 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: 
Walter Kalms, Town Clerk/Administrator

Signed: 
Janet Johnson, Treasurer

Signed: 
James Slomski,
Contracted Utility District Accountant

OTHER COMMENTS AND OBSERVATIONS

1. Internal Control Over Financial Reporting

On pages 26 -27 of the annual financial report we disclosed two significant deficiencies in the Town's internal control structure. Almost all municipalities the size of the Town will receive these findings due to the size of your administrative staff. While it is our professional responsibility to disclose these deficiencies, we recommend that the Town continue to be aware that these conditions exist and also continue to evaluate opportunities to further improve the Town's internal control structure. Based on the results of procedures performed during our audit, we recommend that the Town review the following observations and consider if additional compensating controls or other changes in procedures can effectively be implemented.

a) Internal Control over Payroll Transactions

As part of our tests, we reviewed the Town's policies and procedures in regard to payroll transactions. Our tests disclosed the following two areas where we believe the internal accounting controls over payroll could be increased:

- **Document Approval of Wage Rates by Town Board:** Although we were informed that payroll wage rates are approved by the Town Board with the annual budget, we recommend that the Town Board take formal action that is noted in the minutes regarding any change in employee compensation. Specific wage amounts do not necessarily have to be stated in the minutes. The minutes can reference an approved schedule that is kept on file with the Town Clerk.
- **Review and Approval of Employee Time Sheets:** Payroll time sheets are submitted to the Town Clerk for payment. Processing procedures in effect have the Town Clerk review each time sheet and prepare the payroll check. Currently, there is not any notation of review or approval on each time sheet. For internal control purposes, we recommend the Town Clerk indicate approval by initialing and dating each time sheet.

Management's Response: We will include in our annual budget an itemized accounting of the individual approved payroll amounts for each employee of the Town.

The Clerk or Administrator will date and initial the individual pay sheets each pay period.

b) Monitoring of Utility District Bank Accounts

Although the Utility District is operating separately from the Town, the Town Board is the oversight governing body and is ultimately responsible for internal accounting controls. During our review of the utility accounting records we noted that the records are being maintained accurately and in compliance with standard accounting practices for municipal utilities. However, we noted that during 2012 there was not any review or oversight over the bank statements and monthly reconciliations being completed by Utility District personnel.

To provide internal accounting control over the financial transactions of the Utility District, we recommend that the Town Treasurer obtain a copy of the monthly reconciled bank statements and balance sheet report and review for completeness and unusual transactions. To document the review, the copies should be initialed and dated by the Town Treasurer. At the time of audit fieldwork, this was discussed with the Town Treasurer and the contracted utility accountant and, it is my understanding, that review procedures would begin at the end of the next month.

Management's Response: The Utility District Clerk will provide a copy of the balanced bank reconciliation to the Treasurer and the balance of the account will become part of the monthly Treasurer's report given to the Town Board.

OTHER COMMENTS AND OBSERVATIONS (Continued)

2. Conversion of Accounting Records to an Accounting Software with Double-Entry Controls

Currently the Town uses Quickbooks accounting software to process general Town payroll and other disbursements. The Town also uses a different single-entry software to record general Town receipts. While the softwares are able to adequately separate out receipts and disbursements which reconcile to deposits and withdrawals, they do not adequately record cash and investment activity or provide double-entry posting controls contained in other software systems. Additional assistance is required at year end to convert the financial information into a financial statement format required for annual state reports.

We believe the Town would benefit from converting the general accounting records to an automated accounting system that provides double-entry posting controls and the recording of receivable and payable accounts. Accordingly, we recommend the Town consider expanding its use of Quickbooks accounting software by adding revenue and balance sheet accounts and recording all cash transactions, including receipts in the software.

Management's Response: The Clerk will begin using QuickBooks for all entries including payroll, payables and receivables.

3. Cash Basis of Accounting

The Town presently maintains its financial records for its governmental activities and general fund on the cash basis of accounting. Under this basis, only cash received and expended during the year, with certain exceptions, is recorded in the financial records. Using this basis of accounting can cause fluctuations in financial results when making comparisons of information from year to year mostly because recurring expenditures may not always be consistently recorded in the same accounting periods.

The cash or modified cash method of accounting is used by many small town governments in Wisconsin. Larger towns, villages and cities generally use the modified accrual basis of accounting. Under this basis, revenues are generally recorded when they are earned, regardless of when actually received and expenditures are generally recorded when incurred, regardless of when they are paid.

Because of the size of the Town's budget and complexity of operations, we recommend that the Town consider changing its accounting method to the modified accrual basis. The major difference in Town procedures would be identifying January 1 payables and recording them as expenditures in the prior year. In addition, for the Town's government-wide financial statements, the Town will need to develop capital asset records, as noted in the following comment.

Management's Response: The Clerk will switch to a modified accrual accounting method for future years.

OTHER COMMENTS AND OBSERVATIONS (Continued)

4. Development of Capital Asset Records

Currently, the government-wide statement of net position does not report the cost of capital assets owned by the Town, as well as, the long-term debt and other obligations of the Town. Capital assets consist of Town owned land, buildings, vehicles, equipment and infrastructure. Generally accepted accounting principles for government units prescribe the method of determining and reporting capital assets. Capital assets purchased are recorded as expenditures in the Town's governmental funds at the time of purchase.

In order to develop formal records for its capital assets, the Town would have to do the following:

- Compile a physical inventory of all Town owned land, buildings, equipment and roads and bridges.
- Determine historical cost of assets inventoried. If historical costs are not available, the best available estimates should be used. Roads and bridges acquired or constructed prior to 2004 are not required to be included.
- Records would have to be developed detailing each item, including information such as cost, basis for determining cost, acquisition date, method of acquisition and location of assets.

Presenting capital assets on the government-wide financial statements of the Town would improve the internal control over Town capital assets and would also more accurately present the Town's financial condition on a long-term basis of accounting. Our review of existing lists of vehicles and other records maintained for insurance indicated that the Town has a good start on identifying the majority of Town assets.

Management's Response: The Clerk and assistant will develop an inventory of the Town's assets, arrive at the best estimate of original cost and develop a spreadsheet to track this.

5. Consider Developing a Fund Balance Policy

We are aware of many municipalities that have developed a "Fund Balance" policy to use as a guide in applying excess funds on hand to a subsequent years' budget to reduce the required tax levy. Municipal debt rating companies and debt consultants recommend that municipalities adopt such policies to improve the financial management of their government. They believe that a policy can provide stability and consistency through change and turnover of elected officials.

Most adopted policies that we have seen use a percent of total or budgeted general fund expenditures as a parameter to maintain unassigned general fund balance. For example, a policy may state that "...an unassigned general fund balance of not less than 15% of the Town's budgeted general fund expenditures shall be maintained to provide for cash flow requirements and for unforeseen emergency expenditures. Unassigned general funds on hand in excess of 20% may be applied to reduce the Town's future tax levy."

Accordingly, we recommend the Town consider adopting a "Fund Balance" policy.

Management's Response: The Clerk and Treasurer will recommend to the Finance Committee that a fund balance policy be established. This recommendation will come from the suggestions of the Schenck report at the next finance meeting.