

To the Village Board
Village of Edgar
Edgar, Wisconsin

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Edgar (Village) as of and for the year ended December 31, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you as well as verbally during our meetings. Professional standards also require that we communicate to you the following information related to the audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit included examining on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Any internal control related matters that are required to be communicated under professional standards are included later in this letter.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the schedules of proportionate share of the net pension liability (asset) and employer contributions and schedule of budgetary comparison which supplement the basic financial statements, was to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures did not provide us with sufficient evidence to express an opinion or provide any assurance, we did not express an opinion or provide any assurance on the RSI.

We were engaged to report on the schedule of operating revenues and expenses - water and sewer utility, which accompanies the financial statements but is not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

The budgetary information included as supplementary information was not subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we did not express an opinion or provided assurance on it.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Village of Edgar are described in Note 1 to the financial statements. The Village adopted the provisions GASB statement No. 84, *Fiduciary Activities* as stated in Note 1 of the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. 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 estimate affecting the financial statements was:

Management's estimate of the useful lives of the capital assets is based on industry standards. We evaluated the key factors and assumptions used to develop the estimated useful lives in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net pension liability is based on an actuarially determined amount. We evaluated the key factors and assumptions used to develop the net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statement was:

The disclosure of deposits and investments and the related risks associated with them in Note 2 to the financial statements. The footnote was prepared based on the requirements of the Governmental Accounting Standards Board and is intended to inform readers as to the risk associated with the Village's cash and investments.

The disclosure of net pension liability and the related risk associated with it in Note 8 to the financial statements. The footnote was prepared based on the requirements of the Governmental Accounting Standards Board and is intended to inform readers as to the risk associated with the Village's net pension liability.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no 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 misstatements detected as a result of audit procedures and corrected by management were material, individually and in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter, dated July 23, 2020. A copy of the letter is attached for your information.

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 governmental unit'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 retention as the Village's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Village as of and for the year ended December 31, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Village's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

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 *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.

A *material weakness*, is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in the Village of Edgar's internal control to be material weaknesses.

Segregation of Duties - The Village has a limited number of people who are responsible for and perform substantially all of the bookkeeping and accounting functions. Good internal control requires a complete separation of duties with respect to the handling and recording of transactions. In order to provide for an adequate segregation of duties, additional personnel may have to be involved in the performance of the accounting and bookkeeping functions. We recognize that this may not be practicable based on the size of the Village and limited resources. This is not unusual for entities your size, but we are required to inform you that this condition exists. Because some procedural controls do not exist, the board has compensating controls such as approval of invoices and review of receipts and revenues which allow it to rely heavily on its knowledge of the Village's operations in order to safeguard assets.

Financial Reporting - One of the components of internal control over financial reporting is that staff of the Village be sufficiently knowledgeable to record the entity's financial transactions in accordance with generally accepted accounting principles (GAAP) and to prepare the entity's financial statements including the footnotes in accordance with those principles. The Village's staff does not have the training in GAAP to prepare financial statements including the related notes in accordance with GAAP. The Village's management does review the financial statements and footnotes and accepts responsibility for them. This matter is common in most small organizations since they do not have the resources to devote to this area of internal control.

Material Account Adjustments - During the performance of various audit procedures, we identified and proposed adjustments (which were approved and posted by management) that were material, either individually or in the aggregate, to the Village's financial statements. The Village's internal controls did not detect and correct these misstatements prior to the performance of the audit. We recommend that procedures be implemented to record these entries or ask that personnel contact our office for additional assistance prior to the audit.

Other Matters

In addition, we felt the other matters described in the following paragraphs were important to the operations of the Village. These matters may involve internal controls, general operations, recommendations for the adoption of policies and other such items that we feel will enhance the Village of Edgar.

Current Year Observation

Water Loss

The Public Service Commission monitors the water loss as a percentage of net water supplied. The Utility's percentage has been 30%, 34% and 20% for the years ended December 31, 2019, 2018, and 2017, respectively. We recommend that the Utility review the resources available through the American Water Works Association at <https://www.awwa.org/Resources-Tools/Resources/Water-Loss-Control>. About half way down the webpage there is a link to "Free Water Audit Software" that may be of assistance in determining areas for improved efficiency and cost recovery.

Water Rate Increase

Per Schedule F-23 of the 2019 PSC report, the Village's rate of return is 2.81%. However, the Public Service Commission approved a rate of return of 5.9% on October 2, 2015. The Village should consider raising its water rates to align the water utility's rate of return with the rate approved by the PSC.

Closing

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestion with various governmental unit personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We thank you for allowing us to be of service to the Village of Edgar. We received complete cooperation and appreciate your consideration of our comments and your implementation of suggestions.

This information in intended solely for the use by the Village Board, management, and others within the Village and is not intended to be and should not be used by anyone other than these specified parties.

KerberRose SC

KerberRose SC
Shawano, Wisconsin
Certified Public Accountants
July 23, 2020