

FOTHERGILL SEGALE & VALLEY

Certified Public Accountants



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January 16, 2012

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, 2011 and have issued our report thereon dated January 16, 2012. 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 April 20, 2011. 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. GASB 54 "Fund Balance Reporting and Governmental Fund Type Definitions" was adopted during the year and the applications of existing policies were 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.

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 twenty six adjustments to your financial statements which were accepted and recorded by management. The material adjustments were related to the below noted items.

The following entries are ones that we have had to consistently correct in the past, as well as this year. We suggest procedures be implemented so that these are addressed during the year.

- 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.

Other entries were as follows:

- Reversal of bank transfers ordered after June 30, 2011 but posted as of June 30, 2011.
- Reclassification of various revenue reimbursement activities.
- Recording of some June 2011 bank activity not posted in the accounting system.

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 16, 2012.

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 included in those reports.

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 account for various special revenue funds established by the Town. There were approximately 25 different cash accounts held by the Town at June 30, 2011. The accounting software the Town currently uses will track the cash held for each special revenue fund without having to maintain a different bank cash account for each fund. The cash funds of the Town could be managed as one pot of money with the accounting system tracking how much of those funds are reserved for what purpose. We suggest that management look into the options available to combine the various cash accounts. This would eliminate the reconciling and tracking of 25 different bank cash accounts and could also provide increased investment options. That being said, it is very important that the Town's Treasurer have a clear understanding on how this works in the accounting software before the consolidation of these cash accounts are done. Some of the audit entries we proposed were to correct some interfund activities. We also recommend that training and/or consulting be provided to the Town's Treasurer 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.

There are various special revenue funds that have a separate accounting "fund" in the accounting program but details of the revenue and expenses are not broken down in the fund. We suggest that more detailed revenue and expense categories be set up in each of the "funds". Example: Instead of "revenues for capital reserve", break down the revenue into "interest income", "transfers from general fund", etc. Instead of "expenses for cemetery", break down the expenses into "payroll expense", "supplies", etc. The system will automatically total the separate revenue and expenses categories. This will provide more useful information to Management and the Town's internal auditors.

Currently, the Town's financial statements are presented on the modified cash basis of accounting. Generally, financial statements of Towns are presented using the modified accrual basis of accounting. The modified cash basis of accounting reflects revenue when received and expenditures when paid. The modified accrual basis reflects revenues when earned and expenditures when incurred, with a few exceptions. The modified accrual basis will better match up the expenditures in the year they occur or when services are received along with the related revenue earned. An example of this in fiscal year 2011 that occurred is relating to the Town's insurances. There are four annual quarterly payments made for insurances. Because of the timing of when the payments were made (cash basis), only three payments are reflected in your expenditures for fiscal year 2011 versus four payments. Under the accrual basis of accounting, the fourth payment would have been reflected as a payable at the end of the year and the expenditures would have better reflected what the actual cost for insurance was in fiscal year 2011. We recommend the Board analyze the cost/benefit of the Town converting the financial reporting to the modified accrual basis of accounting.

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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