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Town Council
Town of Star Valley, Arizona
Star Valley, Arizona

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Star Valley, Arizona (Town) as of and for the year ended June 30, 2015, and have issued our report thereon dated March 23, 2016. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

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 Note 1 to the financial statements.

For the year ended June 30, 2015, the financial statements include the impact of Governmental Accounting Standards Board Statements Numbers 68 and 71.

GASBS 68, *Accounting and Reporting for Pensions*, changed accounting principles related to the accounting for pension liabilities. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Net Position as of and for the year ended June 30, 2015. Further information on the restatement of net position can be found in Note 3.D. of the financial statements. Additional information on reporting of the pension liability can be found in Note 4.B of the financial statements.

GASBS 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, an amendment to GASBS 68, addresses the reporting of deferred inflows and deferred outflows of resources associated with contributions made after the measurement date of the government's beginning net pension liability.

We noted no transactions entered into by the Town 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, with exception of the pension liability, deferred inflows and outflows or resources, pension expense and beginning and ending net position of the governmental activities, business-type activities and enterprise fund financial statements. Two qualifying part-time employees were not contributing to the Arizona State Retirement System (ASRS). As a result, the cumulative effect on the pension liability, deferred inflows and outflows of resources, pension expense and beginning and ending net position could not be determined and therefore were not adjusted to their actual value based on the Town's proportionate share of required contributions to the ASRS.

Accounting estimates

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 the financial statements was:

Management's estimate of the useful lives and remaining useful lives of capital assets is based on the Town's previous experience with similar assets and the current condition of those assets. We evaluated the key factors and assumptions used to develop the useful lives and estimated useful lives in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's estimate of the fair value of investments was based on quoted market prices provided by a third party. We evaluated the key factors and assumptions used to develop the fair market value of investments in determining the reasonableness in relation to the financial statements taken as a whole.

Management's estimate of the pension liability related to the Arizona State Retirement System pension plan are based on actuarial reports prepared by other professionals. We reviewed the key assumptions used to estimate the liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the current and long-term portion of the compensated absences liability recorded within the enterprise funds and governmental activities is based on those employees who have vested or are expected to vest. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

During the current year the Town implemented GASB Statement No. 68, *Accounting and Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of the two statements resulted in a restatement of the prior year's net position to account for the net pension liability, deferred outflows of resources and deferred inflows of resources. Additionally, the implementation resulted in a qualified opinion over Governmental Activities, Business-Type Activities and the Water Enterprise fund as the pension liability, deferred outflows of resources, deferred inflows of resources, pension expense and beginning and ending net position could not be accurately determined as not all required employees were participating in the pension plan. Further information regarding the restatement and pension liability can be found in Note 3.D. and Note 4.B. of the footnotes to the financial statements. Additional information regarding the qualification on opinion units can be found in the independent auditors' report within the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties encountered in performing the audit

We encountered no significant difficulties in dealing with management in performing and completing our audit. However, the audit was delayed as a result of presenting our findings related to the Town's participation in the ASRS pension plan and the Town's subsequent inquiries to the ASRS.

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly 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 Town also had an uncorrected misstatement related to an adjustment to the pension liability, deferred inflows of resources, deferred outflows of resources, pension expense and beginning and ending net position. The uncorrected misstatement is projected to be a material misstatement; however, the amount of the adjustment was not readily determinable, resulting in a qualification of opinion on the governmental activities, business-type activities and enterprise fund financial statements.

Corrected misstatements

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

- Adjustments were proposed and subsequently recorded to convert the fund financial statements from the modified accrual basis of accounting to the full accrual basis of accounting for government-wide presentation.
- Adjustments were proposed and subsequently recorded to record revenues in the proper governmental funds and in the correct fiscal year.
- Adjustments were proposed and subsequently recorded to properly record accrued liabilities and expenditures/expenses in the correct accounts and funds.
- Adjustments were proposed and subsequently recorded to properly state accounts payable balances during the current year.
- Adjustments were proposed and subsequently recorded in the Water Fund to capitalize current year capital asset additions and record current year depreciation.

Disagreements with management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

Management representations

We have requested certain representations from management that are included in the management representation letter dated March 23, 2016.

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 auditors’ 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.

Significant issues discussed with management prior to engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement 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 engagement.

Other audit findings or issues

We have provided a separate letter dated March 23, 2016, communicating internal control related matters identified during the audit.

Other information in documents containing audited financial statements

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management’s responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

Our auditors’ opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

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This communication is intended solely for the information and use of the Town Council and management of the Town of Star Valley, Arizona and is not intended to be, and should not be, used by anyone other than these specified parties.



CliftonLarsonAllen LLP

Phoenix, Arizona
March 23, 2016

Passed, Uncorrected Adjustments

Account	Description	Debit	Credit
To properly record engineering services in the period the services were performed.			
21-40-745	Sprague Ranch Road Crossing Expenditure	\$ -	\$ 2,160.00
21-29800	Fund Balance	2,160.00	-