

FOTHERGILL SEGALE & VALLEY

Certified Public Accountants



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December 21, 2010

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

We have audited the modified cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Town of East Montpelier as of and for the year ended June 30, 2010 and have issued our report thereon dated December 21, 2010. 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 May 12, 2010. 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 Town of East Montpelier are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. 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.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit. Although there were some challenges in obtaining audit information during the audit fieldwork days due to the unexpected daily departure of the Town's Treasurer as a result of an allergic reaction requiring the Treasurer to leave the office. We were very pleased with the efforts by the other office personnel, the road foreman, and a Board member in their willingness to help and step up to the plate in getting us the information needed in order to continue with the audit process.

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 no uncorrected misstatements of the financial statements.

We proposed thirteen adjustments to your financial statements which were accepted and recorded by management. The material 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 were to correct mispostings relating to revenue reporting, fund transfer activity, classification issues, 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 December 21, 2010.

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.

In our report related to internal controls required by *Governmental Auditing Standards* we reported significant deficiencies and material weaknesses to management. The details of the issues and management's responses are also included to these reports.

The following are other recommendations and observations developed during the audit.

In the past we have recommended consolidating the various cash accounts held at the banks. In order to do this, you would utilize the accounting software to track the various funds versus separate cash accounts. Some of the entries we proposed during the audit were to correct some interfund activities. It is important that the Town's financial personnel have a clear understanding on how this works in the accounting software before the consolidation of these cash accounts are considered. We recommend that training and/or consulting be provided to the Town's financial personnel to understand the concept of interfund tracking within the accounting software.

During the audit we requested to view various invoices. Due to the multiple ways invoices are filed, some invoices were difficult to locate. Some invoices were filed by project, some by vendor, some by activity type, etc. We recommend that invoices be consistently filed so that they can easily be located. We also recommend using the various reports and information available in the accounting system to track cost versus trying to track cost by copies of invoices.

We also noted that copies of check stubs and invoices were made when more than one invoice was paid for two different purposes (ie: cemetery supplies and office supplies) and each were filed in different locations. Copying invoices and check stubs increases internal control risk and confusion regarding the support of what was paid. We recommend check stubs not be copied and that all original invoices be attached to the original check stub.

New Accounting Standard

Starting in fiscal year 2011, the Town will be required to adhere to GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This new GASB establishes new fund balance classifications for governmental fund types and clarifies the definitions of the governmental fund types. You will have to present your fund balances in the following components:

- Nonspendable
- Restricted
- Committed
- Assigned
- Unassigned

We would like the Town to become familiar with this new GASB and be able to implement the new components effective July 1, 2010.

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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