

March 22, 2011

Honorable Mayor and City Council  
City of Fort Worth, Texas

Dear Honorable Mayor and City Council Members:

We have performed an audit of the financial statements of the City of Fort Worth (the “City”) as of and for the year ended September 30, 2010, in accordance with auditing standards generally accepted in the United States of America and have issued our report thereon dated March 22, 2011, which included a reference to other auditors. Our report on the financial statements is based in part on the report of other auditors. We have received representation letters from the other auditors addressing their independence with respect to the Employees’ Retirement Fund of the City of Fort Worth, a pension trust fund, and to the Villas of Eastwood Terrace LLC, a blended component unit of the Fort Worth Housing Finance Corporation, a blended component unit of the City of Fort Worth.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the City is responsible.

## **OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS**

Our responsibility under auditing standards generally accepted in the United States of America (“generally accepted auditing standards”) has been described in our engagement letter dated September 7, 2010. As described in that letter, the objective of a financial statement audit conducted in accordance with auditing standards generally accepted in the United States of America is to express an opinion on the fairness of the presentation of the City’s financial statements for the year ended September 30, 2010 in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”), in all material respects. Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the City Council are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the City Council of their responsibilities.

We considered the City’s internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

## **ACCOUNTING ESTIMATES**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the City's 2010 financial statements include liabilities for annual required contributions for the pension plan and other postemployment benefits, accumulated depreciation, litigation claims accruals, liabilities for insurance claims, liabilities for landfill closure and post-closure costs, and allowances for doubtful accounts. During the year ended September 30, 2010, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

## **UNCORRECTED MISSTATEMENTS**

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.

There were two uncorrected known misstatements: an unrecorded capital lease of \$2.3 million in the Government-Wide Governmental Activities that would have increased capital assets and capital lease liability, and under-recorded revenue in the Water and Sewer Fund of \$3.2 million that would have increased unbilled revenue and accounts receivable, which were identified by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial to the financial statements taken as a whole.

Certain accounts were tested using statistical or other sampling techniques and certain errors in recording these accounts as of September 30, 2010 were found in the sample items selected. The effects of the known errors identified were recorded by management. However, the mathematical projections of the potential unrecorded amounts as of September 30, 2010 were not recorded. Such unrecorded amounts were determined by management to be immaterial to the financial statements taken as a whole. These mathematically projected amounts are as follows:

### **Fund Level**

- Water and Sewer Fund: a \$6.8 million increase in loss on disposal of capital assets and a decrease in capital assets
- Non-Major Enterprise Funds: a \$1.5 million increase in loss on disposal of capital assets and a decrease in capital assets

### **Government-Wide**

- Governmental activities: a \$17.9 million reclassification from construction in progress to capital assets
- Governmental activities: a \$7.5 million increase in loss on disposal of capital assets and a decrease in capital assets
- Business-type activities: a \$8.3 million increase in loss on disposal of capital assets and a decrease in capital assets (the sum of the two fund-level enterprise fund items above)

## **MATERIAL CORRECTED MISSTATEMENTS**

There were no material misstatements that were brought to the attention of management as a result of our audit procedures.

## **SIGNIFICANT ACCOUNTING POLICIES**

The City's significant accounting policies are set forth in Note A to the City's 2010 financial statements. During the year ended September 30, 2010, there were no significant changes in previously adopted accounting policies or their application.

## **OTHER INFORMATION IN THE COMPREHENSIVE ANNUAL FINANCIAL REPORT**

When audited financial statements are included in documents containing other information such as the City's Comprehensive Annual Financial Report ("CAFR"), we read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. We have read the other information in the City's CAFR and have inquired as to the methods of measurement and presentation of such information. If we noted a material inconsistency or if we obtained any knowledge of a material misstatement of fact in the other information, we discussed this matter with management and, if appropriate, with the City Council.

## **DISAGREEMENTS WITH MANAGEMENT**

We have not had any disagreements with management related to matters that are material to the City's 2010 financial statements.

## **CONSULTATION WITH OTHER ACCOUNTANTS**

The City engaged an outside consultant to augment and manage the City staff in preparation of the City's 2010 financial statements.

## **SIGNIFICANT ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR INITIAL ENGAGEMENT OR RETENTION**

Throughout the year, routine discussions were held, or were the subject of correspondence, with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.

## **OTHER SIGNIFICANT ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT**

Throughout the year, routine discussions were held, or were the subject of correspondence, with management. In our judgment, such discussions or correspondence did not involve significant issues requiring communication to the City Council.

## **SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

In our judgment, we received the full cooperation of the City's management and staff and had unrestricted access to the City's senior management in the performance of our audit.

## **MANAGEMENT'S REPRESENTATIONS**

We have made specific inquiries of the City's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the City is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Appendix A, a copy of the representation letter we obtained from management.

## **CONTROL-RELATED MATTERS**

We have issued a separate report to you, also dated March 22, 2011, containing certain matters involving the City's internal control over financial reporting that we consider to be material weaknesses or significant deficiencies under standards established by the American Institute of Certified Public Accountants.

\* \* \* \* \*

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

Yours truly,

*Deloitte & Touche LLP*

**CITY OF FORT WORTH  
Management Representation Letter  
Year Ended September 30, 2010**

March 22, 2011

Deloitte & Touche LLP  
201 Main Street, Suite 1501  
Fort Worth, Texas 76102

We are providing this letter in connection with your audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the City of Fort Worth (the "City"), as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations or changes in fund balances, and cash flows of the City in conformity with accounting principles generally accepted in the United States of America. We understand that you have not audited the financial statements for the Employees' Retirement Fund of the City of Fort Worth or for the Villas of Eastwood Terrace LLC, a blended component unit of the Fort Worth Housing Finance Corporation, which is a blended component unit of the City of Fort Worth. We confirm that we are responsible for the following:

- a. The fair presentation in the basic financial statements of 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, in conformity with accounting principles generally accepted in the United States of America
- b. The fair presentation of the required supplementary information, including Management's Discussion and Analysis, and additional information accompanying the basic financial statements that is presented for the purpose of additional analysis of the basic financial statements
- c. The design and implementation of programs and controls to prevent and detect fraud, including fraud related to federal and state awards
- d. Establishing and maintaining effective internal control over financial reporting.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you

during your audit.

1. The basic financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. In addition:
  - a. 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.
  - b. The financial statements properly classify all funds and activities, including special and extraordinary items.
  - c. All funds that meet the quantitative criteria in Statement No. 34 and Statement No. 37 of the Governmental Accounting Standards Board (GASB), *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, 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.
  - d. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
  - e. 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.
  - f. 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.
  - g. Interfund, internal, and intra-City activity and balances have been appropriately classified and reported.
  - h. Deposits and investment securities are properly classified in the category of custodial credit risk.
  - i. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
  - j. Required supplementary information is measured and presented within prescribed guidelines.
  - k. Applicable laws and regulations are followed in adopting, approving and amending budgets.
  - l. Costs to federal and state awards have been charged in accordance with applicable cost principles.
2. The City has made available to you all:
  - a. Summaries of actions of the City Council.

- b. Financial records and related data for all financial transactions of the City and for all funds administered by the City. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the City and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.
    - c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal and state agencies.
  3. There has been no:
    - a. Action taken by City management that contravenes the provisions of federal laws and State of Texas laws and regulations, or of contracts and grants applicable to the City
    - b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.
  4. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. There were two uncorrected known misstatements: an unrecorded capital lease of \$2.3 million in the Government-Wide Governmental Activities that would have increased capital assets and capital lease liability, and under-recorded revenue in the Water and Sewer Fund of \$3.2 million that would have increased unbilled revenue and accounts receivable, which were identified by you during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial to the financial statements taken as a whole.
  5. We understand certain accounts were tested using statistical or other sampling techniques and certain errors in recording these accounts as of September 30, 2010 were found in the sample items selected. The material effects of the known errors identified were recorded by management. We also understand that the mathematical projections of the potential unrecorded amounts as of September 30, 2010 were not recorded. Based on our judgment of the materiality of these items, such unrecorded amounts were determined by management to be immaterial to the financial statements taken as a whole. These mathematically projected amounts are as follows:

Fund Level

- Water and Sewer Fund: a \$6.8 million increase in loss on disposal of capital assets and a decrease in capital assets
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- Governmental activities: a \$17.9 million reclassification from construction in progress to capital assets
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6. The City has made available to you the results of management's risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud.
  7. We have no knowledge of any fraud or suspected fraud affecting the City involving:
    - a. Management.
    - b. Employees who have significant roles in internal control over financial reporting.
    - c. Others if the fraud could have a material effect on the financial statements.
  8. We have no knowledge of any allegations of fraud or suspected fraud affecting the City received in communications from employees, former employees, analysts, regulators, short sellers, or others.
  9. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies* (formerly FASB Statement No. 5, *Accounting for Contingencies*).
  10. We are responsible for the Schedule of Expenditures of Federal and State Awards, prepared in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Texas Uniform Grant Management Standards (collectively "OMB Circular A-133"). We have identified in that schedule all awards provided by federal and state agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations. In addition, we have accurately completed the appropriate sections of the data collection form.
  11. We are responsible for compliance with local, state, and federal laws, rules and regulations, including compliance with the requirements of OMB Circular A-133, and provisions of grants and contracts relating to the City's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The City is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
  12. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal and state programs that provides reasonable assurance that we are managing federal and state awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on its federal and state programs.
  13. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing



to you all such deficiencies that are significant deficiencies or material weaknesses in internal control over financial reporting.

14. We have:

- a. Identified 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 federal program as identified in Part 3 of the Compliance Supplement dated June 2010.
- b. Complied, in all material respects, with the requirements identified above in connection with federal and state awards except as disclosed in the Schedule of Findings and Questioned Costs
- c. Identified and disclosed interpretations of any compliance requirements that have varying interpretations
- d. Made available all information related to federal and state financial reports and claims for advances and reimbursements. Federal and state financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal and State Awards. The copies of federal and state program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal or state agency or pass-through entity, as applicable
- e. Monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of Circular A-133
- f. Taken appropriate corrective action on a timely basis after receipt of a subrecipient's auditor's report that identifies noncompliance with laws, regulations, or the provisions of contracts or grant agreements
- g. Considered the results of the subrecipient's audits and made any necessary adjustments to the auditee's own books and records
- h. Identified and disclosed all amounts questioned and any known noncompliance with the requirements of federal and state awards, including the results of other audits or program reviews related to the objectives of the audit
- i. Identified previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit and the corrective actions taken to address significant findings and recommendations, including the status of follow-up on prior audit findings (and information about all management decisions) by federal and state awarding agencies and pass-through Entities
- j. Provided to you our views on the reported findings, conclusions, and recommendations for your report.

15. We are responsible for follow-up on all prior-year(s) findings. We have prepared a

summary schedule of prior-year findings reporting the status of our efforts in implementation of the prior-year's corrective action plan.

16. We have included in the corrective action plan for current-year findings, the name of the person in our organization responsible for implementation of the actions, the best actions to be taken, and the estimate of a completion date. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you report.
17. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
18. We have adopted the provisions of GASB Statement No. 39 of the Governmental Accounting Standards Board, *Determining Whether Certain Organizations Are Component Units, an amendment of Statement No. 14 of the Governmental Accounting Standards Board, The Financial Reporting Entity*. We believe that we have properly identified and reported as a component unit of the City each organization that meets the criteria established in GASB Statement No. 39.
19. The City has appropriately identified and disclosed all operating segments in accordance with GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, and have only aggregated such operating segments when the criteria for aggregation was met.
20. The City has not completed the process of evaluating the impact that will result from adopting Statements of Governmental Accounting Standards No. 54, 57, 59, 60, 61, and 62 (collectively "the Statements") as discussed in the footnotes to the basic financial statements. The City is therefore unable to disclose the impact that adopting the Statements will have on its financial position, results of operations, and cash flows when such statement is adopted.
21. Tax-exempt bonds issued have retained their tax-exempt status.

Except where otherwise stated below, matters less than \$100,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

22. Except as described above, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
23. The City has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
24. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:
  - a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral)

- b. Guarantees, whether written or oral, under which the City is contingently liable.
25. In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
- a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events
  - b. The effect of the change would be material to the financial statements.
26. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
- a. The concentration exists at the date of the financial statements
  - b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact
  - c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
27. There are no:
- a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency
  - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies* (formerly FASB Statement No. 5, *Accounting for Contingencies*).
28. The City 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.
29. The City has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.
30. No department or agency of the City has reported a material instance of noncompliance to us.
31. Other than those described in Note N to the financial statements, no events have occurred after September 30, 2010 but before the date of this letter, that require consideration as adjustments to or disclosures in the financial statements.
32. Management has disclosed whether, subsequent to September 30, 2010, any changes in internal control or other factors that might significantly affect internal control, including

any corrective action taken by management with regard to significant deficiencies and material weaknesses, have occurred.

33. The City has determined whether a capital asset has been impaired in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. In making this determination, the City considered the following factors:
  - a. The magnitude of the decline in service utility is significant
  - b. The decline in service utility is unexpected.
34. We agree with the findings of the specialist in evaluating the actuarially-determined liabilities and have adequately considered the qualifications of the specialist in determining amounts and disclosures used in the financial statements and underlying accounting records. We did not give any instructions, nor cause any instructions to be given, to the specialist with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matters that have affected the independence or objectivity of the specialist.
35. We have appropriately identified and properly recorded and disclosed in the financial statements all interfund transactions, including repayment terms.
36. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.
37. Provision has been made to reduce excess or obsolete inventories to their estimated net realizable value. All inventories are the property of the City and do not include any items consigned to it or any items billed to customers.
38. As described in Note G.4 to the financial statements, provision has been made for any loss that is probable from pollution remediation liabilities associated with Riverside Park. We believe that such estimate is reasonable based on available information and that the liabilities and related loss contingencies and the expected outcome of uncertainties have been adequately described in the City's financial statements.
39. We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.
40. We believe that the actuarial assumptions and methods used to measure postretirement liabilities and costs for financial accounting purposes are appropriate in the circumstances. These amounts have been appropriately recognized and displayed as assets, liabilities and, where applicable, net assets and changes in net assets in accordance with GASB Statement No. 43, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans* and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.
41. Provision has been made to any loss that is probable from environmental remediation liabilities associated with the City's landfill (currently operated and managed by a third party contractor). We believe that such estimate is reasonable based on available

information and that the liabilities and related loss contingencies and the expected outcome of uncertainties have been adequately described in the City's financial statements. Further, we believe that we have complied with the requirement to provide financial assurance for closure and postclosure costs through the standby letter of credit filed with the State of Texas.

42. The City has collected cash from its third party contractor, who operates the landfill. This has been placed in a trust instrument for landfill closure and postclosure liabilities and management expects that future closure and postclosure care costs and inflation costs will be completely covered by the trust instrument, in accordance with the contractual agreement with the contractor.
43. The City participates in several federal and state grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies. Therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required, and collectability of any related receivable at September 30, 2010 may be impaired. Accrued liabilities have been recorded in the financial statements for grant contingencies that, in the opinion of management, are probable and can be reasonably estimated.

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Tom Higgins, Interim City Manager

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Karen L. Montgomery, Assistant City Manager

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Lena H. Ellis, Chief Finance Officer