

March 3, 2010

To the Board of Selectmen
Town of Warner, New Hampshire

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Warner, New Hampshire for the year ended December 31, 2008, and have issued our report thereon dated March 3, 2010. Professional standards require that we provide you with the following information related to our 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.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

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 Warner, New Hampshire 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 ended December 31, 2008. We noted no transactions entered into by the Town during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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(s) affecting the financial statements was:

Management's estimate of the allowance for uncollectible taxes and the estimated useful lives of depreciable capital assets which are based on management's assessment of collectability and/or possible abatements and the useful lives of capital assets. We evaluated the key factors and assumptions used to develop the reserve for uncollectible accounts and the useful lives of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of long-term bond obligations used to finance governmental activities, landfill post-closure care costs, and top taxpayers.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit. The completion of our audit was delayed as a result of additional information requested from the finance office personnel regarding various activity recognized in the General Fund's general ledger pertaining to various grants awards and road construction projects. However, due to the staff turnover in the finance office subsequent to the recording of the activity in the general ledger, the requested information was not readily available.

Additional delays pertaining to the release of the audit reports is the result of not receiving an updated management's discussion and analysis (MD&A) in a timely manner.

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 attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

The following material misstatements detected as a result of audit procedures were corrected by management:

- The beginning fund balance in the general ledger for the General Fund did not agree with the audited fund balance from the previous year
- The tax collector's activity was recognized on a cash basis requiring adjustments to recognize the activity on an accrual basis
- The various liability accounts required adjustments to recognize the offsetting expenditure accounts on an accrual basis (accounts payable, accrued payroll, and school tax liability).
- The current year activity associated with the FEMA monies previously received was recorded directly against the deferred revenue account. The applicable revenues and expenditures were not recognized in the general ledger.
- The expenditures of the Capital Reserve Funds were increased to account for monies expended in the General Fund and requested for reimbursement from the applicable fund.
- The cost basis of the investments reported by the Trustees of Trust Funds was adjusted to the fair value at year end in accordance with generally accepted accounting principles.

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 March 3, 2010.

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 Town’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 Town’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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

Very truly yours,

Vachon Clukey & Company P C

GCX-23: AUDIT DIFFERENCE EVALUATION FORM

Governmental Unit: **Town of Warner** Balance Sheet Date: **December 31, 2008**

Fund Type, Account Group or Reporting Column: **Government-Wide Statements**

Financial Statements Effect—Amount of Over (Under) Statement of:

<u>Description (Nature) of Audit Difference</u>	<u>Total Assets</u>	<u>Total Liabilities</u>	<u>Net Assets</u>	<u>Revenues</u>	<u>Expenses</u>
Understatement of accrued payroll at year end		-1,078			-1,078
Unrecorded accrued interest on certificates of deposit through December 31, 2008	-1,646			-1,646	
Understatement of capital asset addition	-4,574				4,574
Total from cont. page(s)					
Total	-6,220	-1,078	0	-1,646	3,496
Less Audit adjustments subsequently booked					
Net unadjusted audit differences—this year	-6,220	-1,078	0	-1,646	3,496
Effect of unadjusted audit differences—prior years				41,226	-19,770
Net audit differences	-6,220	-1,078	0	39,580	-16,274
Financial statement caption totals	9,726,557	2,285,012	7,441,545	3,828,934	3,610,338
Net audit differences as % of F/S captions	-0.06%	-0.05%	0.00%	1.03%	-0.45%

