

The Honorable Linda D. Thompson, Mayor,
Audit Committee, and Honorable
Members of City Council
City of Harrisburg, Pennsylvania

We have audited the financial statements 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 City of Harrisburg (City), Pennsylvania, as of and for the year ended December 31, 2009 and have issued our report thereon dated July 18, 2012. The financial statements of The Harrisburg Authority, the Harrisburg Parking Authority, the Coordinated Parking Fund, and the Redevelopment Authority of the City of Harrisburg were not audited in accordance with *Government Auditing Standards*. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the U.S. Office of Management and Budget (OMB) Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our conversation with you about planning matters on May 10, 2010. Professional standards also require that we provide you with the following information related to our audit.

Our Responsibilities under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated January 8, 2010, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. No new accounting policies were adopted and the application of existing policies was not changed during 2009. The significant accounting policies used by the City are described in Note 1 to the financial statements. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Contingent liabilities for component unit debt and other legal matters
- Collectability of receivables from customers and component units
- Market value of assets held for sale.
- Workers' compensation estimates for future liabilities.
- Depreciable lives of capital assets.
- Market value of investments.
- Guarantees.
- Utility receipt allocation.

We evaluated the key factors and assumptions used to develop the estimates noted above in determining that they are reasonable in relation to the financial statements taken as a whole.

Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Note 4 – Interfund balances and transfers
- Note 7 – Assets held for sale
- Note 15 – Interest rate swaps
- Note 17 – OPEB
- Note 19 – Accumulated deficits
- Note 20 – Financial recovery plan
- Note 21 – Commitments and contingencies
- Note 22 – Compliance
- Note 23 – Litigation
- Note 26 – Extraordinary item
- Note 27 – Subsequent events

Difficulties Encountered in Performing the Audit

We encountered significant delays in obtaining information related to open purchase orders, fund analytics, reconciliation of cash accounts, real estate taxes receivable, and capital assets.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. All misstatements detected as a result of audit procedures that were material, either individually or in the aggregate, to the financial statements taken as a whole, were corrected by management. Significant entries were made with respect to the City's recording of matching funds for the Third Street Extension Project in the federal grant fund, agency fund cash, deferred revenue, compensated absences, adjust receivables and related allowances, expenses allocations, due to other governments, debt, contingent liabilities, and accounts payable.

In addition, the attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 18, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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Communication to Those Charged with Governance
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Other Audit Findings or Issues

The independent auditor's report, on the City's December 31, 2009 financial statements, included a going concern paragraph, which emphasized that the City has suffered ongoing structural deficits, has been unable to fulfill its debt obligations and its obligations as guarantor of component unit debt, and has a net asset deficiency that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are described in Note 20. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Material weaknesses and significant deficiencies have been communicated to the City through the Single Audit Report. Additionally, other matters have been communicated to the City through a management letter.

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This information is intended solely for the information and use of the audit committee, management, and City Council and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Mahe Duessel

Harrisburg, Pennsylvania
July 18, 2012

Client: **12430-0000 - City of Harrisburg**
 Engagement: **12430 - CITY OF HARRISBURG**
 Period Ending: **12/31/2009**
 Trial Balance: **A-100 14 - Grant Fund - Federal Funds Trial Balance**
 Workpaper: **A-05-01a - Fund 14 Proposed JE Report**

Account	Description	W/P Ref	Debit	Credit
Proposed JE # 8		E-14-130		
	To record entry for deduction in loan not recorded by the City			
14000000-260000	GRANT PROCEEDS		48,750.00	
14000000-135000	LOANS AND ADVANCES			48,750.00
Total			48,750.00	48,750.00

Client: **12430-0000 - City of Harrisburg**
 Engagement: **12430 - CITY OF HARRISBURG**
 Period Ending: **12/31/2009**
 Trial Balance: **A-100 01 - General Fund Trial Balance**
 Workpaper: **A-05-02a - General Fund Proposed JE Report**

Account	Description	W/P Ref	Debit	Credit
Proposed JE # 13		E-01-100		
To record RE Tax penalty amounts as receivable at 12/31/09				
01000000-130079	REAL ESTATE CURRENT		206,746.00	
01000000-260010	REAL ESTATE TAX			206,746.00
Total			206,746.00	206,746.00
Proposed JE # 18		E-01-400		
To record HHA receivable				
01000000-135049	OTHER ENTITIES		214,489.00	
01000000-299000	FUND BAL-RETAINED EARNING			145,430.00
01000100-342089	HHA REIMBURSEMENT			69,059.00
Total			214,489.00	214,489.00

Client: 12430-0000 - City of Harrisburg
 Engagement: 12430 - CITY OF HARRISBURG
 Period Ending: 12/31/2009
 Trial Balance: A-100 99 - Accrual Fund Trial Balance
 Workpaper: A-05-03a - Governmental Activities Proposed JE Report

Account	Description	W/P Ref	Debit	Credit
Proposed JE # 28				
To record offset to passed general fund entry for real estate tax penalties				
99000000-260010	REAL ESTATE TAX		206,746.00	
99000100-301001	DISCOUNT PERIOD			206,746.00
Total			206,746.00	206,746.00
Proposed JE # 29				
To record entry for deduction in loan not recorded by City in fund 14				
99000000-260000	GRANT PROCEEDS		48,750.00	
99000000-138000	NOTE RECEIVABLE			48,750.00
Total			48,750.00	48,750.00
Proposed JE # 30				
To record HHA receivable				
99000000-138000	NOTE RECEIVABLE		214,489.00	
99000000-299000	FUND BAL-RETAINED EARNING			145,430.00
99000100-342097	SCHOOL DIST REIMBURSEMENT			69,059.00
Total			214,489.00	214,489.00
Proposed JE # 32				
To record settlement on property				
		A-07-011		
99019900-455002	BUILDINGS AND STRUCTURES		691,947.00	
99000000-210006	LEGAL			691,947.00
Total			691,947.00	691,947.00