

**MANAGEMENT COMMUNICATIONS**  
**CITY OF LAKE GENEVA, WISCONSIN**  
**DECEMBER 31, 2013**

**CITY OF LAKE GENEVA, WISCONSIN**  
December 31, 2013

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To the Honorable Mayor and Common Council  
City of Lake Geneva, Wisconsin

We have completed our audit of the basic financial statements of the City of Lake Geneva, Wisconsin (the "City") as of and for the year ended December 31, 2013. The City's financial statements, including our report thereon dated July 28, 2014, 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 City'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 City'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 City'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 City as of and for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the City'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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control. Our report on internal control over financial reporting and on compliance and other matters is presented on pages 60 - 61 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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the City's internal control to be significant deficiencies:

- Finding 2013-001 Segregation of Duties
- Finding 2013-002 Preparation of Annual Financial Report

These findings are described in detail in the schedule of findings and responses on pages 62 - 63 of the annual report.

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City 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 2013. We noted no significant transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. To the best of our knowledge, all significant transactions have been recognized in the financial statements in the proper period.

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 the other post employment benefits is based on an actuarial report. We evaluated the key factors and assumptions used to develop the other post employment benefits in determining that it is reasonable in relation to the financial statements taken as a whole.

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 depreciable life 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. 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. 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 28, 2014. 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 City'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, to the best of our knowledge, our responses were not a condition to our retention.

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 comments and observations section of this report.

This communication, which does not affect our report dated July 28, 2014 on the financial statements of the City, is intended solely for the information and use of the Common Council, management, and others within the City, 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 28, 2014

## SUMMARY FINANCIAL INFORMATION

### City Governmental Fund Balances

Presented below is a summary of the various City governmental fund balances on December 31, 2013, including a comparison to the prior year. This information is provided for assisting management in assessing financial results for 2013 and for indicating financial resources available at the start of the 2014 budget year.

	2013	2012
General Fund		
Nonspendable		
Delinquent taxes	\$ 5,005	\$ 7,712
Prepaid items	150,540	140,709
Assigned	360,114	1,070,650
Unassigned	2,206,098	2,250,087
Total General Fund	<u>2,721,757</u>	<u>3,469,158</u>
Special Revenue Funds		
Parking meters and lots		
Assigned	675,000	600,000
Lakefront operations		
Assigned	684,856	706,600
Public Library		
Restricted for library	439,471	290,170
Cemetery operations		
Assigned	75,553	64,576
Total Special Revenue Funds	<u>1,874,880</u>	<u>1,661,346</u>
Debt Service Funds		
Restricted for debt service	<u>2,829</u>	<u>2,829</u>
Capital Projects Funds		
Capital improvements		
Assigned for capital improvements	<u>195,258</u>	<u>820,212</u>
Tax incremental financing district no. 4		
Restricted for district plan expenditures	<u>6,948,971</u>	<u>6,065,896</u>
Equipment Replacement		
Committed for equipment purchases	<u>715,000</u>	<u>-</u>
Impact fees		
Restricted for impact fees	232,615	194,532
Assigned for impact fees	26,618	46,113
Total	<u>259,233</u>	<u>240,645</u>
Total Capital Projects Funds	<u>8,118,462</u>	<u>7,126,753</u>
Permanent Funds		
Cemetery perpetual care		
Nonspendable - Cemetery care	<u>503,619</u>	<u>434,016</u>
Swanson Library Endowment		
Nonspendable - Library endowment	110,184	97,615
Spendable - Library operations	2,317	-
Total Swanson Library Endowment	<u>112,501</u>	<u>97,615</u>
Total Permanent Funds	<u>616,120</u>	<u>531,631</u>
Totals	<u>\$ 13,334,048</u>	<u>\$ 12,791,717</u>

**City Governmental Fund Balances (Continued)**

**General Fund**

The City's general fund decreased \$747,401, as the City transferred \$715,000 previously reported as assigned general fund balance to an equipment replacement capital projects fund and committed these funds for future equipment needs of the City.

The City's general fund decreased due to health insurance costs which exceeded budget by \$341,064 which offset additional revenues. Detailed comparison of the City's general fund revenues and expenditures to budget can be found on pages 52 – 55 in the City's annual financial report.

The City's assigned and unassigned general fund balance represents approximately 32% of the total 2013 budgeted general fund expenditures. In 2006, the City Council adopted a minimum fund balance policy whereas the unassigned fund balance is equivalent to three months of expenditures of general fund. This amount is to be maintained for cash flow and working capital purposes. The minimum fund balance amount is calculated as follows:

Actual 2013 general fund expenditures	\$	8,168,517
Minimum fund balance %		25%
Minimum fund balance amount	\$	<u>2,042,129</u>

The City's unassigned fund balance of \$2,206,098 meets the minimum fund balance amount.

**Equipment Replacement Capital Projects Fund**

Resolution 13-R68 created an Equipment Replacement Fund by transferring \$715,000 of assigned general fund balance to this fund and committing the use of these resources for future equipment needs of the City. No amounts were spent during 2013.

**Swanson Library Endowment**

In 2000, the City received a gift which required the principal and future capital gains to be retained in perpetuity while income was available to purchase materials for the Swanson Center. Because balances are to be maintained in perpetuity, the City transferred the investments related to this endowment from the Library fund to a separate permanent fund.

## COMMENTS AND OBSERVATIONS

### 1. Prior Year Comment - Monthly Reconciliations

In our prior year management letter, we discussed that certain transactions occur in various City departments which are decentralized. Because segregation of duties is often not possible, we recommended the City's finance department periodically review financial information and reconciliations of department reports to the general ledger accounts to strengthen current internal controls for the following items:

- Permits
- Licenses
- Municipal Court Fines and Fees
- Library Fines and Fees
- EMS Billings

While we believe a periodic review might be beneficial, the size of the City's administrative staff makes it difficult to allocate sufficient time for these reviews during the year. As a result, we annually review department controls as part of our audit and recommend enhancements to existing procedures. For example, the library was able to generate a report from its library system to compare receipt codes which, in our opinion, improved controls over collections.

Often, formal policies or procedures do not exist within the City. Accordingly, we recommend the City begin developing a formal policies and procedures manual, which would incur both transactions at the department level but also centralized processes. This manual would assist the City in employee transitions and establish a clear expectation of proper procedures. In addition, documenting policies and procedures might create opportunities within the City to identify areas where procedures could be strengthened or involve additional employees in the process.

### 2. Controls over EMS Billings

As part of our audit, we selected a sample of incidents to review the City's controls over ambulance billings. City personnel are responsible for entering data into Image Trend and marking the incident available to bill while a third party biller actually is responsible to prepare the billing.

Our review noted the following items:

- Amounts billed were not consistent with data available in Image Trend. For example, one patient was not billed for oxygen when they appeared to receive based on the data entered while another patient's bill was adjusted to agree to insurance payment received. We also noted a few instances where the general supplies charge was not billed.
- On the date of our testing, December 13, 2013, City personnel assisted us with generating a report of open incidents and we noted a number related to September.
- Detailed reports from the third party biller are not obtained or reviewed timely to ensure amounts billed represent services provided.

We recommend the City implement a review process to compare billing detail from the third party biller to services provided Image Trend to ensure the accuracy of the billings issued by the City. When rates for services are changed, an additional review should be considered to ensure the rate changes were properly inputted. Finally, a periodic review of open incidents should be considered to ensure billable services are marked as available for billing by the third party biller.

July 28, 2014

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

This representation letter is provided in connection with your audit of the financial statements of the City of Lake Geneva, Wisconsin, (the "City"), which comprise the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information as of December 31, 2013, and the respective changes in the financial position and where applicable, cash flows for the year then ended, and the related notes to the financial statements for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

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 July 28, 2014, 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 October 29, 2013, including our responsibility for the preparation and fair presentation of the financial statements and for preparation of the supplementary information in accordance with the applicable criteria.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
3. In regards to accounting estimates:
  - The measurement processes used by management in determining accounting estimates is appropriate and consistent.
  - The assumptions appropriately reflect management's intent and ability to carry out specific courses of action.
  - The disclosures related to accounting estimates are complete and appropriate.

- No subsequent event has occurred that would require adjustment to the accounting estimates or disclosures included in the financial statements.
4. 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.
  5. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
  6. Significant assumptions we used in making accounting estimates are reasonable.
  7. 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 U.S. GAAP.
  8. All events subsequent to the date of the financial statements and for which U.S. GAAP 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.
  9. We are in agreement with the adjusting journal entries you have proposed, and they have been posted to the City's accounts.
  10. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
  11. Guarantees, whether written or oral, under which the City is contingently liable, if any, have been properly recorded or disclosed.

**Information Provided**

12. 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 City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
13. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

14. We 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 City's financial statements communicated by employees, former employees, regulators, or others.
15. 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.
16. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
17. We have disclosed to you the identity of the City's related parties and all the related party relationships and transactions of which we are aware.

**Government - specific**

18. We have made available to you all financial records and related data.
19. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
20. We have a process to track the status of audit findings and recommendations.
21. 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.
22. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
23. The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, deferred inflows/outflows of resources, or equity.
24. 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.
25. 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.

26. 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 assumed all management responsibilities. We have reviewed, approved, and accepted responsibility for those financial statements and related notes and the state financial report.
27. In regards 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.
28. The City 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.
29. The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
30. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
31. 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.
32. The financial statements properly classify all funds and activities.
33. 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.
34. 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.
35. Provisions for uncollectible receivables have been properly identified and recorded.
36. 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.
37. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, or contributions to permanent fund principal.
38. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
39. Deposits and investment securities and derivative transactions are properly classified as to risk and are properly disclosed.
40. Investments, derivative instruments, and land and other real estate held by endowments are properly valued.

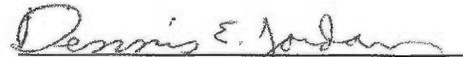
41. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
42. Joint ventures, jointly governed organizations, and other related organizations have been properly disclosed in the financial statements.
43. We have appropriately disclosed the City'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 is available and have determined that net position were properly recognized under the policy.
44. 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.
45. We acknowledge our responsibility for presenting the nonmajor fund combining statements, individual fund statements, and supporting schedules (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.
46. We agree with the findings of specialists in evaluating the other post employment benefits, pension benefits and 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 the 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
47. 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 City's name" during the period significantly exceeded the amounts in those categories as of the balance sheet was properly disclosed in the financial statements.
48. Arrangements with financial institutions involving repurchase, reverse repurchase, or securities lending agreements, compensating balances, or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements, have been properly recorded or disclosed in the financial statements.
49. 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.
50. 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.

51. Capital assets have been evaluated for impairment as a result of significant and unexpected decline in service utility.
52. We believe that the actuarial assumptions and methods used to measure pension and OPEB liabilities and costs for financial accounting purposes are appropriate in the circumstances.
53. We do not plan to make frequent amendments to our pension or other post-retirement benefit plans.
54. Expenditures of federal awards were below the \$500,000 threshold in the year ended December 31, 2013, and we were not required to have an audit in accordance with *OMB Circular A-133*.
55. 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:

  
Peg Pollitt, City Comptroller

Signed:

  
Dennis Jordan, City Administrator