



Report to Governance
Town of Paonia, Colorado

For the Year Ended December 31, 2015





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Town of Paonia, Colorado

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Town of Paonia, Colorado

The Honorable Mayor and Board of Trustees
Town of Paonia, Colorado

We are pleased to have the opportunity to present to you the results of our audit engagement of the Town of Paonia, Colorado (the Town), for the year ended December 31, 2015. The accompanying report presents information regarding the scope of our audit and other matters, which summarizes the results of our audit engagement.

We have audited the financial statements of the Town. Our audit was performed in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement and presented in accordance with accounting principles generally accepted in the United States of America. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. We also assessed the accounting principles used by the Town and the significant estimates made by the Town's management, as well as evaluated the overall financial statement presentation.

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

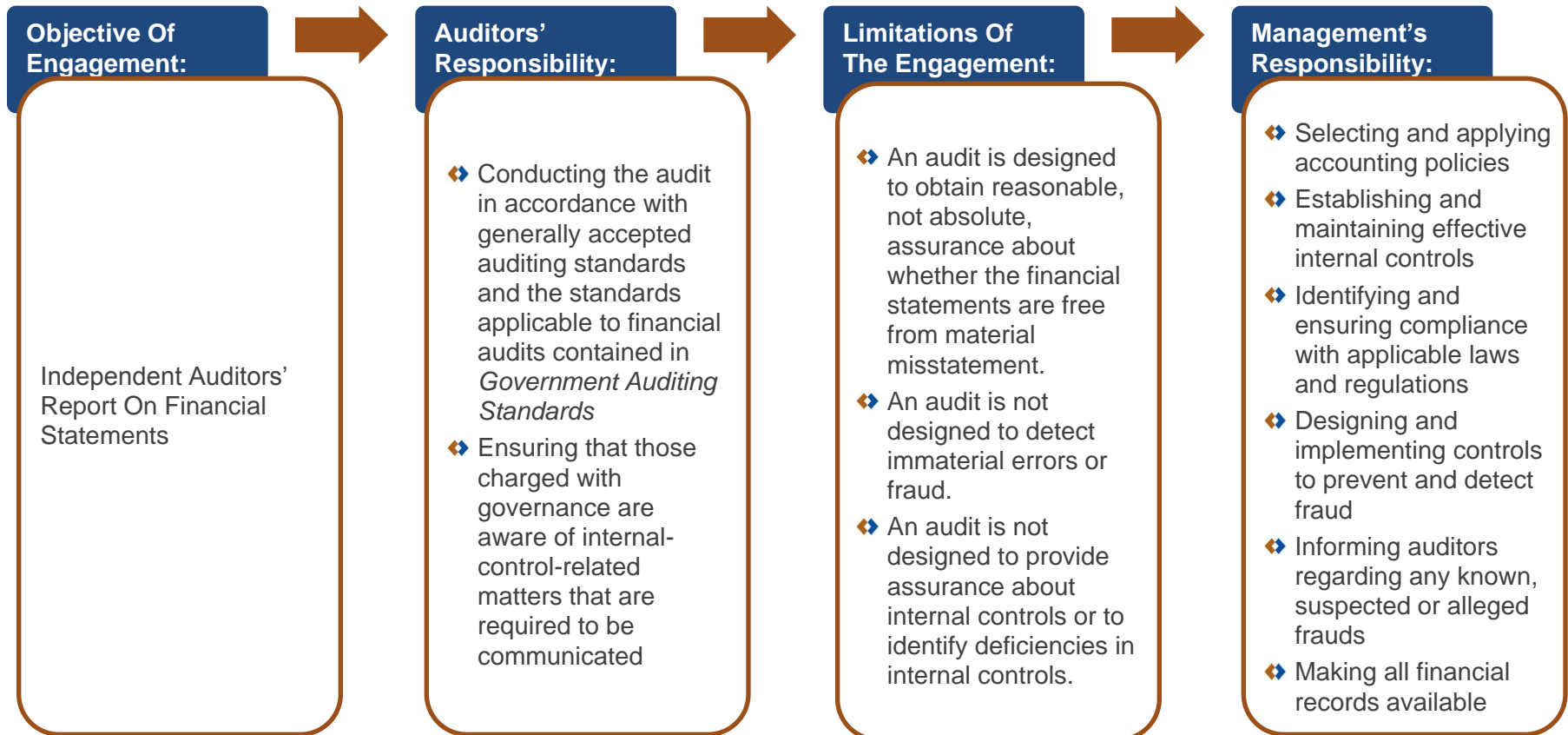


Engagement Team

Town of Paonia, Colorado

ENGAGEMENT MEMBER	ROLE	TELEPHONE	EMAIL
Russell White	Engagement Partner	303.952.1247	russell.white@rubinbrown.com
Matthew Torrez	Auditor	303.952.1203	matthew.torrez@rubinbrown.com

KEY PARTNERS	ROLE	TELEPHONE	EMAIL
Rodney Rice	Partner-In-Charge, Denver Assurance Services	303.952.1233	rodney.rice@rubinbrown.com
Michael T. Lewis	Managing Partner	303.952.1213	michael.lewis@rubinbrown.com





AREA	COMMENTS
<p>Our Responsibility Under U.S. Generally Accepted Auditing Standards, <i>Government Auditing Standards</i> And Uniform Guidance</p> <p>Our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your assistance are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and whether the Town complied, in all material respects, with the applicable compliance requirements of its major federal programs. Our audit of the financial statements and compliance does not relieve you or management of responsibility for the accuracy of the financial statements and/or compliance with applicable requirements.</p> <p>Professional standards also require that we obtain a significant understanding of the Town’s internal control to plan the audit. However, such understanding is required for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. Accordingly, we express no such assurance.</p>	<p>Reports issued by RubinBrown:</p> <ul style="list-style-type: none"> ◆ Unmodified report on the Town’s financial statements based upon an audit of the financial statements in accordance with auditing standards generally accepted in the United States of America and <i>Government Auditing Standards</i>, issued by the Comptroller General of the United States ◆ A report on the Town’s internal control over financial reporting and compliance and other matters based upon an audit of the financial statements in accordance with <i>Government Auditing Standards</i> ◆ Unmodified report on the Town’s compliance for each major federal program and a report on internal control over compliance and report on the schedule of expenditures of federal awards in accordance with the Uniform Guidance



Auditor Communications (Continued)

Town of Paonia, Colorado

AREA	COMMENTS
Other Information In Documents Containing Audited Financial Statements	None
Planned Scope And Timing Of The Audit	We performed the audit according to the planned scope and timing communicated in our letter dated March 16, 2015.
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.	<ul style="list-style-type: none"> ◆ Significant accounting policies are described in Note 2. ◆ No new accounting policies were adopted, and the application of existing policies was not changed, except for the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68, <i>Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27</i>, and GASB Statement No. 71, <i>Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68</i>. ◆ We noted no transactions entered into during the year for which there was a lack of authoritative guidance or consensus. ◆ No significant transactions have been recognized in a different period than when the transactions occurred.

AREA	COMMENTS
<p>Management Judgments And Accounting Estimates The preparation of the financial statements requires the use of accounting estimates. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management’s expectations.</p>	<p>The most sensitive estimates affecting the financial statements are:</p> <ul style="list-style-type: none"> ◆ Depreciation expense is based upon management’s estimated useful lives of capital assets. We evaluated the key factors and assumptions used to develop the depreciable lives used to calculate depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.
<p>Financial Statement Disclosures</p>	<p>The disclosures are neutral, consistent and clear. The following disclosures are particularly sensitive because of their significance to the financial statement users:</p> <ul style="list-style-type: none"> ◆ Note 6 - Long-term Liabilities ◆ Note 7 - Lease Agreements ◆ Note 8 - Employee Benefit Plans



Auditor Communications (Continued)

Town of Paonia, Colorado

AREA	COMMENTS
Difficulties Encountered In Performing The Audit	We are pleased to report to the Board and to management that we encountered nothing that obstructed the timely completion of the audit.
Corrected And Uncorrected Misstatements	We have attached a listing of the corrected misstatements which also includes journal entries prepared by the Town. We have also attached reclassifying journal entries. See the attached Adjusting Journal Entries and Reclassifying Journal Entries Reports.
Disagreements With Management	None
Management Representations	Management representation letter dated July 19, 2016, which is attached.
Management Consultations With Other Independent Accountants	None
Other Audit Findings Or Issues	There were no matters of significant discussion that affected our retention as the Town's auditors.



Auditor Communications (Continued)

Town of Paonia, Colorado

AREA	COMMENTS
Other Matters	With respect to the supplementary information (other budgetary comparison information and schedule of expenditures of federal awards) 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 U.S. generally accepted accounting principles, the methods of preparing it have 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.

Town of Paonia, Colorado

In planning and performing our audit of the financial statements in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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 material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies 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 Town's financial statements will not be prevented, or detected and corrected, 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.

We consider the following deficiencies in internal control collectively to be significant deficiencies:

- ❖ We noted in the current year that governmental capital assets were misstated, specifically due to the omission of the Samuel Way Road Bridge. RubinBrown adjusted the financials to include the bridge for the current year. RubinBrown also adjusted for current year activity relating to disposals and additions during the year and adjusted to include the capital lease for police vehicles.

We recommend the Town account for all capital additions/dispositions in the accounting software to enable a full presentation for the government-wide financial statement required by GASB 34.

- ❖ The Town had material federal funding, which required a Single Audit. The Town did not report the appropriate federal share percentage of the Colorado Water Resources & Power Development Authority, due to the granting agency changing the federal share percentage during the year. In addition, one of the grant reimbursements was not included in the Schedule of Expenditures of Federal Awards (SEFA).

We recommend an individual who is independent of the administrative function of the grant programs review the SEFA for completeness and accuracy.

We consider the following to be value-added suggestions to enhance the Town's financial reporting process:

- ◆ We recommend determining IRS compliance by cross-referencing all vendors and contractors hired by the Town and determining that a corresponding Form 1099 was filed. We also recommend determining IRS compliance by identifying any possible fringe benefits that may exist and determining that the proper values were included in that individual's taxable income. A formalized review process should be considered to mitigate any risk of noncompliance.



Status Of Prior-Year Observations And Suggestions

Town of Paonia, Colorado

PRIOR-YEAR INTERNAL CONTROL OBSERVATIONS DETERMINED TO BE A MATERIAL WEAKNESS	STATUS
<p>Approved Pay Rates Could Not Be Substantiated In The Prior-Period Audit</p> <p>During our prior-year audit, we noted that employees' pay rates should have had approved support signed by the employee and management within the personnel file. We recommended managerial review of all pay rates in effect and determine if sufficient supporting documentation existed as support.</p>	<p>We noted that the process of implementing this item was underway in 2015. For the current-year audit, we were able to reconcile payroll related expenses to the underlying support we received.</p>
<p>Tracking Fringe Benefits That Should Be Included In Employee's Taxable Income</p> <p>In the prior-period audit, we observed several fringe benefits received by certain Town employees that went unreported on the W-2 forms.</p>	<p>We noted that this control was being implemented in the year 2015. For the current-year audit, we observed no fringe benefits that went unreported on the W-2 forms.</p>



Status Of Prior-Year Observations And Suggestions (*Continued*)

Town of Paonia, Colorado

PRIOR-YEAR INTERNAL CONTROL OBSERVATIONS DETERMINED TO BE A MATERIAL WEAKNESS	STATUS
<p>Compensated Absence Calculation Contained Balances Over The Policy Limit</p> <p>During the prior-period audit, we noted that the compensated absence calculation exceeded the Town policy. RubinBrown recommended that these balances be paid out on the first payroll following year end. This would prevent an undue financial liability being incurred by the Town.</p>	<p>During the 2015 year-end audit, we observed that this item was corrected and obtained a journal entry prepared by the Town to book a reasonable year-end liability for compensated absences in accordance with the current Town policy.</p>
<p>Town Should Review Eligibility Requirements for Policemen Who Participate in FPPA</p> <p>This recommendation was made because we observed policemen participating in both Fire & Police Pension Association of Colorado and the Town's retirement programs. This was identified as a potential violation in Colorado State Statute.</p>	<p>It was noted during the 2015 fiscal year-end audit that the Town engaged legal counsel to review the eligibility requirements to determine if any Colorado State Statutes were violated.</p>



Status Of Prior-Year Observations And Suggestions (*Continued*)

Town of Paonia, Colorado

PRIOR-YEAR INTERNAL CONTROL OBSERVATIONS DETERMINED TO BE A MATERIAL WEAKNESS	STATUS
<p>Segregation Of Duties Due to the small size of the Town, there are inherent segregation-of-duties limitations. We noted that individuals responsible for handling cash receipts were also responsible for maintaining the cash receipts journal.</p>	<p>The Town has implemented compensating controls to help mitigate risks associated with segregation of duties, such as review and approval of bank reconciliations, cash transfers, payroll, invoices and disbursements.</p>
<p>Access To Information Technology During our audit, we noted that the three terminals present have unrestricted access to records for any person using those terminals.</p>	<p>During the 2015 financial statement audit, we observed that the Town implemented technology access controls and software upgrades.</p>



Status Of Prior-Year Observations And Suggestions (*Continued*)

Town of Paonia, Colorado

PRIOR-YEAR INTERNAL CONTROL OBSERVATIONS DETERMINED TO BE A SIGNIFICANT DEFICIENCY	STATUS
<p>No Town-Approved Vendor Listing During our prior-year audit, we noted there is no official listing of approved vendors. By having an approved list of vendors, the Town could determine if any disbursements were being made to ghost vendors or unapproved vendors.</p>	<p>During the 2015 financial statement audit, we observed that the Town has obtained sample policies and conflict of interest forms as a mitigating control.</p>
<p>Inventory Safekeeping And Monitoring During the prior-period audit, we noted that not all inventory warehouses are locked, and there are multiple keys in circulation, which could result in the misappropriation of assets.</p>	<p>During the 2015 financial statement audit, we performed an inquiry with the Public Works Director and was told that a software upgrade, which would aid in inventory tracking, would be officially implemented in 2016.</p>



Status Of Prior-Year Observations And Suggestions *(Continued)*

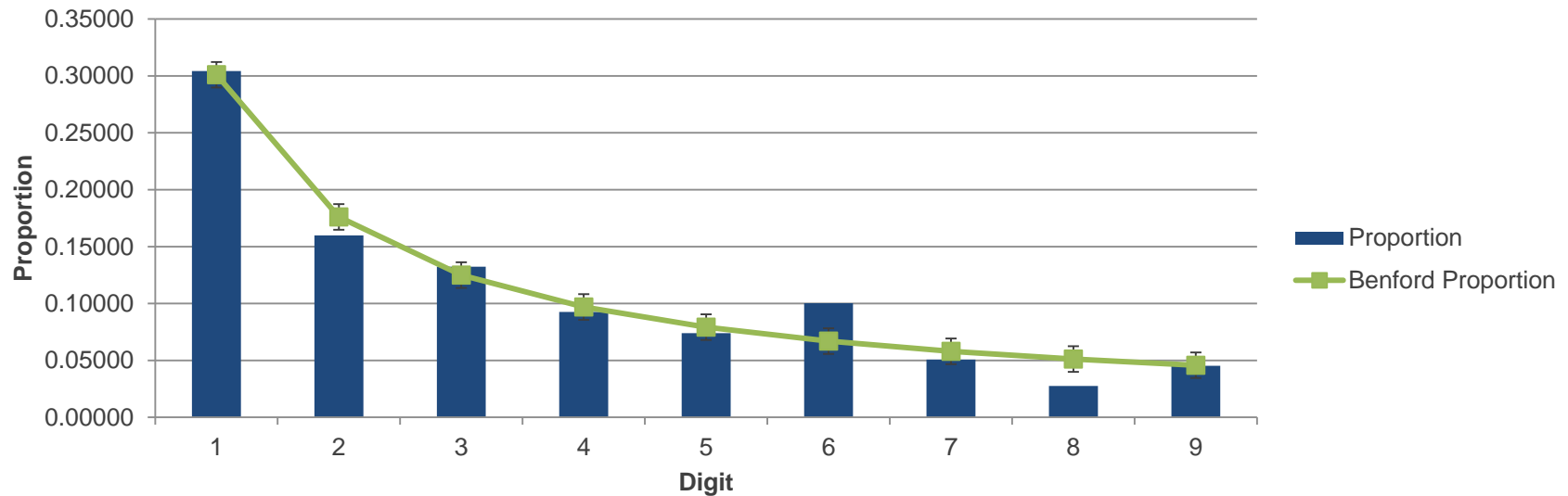
Town of Paonia, Colorado

PRIOR-YEAR INTERNAL CONTROL OBSERVATIONS DETERMINED TO BE A SIGNIFICANT DEFICIENCY	STATUS
<p>Debit Card Withdrawals During our prior-year audit, we noted there were multiple Town debit cards that could result in inappropriate cash disbursements, outside the scope of the providing public services to the residents of the Town.</p>	<p>During the 2015 financial statement audit, we observed that the Town has ceased the practice of having multiple/any debit cards for Town employees.</p>
<p>Vendors Paid In Cash During our prior-year audit, we noted that there were multiple instances of vendors being paid in cash, which could result in a tax liability to the IRS for noncompliance with failing to include those payments in the Form 1099.</p>	<p>During the 2015 financial statement audit, we determined that it appears the Town no longer pays vendors in the form of cash.</p>

Town of Paonia, Colorado

- ❖ **During our audit, we noted the following items for which we would like to commend management and the Board:**
 - ❖ We would like to recognize the efforts of the Finance Officer for her work tracking expenditures and submitting timely reimbursements for fiscal year 2015. She has assisted the auditors with timely information and created her first-ever SEFA to reflect current-year federal grant activity. We would like to note that the Colorado Water Resources & Power Authority is a complex grant with multiple funding sources with different percentages applied to the federal portion of the grant.
 - ❖ We would like to recognize the Town Manager for her leadership role in improving the control environment of the Town.

First Digit Test For Cash Disbursements



We performed Benford's Curve on cash disbursements during the year to detect any anomalous activity during the year and determine if those expenses fall within the scope of providing services to the residents of the Town. Note: We performed this test on a two-digit analysis. This graph depicts a one-digit test.

❖ **Other Data Analytics Performed:**

- ❖ We reviewed all duplicate cash disbursements and determined that recurring amounts paid were reasonable and within the scope of serving the residents of the Town.
- ❖ We summarized the top 10 vendors (see next slide) of the Town and drilled down into those expenses to determine if they fall within the scope of serving the residents of the Town. Nothing unusual came to light in our analysis.
- ❖ We reviewed gaps in the sequence of check numbers for the Town's operating bank account and noted only four missing checks in the initial analysis. The Town was able to locate those as voided checks. The check sequence was preserved without exception and that is a credit to the Finance Director for her organization and accuracy with regard to her work.



Data Analytics - Top Ten Vendors By Amount And By Count *(Continued)*

Town of Paonia, Colorado

Vendors	Count	Total
Alpine CM Inc.	16	1,254,395.68
First State Bank of Colorado	14	636,607.32
Filter Tech Systems, Inc.	7	490,931.00
Spiegel Industrial, LLC	5	303,753.11
PNCI Construction Inc.	4	204,978.00
WestWater Engineering Inc.	13	202,165.21
Delta Montrose Electrical Assn.	21	98,082.88
CIRSA	3	68,220.00
David A. Marek	12	46,121.63
C&N Construction, Inc.	3	41,754.24

Vendors	Count	Total
Delta Montrose Electrical Assn.	21	98,082.88
Alpine CM Inc.	16	1,254,395.68
Phonz +	16	12,904.23
First State Bank of Colorado	14	636,607.32
Winwater Corp.	14	36,384.43
WestWater Engineering Inc.	13	202,165.21
Altenhofen, Mike	13	40,450.00
Oldcastle SW Group Inc.	13	15,583.68
Leon, Susan	13	7,780.60
Double J. Disposal Inc.	13	2,491.15



Independent Auditors' Report On Additional Information

Town of Paonia, Colorado

Our report on our audit of the financial statements of the Town as of December 31, 2015 appears in the financial statements of the Town. That audit was conducted for the purpose of forming opinions on the financial statements taken as a whole. The additional information in this report is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion on it.

RubinBrown LLP

July 19, 2016



Town of Paonia, Colorado

Attachments

Client: **Town of Paonia**
 Engagement: **2015 AUD**
 Period Ending: **12/31/2015**
 Trial Balance: **TB Database**
 Workpaper: **Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 1				
PBC AJE				
1-41-31	DUES & SUBSCRIPTIONS		976.00	
1-41-44	HUMAN SERVICES		35.00	
2-50-26	TRAVEL & MEETINGS		1,805.00	
3-51-26	TRAVEL & MEETINGS		100.00	
1-0201	ACCOUNTS PAYABLE			1,011.00
2-0201	ACCOUNTS PAYABLE			1,805.00
3-0201	ACCOUNTS PAYABLE			100.00
Total			2,916.00	2,916.00

Adjusting Journal Entries JE # 2				
This is a client requested JE to properly record depreciation expense.				
3-59-90	DEPRECIATION		1,153.00	
3-0173	ACCUMULATED DEPRECIATION			1,153.00
Total			1,153.00	1,153.00

Adjusting Journal Entries JE # 3				
This entry is in accordance with GASB 34 to remove fixed assets from the fund financial statements.				
1-0270	INVESTMENTS IN G.F.A.		3,488,089.00	
1-0180	LAND & IMPROVEMENTS			246,481.00
1-0181	BUILDING			609,358.00
1-0182	OFFICE FURNITURE & EQUIPMENT			28,896.00
1-0183	VEHICLES & EQUIPMENT			347,707.00
1-0184	OTHER EQUIPMENT			162,700.00
1-0185	INFRASTRUCTURE			1,703,868.00
1-0186	PARK, LAND & STRUCTURES			389,079.00
Total			3,488,089.00	3,488,089.00

Adjusting Journal Entries JE # 6				
To reclassify negative pooled cash balances.				
2-0120	-ue From Other Fund(s)		151,367.00	
3-0120	DUE FROM OTHER FUND(S) (RB Account)		379,483.00	
5-0100	Cash in Combined Cash Fund		530,850.00	
2-0100	Cash in Combined Cash Fund			151,367.00
3-0100	Cash in Combined Cash Fund			379,483.00
5-0202	-ue To Other Fund(s)			530,850.00
Total			1,061,700.00	1,061,700.00

Adjusting Journal Entries JE # 9				
Per client request posted this entry to reconcile Paryroll Taxes to the W-3.				
1-41-03	SALARIES & WAGES		844.00	
1-42-03	SALARIES & WAGES		197.00	
1-45-03	SALARIES & WAGES		460.00	
1-46-03	SALARIES & WAGES		534.00	
2-50-03	SALARIES & WAGES		2,714.00	
3-51-03	SALARIES & WAGES		1,396.00	
3-52-03	SALARIES & WAGES		1,396.00	

Client: **Town of Paonia**
 Engagement: **2015 AUD**
 Period Ending: **12/31/2015**
 Trial Balance: **TB Database**
 Workpaper: **Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
5-41-03	SALARY & WAGES		1,359.00	
1-41-04	EMPLOYER FICA			465.00
1-41-05	EMPLOYER MEDICARE			109.00
1-42-04	EMPLOYER FICA			440.00
1-42-05	EMPLOYER MEDICARE			529.00
1-45-04	EMPLOYER FICA			378.00
1-45-05	EMPLOYER MEDICARE			88.00
1-46-04	EMPLOYER FICA			19.00
1-46-05	EMPLOYER MEDICARE			4.00
2-50-04	EMPLOYER FICA			2,200.00
2-50-05	EMPLOYER MEDICARE			516.00
3-51-04	EMPLOYER FICA			1,216.00
3-51-05	EMPLOYER MEDICARE			285.00
3-52-04	EMPLOYER FICA			1,047.00
3-52-05	EMPLOYER MEDICARE			245.00
5-41-04	EMPLOYER FICA			1,101.00
5-41-05	EMPLOYER MEDICARE			258.00
Total			8,900.00	8,900.00

Adjusting Journal Entries JE # 24

Equity true up entry.

1-35-06	OTHER INCOME		2,865.00	
2-50-40	MISCELLANEOUS		1.00	
4-46-20	EXPENDITURES-CONS. TRUST		1.00	
1-0280	FUND BALANCE			2,865.00
2-0280	RETAINED EARNINGS			1.00
4-0280	FUND BALANCE			1.00
Total			2,867.00	2,867.00

Adjusting Journal Entries JE # 25

AR true up entry.

2-0118	AR-CONTRACTS		78.00	
2-0117	ACCOUNTS RECEIVABLE			78.00
Total			78.00	78.00

Adjusting Journal Entries JE # 27

This is a client requested JE to true up interest expense.

2-50-50	WATER POWER AUTHORITY LOAN		1,090.00	
2-50-54	DEBT SERVICE		5,132.00	
3-51-51	RURAL DEVELOPMENT P&I		41.00	
2-36-13	Miscellaneous Revenue (RB Account)			6,222.00
3-52-40	MISCELLANEOUS			41.00
Total			6,263.00	6,263.00

Adjusting Journal Entries JE # 28

To transfer capital outlay expense to transfer out to Water Fund.

5-31	FUND TRANSFER		2,566,096.00	
5-40-20	CAPITAL OUTLAY			2,566,096.00
Total			2,566,096.00	2,566,096.00

Adjusting Journal Entries JE # 29

Client: **Town of Paonia**
 Engagement: **2015 AUD**
 Period Ending: **12/31/2015**
 Trial Balance: **TB Database**
 Workpaper: **Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
To reclassify transfer from the grant fund out of capital contribution to transfer in				
2-36-31	Capital Contributions		2,566,096.00	
2-50-99	Transfers			2,566,096.00
Total			<u>2,566,096.00</u>	<u>2,566,096.00</u>

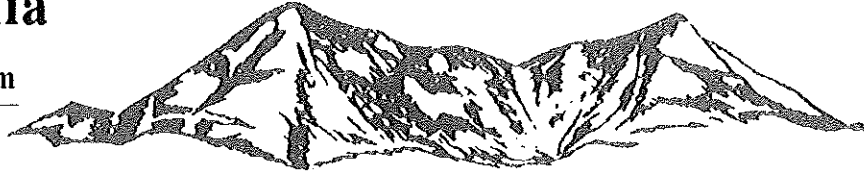
Client: **Town of Paonia**
 Engagement: **2015 AUD**
 Period Ending: **12/31/2015**
 Trial Balance: **TB Database**
 Workpaper: **Reclassifying Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
Reclassifying Journal Entries JE # 20				
RJE to remove the LOC liability from the fund level and record proceeds from debt per GASB 34.				
5-0235	Loan Payable-FCNB-LOC		779,500.00	
5-32-06	Proceeds from LOC			779,500.00
Total			<u>779,500.00</u>	<u>779,500.00</u>
Reclassifying Journal Entries JE # 22				
Remove capital asset addition from R&M and place it in capital outlay per GASB 34.				
7-45-70	CAPITAL OUTLAY		38,834.00	
7-45-22	REPAIRS & MAINTENANCE			38,834.00
Total			<u>38,834.00</u>	<u>38,834.00</u>
Reclassifying Journal Entries JE # 23				
To remove lease payment from capital outlay for fund level activity per GASB 34.				
6-70-40	Payment of Principal and Interest on Capital Lease		18,683.00	
6-70-20	CAPITAL OUTLAY			18,683.00
Total			<u>18,683.00</u>	<u>18,683.00</u>

Town of Paonia

www.townofpaonia.com

July 19, 2016



RubinBrown LLP
1900 16th Street
Suite 300
Denver, CO 80202

We are providing this letter in connection with your audit of the financial statements of Town Of Paonia as of December 31, 2015 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town Of Paonia and the respective changes in financial position and, where applicable, cash flows thereof in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with U.S. generally accepted accounting principles.

We understand we are responsible for management decisions and functions, for designating a qualified employee to oversee any nonattest services you provide, for evaluating the adequacy and results of the services performed and accepting responsibility for such services.

We confirm, to the best of our knowledge and belief the following representations made to you during your audit.

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.
2. The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles 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. 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates are reasonable.
6. 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.
7. 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 or in the schedule of findings and questioned costs.

8. The effects of uncorrected misstatements are immaterial both individually and in the aggregate, to the financial statements for each opinion unit. A list of the uncorrected misstatements is attached to the representation letter.
9. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
10. Guarantees, whether written or oral, under which the Town is contingently liable, if any, have been properly recorded or disclosed.
11. 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 and all audit or relevant monitoring reports, if any, received from funding sources.
 - 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 Board of Trustees or summaries of actions of recent meetings for which minutes have not yet been prepared.
12. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.
13. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
14. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
15. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, regulators, or others.
16. 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.
17. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
18. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
19. We have made available to you all financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.
20. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
21. We have taken timely and appropriate steps to remedy fraud, violations of laws, regulations, contracts, or grant agreements, or abuse that you have reported to us.
22. We have a process to track the status of audit findings and recommendations.
23. 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.

24. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
25. The Town has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
26. 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.
27. 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.
28. As part of your audit, you assisted with preparation of the financial statements and related notes and schedule of expenditures of federal awards. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes and schedule of expenditures of federal awards.
29. The Town 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.
30. The Town has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
31. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
32. 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.
33. The financial statements properly classify all funds and activities.
34. 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.
35. Components of net assets (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
36. Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
37. Provisions for uncollectible receivables have been properly identified and recorded.
38. 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.
39. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

40. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
41. Special items are appropriately classified and reported.
42. Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
43. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
44. The government meets the GASB-established requirements for accounting for eligible infrastructure assets using the modified approach.
45. We have appropriately disclosed the Town'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 assets are available and have determined that net assets were properly recognized under the policy.
46. 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.
47. With respect to the SEFA:
 - a. We acknowledge our responsibility for presenting the SEFA in accordance with accounting principles generally accepted in the United States of America, and we believe the SEFA, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.
 - b. If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
48. With respect to federal award programs:
 - a. We are responsible for understanding and complying with and have complied with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, including requirements relating to preparation of the schedule of expenditures of federal awards.
 - b. We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of OMB Circular A-133 §310.b, and we believe the SEFA, including its form and content, is fairly presented in accordance with OMB Circular A-133 §310.b. The methods of measurement or presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement or presentation of the SEFA.
 - c. If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issue the SEFA and the auditor's report thereon.
 - d. We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133 and included in the SEFA made during the

audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.

- e. We are responsible for understanding and complying with, and have complied with, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.
- f. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.
- g. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.
- h. We have received no requests from a federal agency to audit one or more specific programs as a major program.
- i. We have complied with the direct and material compliance requirements (except for noncompliance disclosed to you), including when applicable, those set forth in the OMB Circular A-133 Compliance Supplement, relating to federal awards and have identified and disclosed to you all amounts questioned and all known noncompliance with the requirements of federal awards.
- j. We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- k. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- l. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, Cost Principles for State, Local, and Tribal Governments, and OMB's Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments .
- m. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- n. We have made available to you all documentation related to compliance with the direct material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.

- o. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
 - p. There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.
 - q. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance), have occurred subsequent to the date as of which compliance was audited.
 - r. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
 - s. The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
 - t. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133.
 - u. We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of subrecipients' auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements and have ensured that subrecipients have taken the appropriate and timely corrective action on findings.
 - v. We have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.
 - w. We have charged costs to federal awards in accordance with applicable cost principles.
 - x. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
 - y. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133.
 - z. We are responsible for preparing and implementing a corrective action plan for each audit finding.
 - aa. We have disclosed to you all contracts or other agreements with service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.
49. 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 or in the schedule of findings and questioned costs.


Jane Berry, Town Manager


Cindy Jones, Finance Director