

FOTHERGILL SEGALE & VALLEY

Certified Public Accountants



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January 14, 2013

To the Selectboard and Management
Town of East Montpelier
East Montpelier, Vermont

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of East Montpelier as of and for the year ended June 30, 2012 and have issued our report thereon dated January 14, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 15, 2012. Professional standards also require that we communicate to you the following information related to our audit.

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 Town of East Montpelier are described in Note 1 to the financial statements. The Town elected to switch from the cash basis of accounting to the accrual basis of accounting for fiscal year 2012. 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 Town of East Montpelier's financial statements was:

- Management's estimate of the depreciation is based on estimated useful lives of the assets. We evaluated the key factors and assumptions used and determined that the estimate used is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent and clear.

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. There were three uncorrected misstatements of the financial statements related to accrued vacation, accrued interest and the reporting of capital asset trade-ins. Management has determined, and we agree, that the effects of not recording the adjustments are immaterial, both individually and in the aggregate, to the financial statements as a whole.

We proposed thirteen material adjustments to your financial statements which were accepted and recorded by management. The material adjustments were mostly related to recording the final receivable and payables, as needed, to reflect the statements based on the accrual basis of accounting. Other adjustments were related to the following:

- To remove the educational tax revenue and tax payment from the Town's books since the Town is an agent in collecting and sending this money to the School; it is not revenue or expenditures of the Town.
- To remove the short term financing activity from revenue and expenses. This is a short term cash flow borrowing and is not required to be reflected as revenue and expenditures.
- Other entries to correct beginning fund balances, fund transfer activity, and long term debt balance corrections.

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 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 dated January 14, 2013.

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

The following are other recommendations and observations developed during the audit. We do not consider the following items significant deficiencies or material weaknesses.

The Town currently maintains separate cash accounts for various special revenue funds established by the Town. There were approximately 25 different cash accounts held by the Town at June 30, 2012. The accounting software the Town currently uses will track the cash held for each separate fund without having to maintain a different bank account for each fund. The cash funds of the Town could be managed as one pot of money, except for a few that are required to be kept separate, with the accounting system tracking how much of those funds are reserved for what purpose. This would eliminate the reconciling and tracking of 25 different bank cash accounts and could also provide increased investment options. We realize that management is in the process of looking into the options available to combine the various cash accounts. We suggest that management continue this process and eliminate multiple cash accounts, as allowed.

Supplementary Information

With respect to the supplementary information accompanying the financial statements, 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.

This information is intended solely for the use of the Select Board and management of the Town of East Montpelier and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Fothergill Segale & Valley, CPAs

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