



CITY OF ROANOKE, VIRGINIA

Communication with the Audit Committee
of City Council

Year ended June 30, 2010



KPMG LLP
Suite 1710
10 S. Jefferson Street
Roanoke, VA 24011-1331

November 29, 2010

The Audit Committee of City Council
City of Roanoke, Virginia

Dear Members:

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Roanoke, Virginia (the City), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 29, 2010, which included a paragraph describing the adoption by the City of the provisions of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective July 1, 2009. Other auditors audited the financial statements of the School Board of the City of Roanoke, Virginia (the School Board), the discretely presented component unit of the City, as of and for the year ended June 30, 2010, and certain operations of the Civic Facilities fund, a major enterprise fund include in the business-type activities of the City, as of and for the year ended June 30, 2010, as described in our report on the City's financial statements. Under our professional standards, we are providing you with the following information related to the conduct of our audit.

Our Responsibility under Professional Standards

We are responsible for forming and expressing opinions about whether the financial statements, that have been prepared by management with the oversight of the audit committee, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We have a responsibility to conduct our audit of the financial statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements 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 audit committee of their responsibilities.

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



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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 audit committee in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you.

Significant Accounting Policies, Unusual Transactions and Accounting Practices

Significant Accounting Policies

The significant accounting policies used by the City are described in note 1 to the financial statements. In order to comply with the requirements of U.S. generally accepted accounting principles, the City adopted the provisions of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, and GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, both effective July 1, 2009. No other new accounting policies were adopted and the application of the City's existing accounting policies was not changed during fiscal year 2010.

Unusual Transactions

We noted no transactions entered into by the City during the fiscal year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Qualitative Aspects of Accounting Practices

We have discussed with the audit committee and management our judgments about the quality, not just the acceptability, of the City's accounting principles as applied in its financial reporting. The discussions generally included such matters as the consistency of the City's accounting policies and their application, and the understandability and completeness of the City's financial statements, which include related disclosures.

Management Judgments and Accounting Estimates

The preparation of the financial statements requires management of the City 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 period.

Allowance for Uncollectible Taxes and Accounts Receivable

The City calculates its allowance for uncollectible receivables based on historical collection data and specific account analysis. We evaluated the key factors and assumptions used to develop the allowance, including possible management bias in developing the estimate, in determining that the allowance for uncollectible receivables as of June 30, 2010 is reasonable in relation to the financial statements of the City.

Accruals for Workers' Compensation and Health Insurance Benefits

The City is self-insured for workers' compensation and health insurance benefits. The accrued liability for workers' compensation is based upon estimates of claims that have been incurred but not reported (IBNR)



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based on an annual actuarial study performed by a third party. The accrued liability for health insurance is based upon estimates of IBNR from the claims processor. We evaluated the key factors and assumptions used in the City's estimation methodology, including possible management bias in developing the estimate, in determining that management's estimates for both workers' compensation and health insurance benefits as of June 30, 2010 are reasonable in relation to the financial statements of the City.

Corrected and Uncorrected Misstatements

Audit Adjustments

We proposed no adjustments to the financial statements that could, in our judgment, either individually or in the aggregate, have a significant effect on the City's financial reporting process.

Uncorrected Misstatements

In connection with our audit of the City's financial statements, we have discussed with management certain financial statement misstatements that have not been corrected in the books and records of the City as of and for the year ended June 30, 2010. We have reported such misstatements to management on a Summary of Uncorrected Misstatements and have received written representations from management that management believes that the effects of the uncorrected financial statement misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Attached is a copy of the summary that has been provided to, and discussed with, management.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the City'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 any such document; for example, Management's Discussion and Analysis. We have, however, applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Disagreements with Management

There were no disagreements on financial accounting and reporting matters that, if not satisfactorily resolved, would have caused a modification of our auditors' report on the City's financial statements for the year ended June 30, 2010.

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 past year with the exception of obtaining opinions from Brown, Edwards, & Company, L.L.P., who audited the financial statements of the School Board, the discretely presented component unit of the City, and Cherry, Bekaert, and Holland, L.L.P., who audited certain operations of the Civic Facilities fund, a major enterprise fund included in the business-type activities of the City, as described in our report on the City's financial statements for the year ended June 30, 2010.

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 audit committee and management each year prior to our retention by the audit committee as the City's auditors. For the audit of the City's 2010 financial statements, we presented the audit committee and management with our formal audit plan and communicated the following matters:

- Scope of services
- KPMG's audit responsibility
- Timing of fieldwork
- Reporting deadlines and deliverables
- Significant audit areas and approach
- Client service team and staffing levels
- Coordination of prepared by client (PBC) items and schedules
- Current year developments
- Consideration of fraud
- Financial reporting key focus areas
- New auditing and accounting standards

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) Engagement letter,
- 2) Management representation letter; and
- 3) Summary of Uncorrected Misstatements

We have also issued our management letter, which was separately addressed to the audit committee, regarding internal control and other operational matters noted during our June 30, 2010 audit.

Significant Difficulties Encountered in Performing the Audit

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

Independence

We hereby confirm that as of November 29, 2010, we are independent accountants with respect to the City under all relevant professional and regulatory standards.



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Audit Committee Meeting Minutes

Our professional standards require that we read the minutes, if any, of audit committee meetings pertaining to audit committee communications for consistency with our understanding of these communications. In implementing this requirement, any inconsistency will require additional communication with the audit committee chair, at a minimum, and others who participated in the original communication, to the extent considered necessary in the circumstances.

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This letter to the audit committee is intended solely for the information and use of the audit committee 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