

Dear Mayor Tedder and Councilman Pettke,

We reviewed (on DWG’s website) the response by BrooksCardiel, PLLC to our comments from DWG’s City Council meeting on August 20, 2014. We are disappointed in that BrooksCardiel ignored the primary issue we raised in the meeting. Perhaps they were not asked by the city council to address the entirety of our comments. Regardless, our unanswered questions remain as such. We have called BrooksCardiel to discuss our questions but our calls have not been returned.

For your reference, and to be very specific, we have prepared the following summary. As you review its contents, please note the following:

- The 2012 Audit Report published by DWG’s new Houston audit firm (BrooksCardiel) made substantial unexplained changes to the legitimate 2011 Audit Report prepared by the city’s prior longstanding Arlington auditor (Mr. Robert Walsh) – BrooksCardiel has disowned these changes.
- Inexplicably, income was increased by \$164,474 and expenses decreased \$303,567 causing an increase in operating profit of \$468,049 – or from \$275,474 to \$743,523.
- To apparently “conceal” a large adjustment to 2011 operating profit the beginning balance of net assets for 2011 was arbitrarily reduced by \$459,269 making it more likely that alterations to the audited 2011 numbers would go undetected.

Analysis of the Unexplained Modifications to DWG’s Audited Financial Statements for 2011

	Two Versions of DWG’s Financial Results					
	Shown in 2012 Audit Report			Original 2011 Audit Report		
Revenues	Government	Business	Total	Government	Business	Total
Program Revenues:	947,399	1,485,529	2,432,928	947,399	1,487,297	2,434,696
General Revenues:						
Property Tax	789,694	-	789,694	789,694	-	789,694
Sales Tax	694,373	-	694,373	694,373	-	694,373
Franchise and Local Tax	246,703	-	246,703	246,703	-	246,703
Oil and gas	576,735	-	576,735	576,735	-	576,735
Interest Income	1,642	1,767	3,409	1,642	-	1,642
Other	249,913	-	249,913	85,439	-	85,439
Total Revenues	3,506,459	1,487,296	4,993,755	3,341,985	1,487,297	4,829,282
Expenses						
General Government	839,141	-	839,141	984,200	-	984,200
Public safety	1,627,412	-	1,627,412	1,775,408	-	1,775,408
Public Works	279,258	-	279,258	289,779	-	289,779
Interest - Fiscal Charges	64,964	-	64,964	64,964	-	64,964
Water, Sewer, Sanitation	-	1,439,457	1,439,457	-	1,439,457	1,439,457
Total Expenses	2,810,775	1,439,457	4,250,232	3,114,351	1,439,457	4,553,808
Operating Income	695,684	47,839	743,523	227,634	47,840	275,474
Transfers	129,504	(129,504)	-	129,504	(129,504)	-
Change in Net Assets	825,188	(81,665)	743,523	357,138	(81,664)	275,474
Beginning Net Position	2,107,474	2,265,012	4,372,486	2,556,370	2,275,385	4,831,755
Ending Net Position	2,932,662	2,183,347	5,116,009	2,913,508	2,193,721	5,107,229

Other income increased \$164,474

Operating expenses decreased \$303,567 – 11% of total expenses

Undisclosed increase in revenue and reduction in operating expenses caused a \$468,049 increase in net assets

The most egregious modification to the 2011 Audit Report is the \$459,269 decrease in the beginning net asset balance for 2011 – which is the year end balance for 2010

The yellow highlighted numbers were modified materially. The completely shaded red number is the modified beginning net asset number for 2011 (also the ending net asset number for 2010) – which if true would mean DWG had an operating loss in 2010 of **(\$235,347)** instead of an operating profit of \$223,922. The number outlined in red is the amount of operating profit **reported** after these undisclosed modifications to the 2011 audit report – which if true would be a record year for DWG at \$743,523. By comparison, DWG’s operating profit for 2013 was only \$47,919 – so the modified operating income for 2011 is **15.5 times greater** than the amount recorded for the most recently completed fiscal year.

We believe it is essential that readers less familiar with proper accounting principles develop an appreciation for the modification to the 2010 ending net asset balance that has taken place. In this context, imagine the following scenario:

- Your bank calls to tell you that a deposit of \$468,049 had gone unrecognized by the bank but that they have now given you credit for it.
- You check your bank account balance but your balance hasn’t changed so you call the bank and ask: “With the benefit of a large previously unrecognized deposit, why has my account balance not increased?”
- The bank then informs you that your bank balance at the end of last year was wrong (without offering an explanation as to why) – that it was too high by the same amount of the large deposit – so they restated (reduced) the bank balance from the end of last year.
- End result is larger income (or profits) but no cash to show for it.

The scenario above fundamentally resembles the nature of what has been done to DWG’s 2011 Audit Report with the manipulation of beginning net assets for 2011. Much higher profits without an increase in cash – how is this possible?

Mr. Pettke, you are an accomplished CPA with a longstanding practice here in DWG. In the August 2014 City Council meeting, your only comment regarding the modified figures discussed herein was – “these changes are normal when a new audit firm is hired”. We have shared the schedule above with several accounting firms and none of them share your view on this matter. Numbers matter and particularly so for a city (like DWG) with outstanding public debt obligations. If the changes discussed above were in fact “normal” we believe an explanation would have been provided by now and a valid restated 2011 Audit Report would have been published by BrooksCardiel. Neither has happened. Instead, it appears DWG had BrooksCardiel produce a report that addresses items that in the aggregate are – to quote BrooksCardiel – “immaterial”.

We agree with BrooksCardiel’s characterization of their analysis and it is clear that they take no responsibility for the modification of the 2011 audited numbers. So, we ask that DWG answer these questions completely:

1. Who are the individuals that developed the plan to modify the 2011 audited financial results?
2. Who are the individuals who were aware of this plan (#1 above) at any time prior to our announced discovery of the matter at the August 20, 1014 City Council meeting?
3. Who from or on behalf of DWG delivered the modified 2011 financial information to BrooksCardiel?
4. Why was this plan developed and what were the underlying reasons driving what appears to be a scheme to boost the operating profits of DWG for 2011?

Regarding BrooksCardiel, they are not without culpability in this matter in our view even though they do not opine to the 2011 figures in their 2012 Audit Report. It seems they either published 2011 numbers without bothering to review the real 2011 Audit Report or they knowingly published numbers materially different without proper disclosure. We are entitled to know exactly what role BrooksCardiel played in this matter. To this end, we have submitted an Open Records Request covering all forms of communication between DWG and BrooksCardiel. It is our hope that a proper response from DWG will provide insight into our unanswered questions.

Sincerely,

Pappy Elkins Restoration Group