

PB&H
PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

The Mayor and Members of
City Council
City of Terrell, Texas

Gentlemen:

In planning and performing our audit of the financial statements of the City of Terrell, Texas as of and for the year ended September 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting 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.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated June 10, 2010, contains our report on the City's internal control. This letter does not affect our report dated June 10, 2010, on the financial statements of the City of Terrell, Texas.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Pattillo, Brown + Hill, L.L.P.

June 10, 2010

CITY OF TERRELL, TEXAS
COMMENTS AND SUGGESTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

COLLATERALIZATION

At year-end, the City's deposits at American National Bank were not adequately collateralized. Had the bank encountered financial difficulties, it would have been possible that the City would not have gotten all of its funds from the bank. The City should be in regular contact with the bank throughout the year to ensure that their accounts are all properly collateralized.

PRIOR YEAR COMMENTS

ACCOUNTING AND FINANCIAL REPORTING BY EMPLOYERS FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Prior Year Comment:

Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, issued in June 2004, establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

From an accrual accounting perspective, the cost of OPEB generally should be associated with the periods in which the exchange occurs, rather than with the periods (often many years later) when benefits are paid or provided. However, in current practice, most OPEB plans are financed on a pay-as-you-go basis, and financial statements generally do not report the financial effects of OPEB until the promised benefits are paid. As a result, current financial reporting generally fails to:

- Recognize the cost of benefits in periods when the related services are received by the employer;
- Provide information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded; and
- Provide information useful in assessing potential demands on the employer's future cash flows.

This Statement improves the relevance and usefulness of financial reporting by (a) requiring systematic, accrual-basis measurement and recognition of OPEB cost over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

Implementation is required for the City in the first fiscal period beginning after December 15, 2007. We recommend the City begin to formulate a strategy to meet the requirements of the new standard.

Current Status:

GASB Statement No. 45 went in to effect during the fiscal year 2009 audit.

UTILITY AND HANGAR BILLINGS

Prior Year Comment:

During our review of utility billings, we noted that the billing system also performs the billing for airplane hangar rentals. These billings continue to show up in water and sewer numbers throughout most of the year. At the end of the year, the hangar rental activity is removed from water and sewer receivables and revenues through a journal entry. This overstates water revenue and receivables throughout the year and makes it difficult to correct errors for the water and sewer numbers as the hangar activity is commingled with water and sewer revenue. Comparing water billings to water revenues is an audit procedure that must be performed to test proprietary revenues. Having hangar revenues in this line item during the year makes the billings test very time consuming and difficult to perform.

We recommend the City integrate a separate system to book hangar rental activity so it can remain separate from the water and sewer activities. This will allow hangar revenue to be posted to the general ledger on a timely basis as well as keep water and sewer revenue and receivables separate.

Current Status:

Unchanged

CUSTOMER ADJUSTMENTS

Prior Year Comment:

While testing water and sewer bills, we noted that the water and sewer billings are not integrated with the general ledger. We noted that when a credit was issued for a customer, the billing side was done correctly. However, there were occasions where these changes were not properly reflected in the general ledger. When the billing process does not directly integrate with the general ledger, the only way changes can be made to the general ledger is with journal entries.

We recommend the billing registers be reviewed on a timely basis to check for things such as credits or billing adjustments. After review, these adjustments should be made to the general ledger to properly state proprietary revenue and receivables. These adjustments should be made by a specific person and should be approved by management. This will ensure that billings and revenues are properly stated on the general ledger throughout the year.

Current Status:

The City is in the process of resolving this matter.

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We appreciate this opportunity to be of service to the **City of Terrell, Texas**. Should you have any questions or require further information, please do not hesitate to call.