

Dear Councilmen – the attached statement, made on behalf of the Pappy Elkins Restoration Group (“PERG”), was handed to our city attorney, Mr. Jeffrey, to include in the minutes of the DWG August 20, 2014 City Council Meeting. We thought an electronic copy might make it easier to insert our statement into the minutes as was requested prior to its delivery.

Regarding the topics covered by our statement, we acknowledge your position that the prior auditor wasn’t terminated by DWG and the new audit firm you hired from Houston was the “low bidder” – that their annual fee of approximately \$14,000 was substantially lower than that of Whitley Penn and the others. We would have preferred an established firm in the DFW area but hope the new firm provides a good level of service to Mayor Tedder and the accounting group of the City that he oversees.

As a reminder, the following questions concerning the undisclosed modification by the City of its 2011 financial performance in the 2012 Audit Report (prepared by the new Houston firm) were asked in the August 2014 City Council meeting but were not addressed:

- 1. What specific business activities of the City (if any) went unrecognized in the real 2011 Audit Report that would support your revised numbers for 2011?**
- 2. The revised numbers for 2011 show a nearly \$500,000 increase in profits but no increase in cash or other City assets – how is this possible?**
- 3. Why was the beginning net position for 2011 reduced by nearly \$500,000? We suggested it might be to “hide” inflated profits to the casual reader but if you have a different view please share it.**
- 4. Who from DWG delivered the modified numbers to the Houston firm and what was the underlying motivation for doing so?**

You indicated in Wednesday’s meeting that the changes to the 2011 financial statements were typical when a new audit firm is hired. We refer you to page 55 of 2012 Audit Report to the “Restatement” footnote that is summarized below:

Note V - E: Restatement (a) 2012 Beginning Net Position				
	Government	General Fund	Parks and Recreation	Crime Control Prevention
2011 Reported Net Position (b)	2,913,503	1,451,742	191,625	49,954
Sales Tax Accrual	103,126	52,509	25,973	24,644
Property Tax	(19,810)	(19,810)	-	-
Liabilities	2,269	2,269	-	-
Correction of Errors	(14,211)	(14,211)	-	-
Net Pension Obligation	(52,215)	-	-	-
Restated Beginning Net Position	2,932,662	1,472,499	217,598	74,598
		Water, Sewer Business & Sanitation		
Prior Year Reported Net Position	2,193,722	2,193,722		
Correction of Errors	9,353	9,353		
Bad Debt	(15,521)	(15,521)		
Capital Assets	434	434		
Net Pension Obligation	(4,640)	(4,640)		
Restated Beginning Net Position	2,183,348	2,183,348		
Total Beginning Reported	5,107,225			
Total Adjustments	8,785			
Total Restated Net Position	5,116,010			
(a) Taken from BrooksCardiel, PLLC 2012 Independent Auditor's Report				
(b) Row doesn't add up!				

Modifications to the ending 2011 net position, according to the 2012 Audit Report, are the work of the City. This footnote addresses several items that occurred in 2011 that were impacted by the City's change in the reporting of deposits and accruals (direct quote from the 2012 Audit Report). These changes in the aggregate amount to \$8,785.

Our point is this: why does this Restatement footnote completely ignore \$468,049 of other changes that the City made to the 2011 results published by the new Houston firm? We respectfully ask that you please email the correspondence responsible for the delivery of the 2011 changes to the Houston firm. This matter, left unresolved, reflects on this entire governing body.

We would also like to share what our goals and motivations are and want you to know that the due diligence we have undertaken on this and other matters is not personal. Our motivation is similar to how we would approach a private investment – which in this case takes the form of our homes and community. Each of us has a monetary and quality of life component to our investment in DWG (“DWG Investment”). It is really this fundamental.

It is our strong, unwavering conviction that the decisions and actions of this City Council have harmed our DWG Investments. Think of yourselves as a management team running a business and we are your investors. If we owned a controlling stake we could insert ourselves into the affairs of the business (City) and guide them in a manner we deemed prudent. But direct involvement on our part is neither possible or appropriate as homeowners. Fortunately, citizens are able to speak freely, ask questions of its civic leaders, gather data and answer self-generated questions about matters that impact their homes and communities. We are thankful for this.

Please understand, our activities since the April 16, 2014 Council meeting are directed at the recovery of our DWG Investments and emanate from the feedback we received from you in that meeting and subsequent council meetings. Since we started, we have been successful in the following ways:

1. Our DWG pad site inspector made his first inspection since being hired four years ago.
2. XTO, in an attempt to reach compliance with a part of the lease for the first time, is installing new low-profile separators pursuant to the terms of the lease it signed with DWG.
3. The TCEQ has investigated the unauthorized removal of water from Pappy Elkins by XTO and concluded that they in fact did. We brought this item to your attention initially in the April 16, 2014 Council Meeting.
4. The City has agreed to support the PERG in the pursuit of XTO to give all citizens of DWG within the "5,000 Halo" a transportation cost free lease.
5. XTO is on record in our July Council Meeting announcing that they are done drilling at the DWG pad site.

We are pleased with our accomplishments so far and remain strong, energetic, growing and committed. The entire DWG community is benefitting from these achievements.

Our attention has now turned to operations. Many members of our group are successful and skilled businessmen. We admit that we have been lax in our oversight of our DWG Investments to our own detriment. But are committed to becoming more informed and we will openly share our information with our fellow DWG citizens.

Our focus is on how the City conducts business and generates profits the benefit our City. We will be asking questions and educating ourselves so that we can be helpful to you as well. We recognize your voluntary service to DWG and appreciate the great personal sacrifice that is shared by your families. DWG is an awesome community filled with great families, a world class police force and a group of City employees all of us are proud to call ours!

We look forward to a great working relationship with each of you.