



# MCMAHAN AND ASSOCIATES, L.L.C.

*Certified Public Accountants and Consultants*

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**To the Honorable Mayor and Members of the Board of Trustees  
Town of Buena Vista  
Buena Vista, Colorado**

We have audited the financial statements of the Town of Buena Vista, Colorado (the "Town") for the year ended December 31, 2009. Professional standards require that we provide you with the following information related to our audit.

***Qualitative Aspects of Accounting Policies***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town are described in the Notes 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 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 estimates affecting the financial statements were:

- Estimated useful lives for depreciation of fixed assets: Management's estimate is based on industry practice and experience. We evaluated the key factors and assumptions used to develop the useful lives used in determining depreciation and found that it is reasonable in relation to the financial statements taken as a whole.
- Estimated value of Water Fund inventory: Management's estimate is based on a price list provided by the vendor for these items. We evaluated this information and found that it 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 material uncorrected misstatements.

*Member: American Institute of Certified Public Accountants*

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### **Corrected and Uncorrected Misstatements (continued)**

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

1. Fixed asset additions were capitalized for both proprietary funds and to prepare the government-wide financial statements.
2. Depreciation was calculated on fixed assets for both proprietary funds and to prepare the government-wide financial statements.
3. Debt principal payments were reclassified from expenditure accounts to long-term liability accounts for the Water Fund.

The above entries were necessary to convert the Town's accounting records from the modified-accrual basis (i.e., budget basis) to the full accrual basis of accounting.

### **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, which 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**

As is required in all audit engagements, we have requested certain representations from management that are included in the management representation letter.

### **Recommendations**

In planning and performing our audit of the financial statements of the Town for the year ended December 31, 2009, we noted the following opportunities for improvement of internal controls and day-to-day operations.

#### **Water Parts Inventory**

As noted during the 2008 audit, the Town has historically valued its year-end water parts inventory based on a price list obtained from its main vendor for these items. While this approach is reasonable, it may not provide the most accurate valuation of the year-end balance. If practical, the Town should consider calculating the value of the inventory based on actual amounts paid (i.e., based on invoices).

In addition, the Town currently conducts a physical inventory for the Water Fund on an annual basis. The Town may wish to consider performing inventory counts on a more frequent basis (e.g., on a quarterly basis) or implementing a perpetual inventory system, if practical.

Implementing these changes should help ensure that the Water Fund inventory balance is properly reported.

#### **Midland Meadows Subdivision Drainage Retention Pond Agreement**

As noted during the 2007 and 2008 audits, the Town and Midland Meadows Subdivision ("Midland") entered an agreement in 2002 that requires Midland to pay the Town \$1,000 per lot upon the sale of each lot within the subdivision in exchange for maintenance of three drainage retention ponds by the Town. The Town had collected \$50,000 as of December 31, 2009 for this purpose, all of which is reported as deferred revenue in the Town's General Fund.

**Midland Meadows Subdivision Drainage Retention Pond Agreement (continued)**

Upon inspection and acceptance of these ponds by the Town, Midland is required to dedicate and transfer ownership of this property to the Town. We were advised by Town management that the Town inspected and accepted these ponds in 2004 but, the property has never been transferred. Town management could not explain why this transfer has not occurred. We again recommend that the Town investigate this issue in order to determine when it will be responsible for maintenance of these retention ponds. In addition, upon the transfer of this property, the Town should recognize the related revenue and should add the fair market value of this land to its capital assets for financial reporting purposes.

We have already discussed these comments with management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Board of Trustees, management, and others within the organization and is not intended to be, and should not be, used by anyone other than those specified parties.

Sincerely,

**McMahan and Associates, L.L.C.  
July 23, 2010**