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TARRANT COUNTY, TEXAS
COMMISSIONERS' COURT

Report to Those Charged with Governance

September 30, 2012

KPMG

KPMG LLP
Suite 3100
717 North Harwood Street
Dallas, TX 75201-6585

March 21, 2013

The Honorable County Judge and
Commissioners' Court
Tarrant County, Texas
Fort Worth, Texas

Ladies and Gentlemen:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund, and the aggregate remaining fund information of Tarrant County, Texas (the County) as of and for the year ended September 30, 2012, which collectively comprise Tarrant County's basic financial statements, and have issued our report thereon dated March 21, 2013. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Tarrant County Hospital District and the Mental Health and Mental Retardation of Tarrant County, as described in our report on Tarrant County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that reported on separately by those auditors. Under our professional standards, we are providing you with the accompanying information related to the conduct of our audit.

Our Responsibility under Professional Standards

We are responsible for forming and expressing an opinion about whether the financial statements, which have been prepared by management with the oversight of the Commissioners' Court are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We have a responsibility to perform our audit of the financial statements in accordance with auditing standards generally accepted in the United States of America. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected. Our audit does not relieve management or the Commissioners' Court of their responsibilities.

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In addition, in planning and performing our audit of the financial statements, we considered internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

We also have a responsibility to communicate significant matters related to the financial statement audit that are, in our professional judgment, relevant to the responsibilities of the Commissioners' Court in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the County's financial statements and our auditors' report thereon does not extend beyond the financial information identified in our auditors' report, and we have no obligation to perform any procedures to corroborate other information contained in these documents. We have, however, read the other information included in the County Comprehensive Annual Financial Report (or CAFR), and no matters came to our attention that cause us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Accounting Practices and Alternative Treatments

Significant Accounting Policies

The significant accounting policies used by the County are described in Note 1 to the financial statements.

Management Judgments and Accounting Estimates

The preparation of the financial statements requires management of the County to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Management's estimate of the County's Self-Insurance and Other Post Employment Benefits (OPEB) liabilities were developed by a third-party actuary operating under the names of AON and Towers Watson, respectively, based on historical data provided by management. We evaluated the key factors and assumptions used to develop the estimates and performed procedures to ensure the completeness of the data used by AON Risk Solutions and Towers Watson in developing these estimates.

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Uncorrected and Corrected Misstatements

Uncorrected Misstatements

In connection with our audit of the County's financial statements, we have not identified any significant financial statement misstatements that have not been corrected in the County's books and records as of and for the year ended September 30, 2012 and have communicated that finding to management.

Disagreements with Management

There were no disagreements with management on financial accounting and reporting matters that would have caused a modification of our auditors' report on the County's financial statements.

Management's Consultation with Other Accountants

To the best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants during the year ended September 30, 2012.

Significant Issues Discussed, or Subject to Correspondence, with Management

Major Issues Discussed with Management prior to Retention

We generally discuss a variety of matters with the governing body, and management each year prior to our retention as the County's auditors.

The result of these discussions was not a condition to our retention.

Material Written Communications

Attached to this letter please find copies of the following material written communications between management and us:

1. Management representation letter

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

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The Honorable County Judge and
Commissioners' Court
Tarrant County, Texas
March 21, 2013

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This letter to the Commissioners' County is intended solely for the information and use of the Commissioners' Court and management, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

TARRANT COUNTY

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March 21, 2013

KPMG LLP
717 N. Hardwood Street
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Ladies and Gentlemen:

We are providing this letter in connection with your audit of the financial statements of the Tarrant County, Texas, as of and for the year ended September 30, 2012 for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the 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 of the Tarrant County, Texas (the County), and the respective changes in financial position, and, where applicable, cash flows thereof in conformity with U.S. generally accepted accounting principles. We are also providing this letter to confirm our understanding that the purpose of your testing of transactions and records relating to County federal and state programs (A-133 audit) was to obtain reasonable assurance that the City had complied, in all material respects, with the requirements of laws, regulations, contracts, and grants that could have a direct and material effect on each of its major federal and state programs for the year ended September 30, 2012.

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 the 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(s):

1. The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles.

2. We have made available to you:

   a. All financial records and related data.

   b. All minutes of the meetings of the County Commissioners Court, or summaries of actions of recent meetings for which minutes have not yet been prepared.

3. Except as disclosed to you in writing, there have been no:

   a. Circumstances that have resulted in communications from the County's external legal counsel to the County reporting evidence of a material violation of securities law or breach of fiduciary duty, or similar violation by the County or any agent thereof.

   b. Communications from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.

   c. False statements affecting the County's financial statements made to the County's internal auditors, or other auditors who have audited entities under our control upon whose work you may be relying in connection with your audit(s).

4. 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. Unasserted claims or assessments that our lawyers have advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, *Accounting for Contingencies.*

   c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by SFAS No. 5.

   d. Material transactions, for example, grants and other contractual arrangements, that have not been properly recorded in the accounting records underlying the financial statements.

e. Events that have occurred subsequent to the date of the statement of net assets and through the date of this letter that would require adjustment to or disclosure in the financial statements.

5. We acknowledge our responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud. We understand that the term "fraud" includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.

6. We have no knowledge of any fraud or suspected fraud affecting the County involving:

   a. Management

   b. Employees who have significant roles in internal control over financial reporting, or

   c. Others where the fraud could have a material effect on the financial statements.

7. We have no knowledge of any allegations of fraud or suspected fraud affecting the County received in communications from employees, former employees, regulators, or others.

8. The County has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

9. We have no knowledge of any officer or Commissioner of the County, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate, or mislead you during your audit.

10. The following have been properly recorded or disclosed in the financial statements:

    a. Related party transactions including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments, and amounts receivable from or payable to related parties.

    b. Guarantees, whether written or oral, under which the County is contingently liable.

    c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and lines of credit or similar arrangements.

    d. Agreements to repurchase assets previously sold, including sales with recourse.

    e. Changes in accounting principle affecting consistency.

    f. The existence of and transactions with joint ventures and other related organizations.

11. The County 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.

12. The County has complied with applicable laws, regulations, contracts, donor restrictions, and grants that could have a material effect on the financial statements in the event of noncompliance.

13. Management is responsible for compliance with the laws, regulations, donor restrictions, and provisions of contracts and grant agreements applicable to the County. Management has identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts.

14. There are no deficiencies, significant deficiencies, or material weaknesses in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect the County's ability to initiate, authorize, record, process, or report financial data. We have applied the definitions of a "significant deficiency" and a "material weakness" in accordance with the definitions in Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit.*

15. The County's reporting entity includes all entities that are component units of the County. Such component units have been properly presented as either blended or discrete.

16. The financial statements properly classify all funds and activities, including governmental funds, which are presented in accordance with the fund type definitions in GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

17. All funds that meet the quantitative criteria in GASB Statement No. 34, *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 considered to be particularly important to financial statement users by management.

18. The County has not elected to apply the option allowed in paragraph 7 of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Activities*, to the enterprise and internal service funds.

19. Interfund, internal and intra-entity activity and balances have been appropriately classified and reported.

20. Amounts advanced to related entities represent valid receivables and are expected to be recovered at some future date in accordance with the terms of related agreements.

21. Receivables reported in the financial statements represent valid claims against debtors arising on or before the date of the statement of net assets and have been appropriately reduced to their estimated net realizable value.

22. Deposits and investment securities are properly classified and reported.

23. The County is responsible for determining the fair value of certain investments as required by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* as amended. The amounts reported represent the County's best estimate of fair value of investments required to be reported under the Statement. The County also has disclosed the methods and significant assumptions used to estimate the fair value of its investments, and the nature of investments reported at amortized cost.

24. We believe that all material expenditures or expenses that have been deferred to future periods will be recoverable.

25. Capital assets, including infrastructure assets, are properly capitalized, reported and, if applicable, depreciated.

26. The County has properly applied the requirements of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* including those related to the recognition of outlays associated with the development of internally generated computer software.

27. The County has no:

    a. Commitments for the purchase or sale of services or assets at prices involving material probable loss.

    b. Material amounts of obsolete, damaged, or unusable items included in the inventories at greater than salvage values.

    c. Loss to be sustained as a result of other-than-temporary declines in the fair value of investments.

28. The County has complied with all tax and debt limits and with all debt related covenants.

29. We have received opinions of counsel upon each issuance of tax-exempt bonds that the interest on such bonds is exempt from federal income taxes under section 103 of the Internal Revenue Code of 1986, as amended. There have been no changes in the use of property financed with the proceeds of tax-exempt bonds, or any other occurrences, subsequent to the issuance of such opinions, that would jeopardize the tax-exempt status of the bonds. Provision has been made, where material, for the amount of any required arbitrage rebate.

30. We believe that the actuarial assumptions and methods used to measure financial statement liabilities and costs associated with pension and other post-employment benefits and to determine information related to the County's funding progress related to such benefits for financial reporting purposes are appropriate in the County's circumstances and that the

related actuarial valuation was prepared in conformity with U.S. generally accepted accounting principles.

31. Components of net asset (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance components (nonspendable; restricted; committed; assigned; and unassigned) are properly classified and, if applicable, approved.

32. 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.

33. The County has identified and properly accounted for all nonexchange transactions.

34. 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.

35. We have disclosed to you all accounting policies and practices we have adopted that, if applied to significant items or transactions, would not be in accordance with U.S. generally accepted accounting principles. We have evaluated the impact of the application of each such policy and practice, both individually and in the aggregate, on the County's current period financial statements and assessment of internal control over financial reporting, and the expected impact of each such policy and practice on future periods' financial reporting. We believe the effect of these policies and practices on the financial statements and our assessment of internal control over financial reporting is not material. Furthermore, we do not believe the impact of the application of these policies and practices will be material to the financial statements in future periods.

36. We acknowledge our responsibility for the presentation of required supplementary information, such as management's discussion and analysis and budgetary comparison information, in accordance with the applicable criteria and prescribed guidelines established by the *Governmental Accounting Standards Board* and:

    a. Believe the required supplementary information, including its form and content, is fairly presented in accordance with the applicable criteria and prescribed guidelines.

    b. The methods of measurement or presentation of the required supplementary information have not changed from those used in the prior period.

    c. The significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information are reasonable and appropriate in the circumstances.

37. The County has complied with all applicable laws and regulations in adopting, approving and amending budgets.

38. We are responsible for establishing and maintaining effective internal control over compliance for federal and state programs that provides reasonable assurance that federal

awards are administered in compliance with laws, regulations, and the provisions of contracts or grant agreements.

39. We are responsible for understanding and complying with the requirements of laws and regulations and the provisions of contracts and grant agreements related to each of its federal and state programs.

40. We are responsible for taking corrective action on audit findings of the compliance audit.

41. We are responsible for the design and implementation of programs and controls to prevent and detect fraud in the administration of federal and state programs. We have no knowledge of any fraud or suspected fraud affecting the County's federal and state programs involving:

    a. Management, including management involved in the administration of federal and state programs
    b. Employees who have significant roles in internal control over the administration of federal and state programs
    c. Others where the fraud could have a material effect on compliance with laws and regulations, and provisions of contract and grant agreements related to its federal and state programs.

42. We are responsible for the presentation of the SEFA and SESA in accordance with OMB Circular A-133 and UGMS and:

    a. The methods of measurement or presentation of the supplementary information have not changed from those used in the prior period.
    b. The significant assumptions or interpretations underlying the measurement or presentation of the supplementary information are reasonable and appropriate in the circumstances.

Additionally, we confirm, to the best of our knowledge and belief, the following representations made to you during your A-133 and UGMS audits:

43. We are responsible for complying, and have complied, with the requirements of OMB Circular A-133 and UGMS.

44. The County has prepared the schedule of expenditures of federal and state awards (SEFA and SESA) in accordance with the requirements of OMB Circular A-133 and the State of Texas Uniform Grants Management Standards (UGMS) and:

    a. has included all expenditures made during the year ended September 30, 2012 for all awards provided by federal agencies in the form of grants, American Recovery and Reinvestment Act (ARRA), federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.

b. Appropriately identified and separated all ARRA awards within the SEFA.

45. The County has complied with requirements of laws and regulations, and the provisions of contracts and grant agreements related to each of its federal programs.

46. The County has disclosed to you any interpretations of any compliance requirements that have varying interpretations.

47. The County established and maintained effective internal control over compliance for federal programs that provides reasonable assurance that federal awards are administered in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on a federal program.

48. We have communicated to you all significant deficiencies and material weaknesses in the design or operation of internal control over compliance that we have identified which could adversely affect the County's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, and the provisions of contracts and grant agreements. Under standards established by the American Institute of Certified Public Accountants, a deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct on a timely basis noncompliance with a type of compliance requirement of a federal program. A "material weakness" is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected on a timely basis. A "significant deficiency" is a deficiency, or a combination of deficiencies, in internal control over compliance with a compliance requirement that, is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

49. We have identified and disclosed to you 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 major federal and state program.

50. We have made available all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities related to major federal and state programs.

51. We have made available all documentation related to the compliance requirements, including information related to federal financial reports and claims for advances and reimbursements for major federal and state programs.

52. We have identified and disclosed to you all questioned costs and any known noncompliance with the requirements of federal and state awards, including the results of other audits or program reviews.

53. We have disclosed to you any communications from grantors and pass-through entities concerning possible noncompliance with the applicable compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.

54. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.

55. The County is in compliance with documentation requirements contained in OMB Circular A-87, "Cost Principles for State, Local and Tribal Governments" for all costs charged to federal awards, including both direct costs and indirect costs charged through cost allocation plans or indirect cost proposals. Costs charged to federal awards are considered allowable under the applicable cost principles contained in OMB Circular A-87.

56. Federal financial reports and claims for advances and reimbursements are supported by the accounting records from which the financial statements have been prepared.

57. The copies of federal financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.

58. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133. If applicable, the has issued management decisions on a timely basis after receipt of subrecipient audit reports that identified non-compliance with laws, regulations, or the provisions of contracts or grant agreements and has ensured that subrecipients have taken appropriate and timely corrective action on such findings.

59. If applicable, we have considered the results of subrecipient audits and have made any necessary adjustments to its own accounting records.

60. We are responsible for, and have accurately prepared, the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133.

61. If applicable, we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

62. The County has accurately completed Part I of the data collection form.

63. The County has disclosed any known noncompliance occurring subsequent to the period for which compliance is audited.

64. The County has disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies (including material weaknesses), have occurred subsequent to the date as to which compliance is audited.

65. Further, we confirm that we are responsible for the fair presentation in the financial statements of financial position, changes in financial position, and cash flows in conformity with U.S. generally accepted accounting principles. We are also responsible for establishing and maintaining effective internal control over financial reporting.

Very truly yours,

Tarrant County, Texas

B. Glen Whitley

County Judge

S. Renee Tidwell

County Auditor