

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, 2012. The financial statements of The Harrisburg Authority, the Harrisburg Parking Authority, and the Coordinated Parking Fund 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 June 20, 2013. 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 April 19, 2013, 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. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2012. 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.
- Fair value of assets held for sale.
- Workers' compensation estimates for future liabilities.
- Depreciable lives of capital assets.
- Fair value of investments.
- Guarantees.
- Actuarial assumptions used in the calculation of pension and other post-employment benefit liabilities.

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 – Special item – settlement with suburban municipalities
- Note 16 – Interest rate swaps
- Note 18 – OPEB
- Note 20 – Accumulated deficits
- Note 21 – Financial recovery plan
- Note 22 – Commitments and contingencies
- Note 23 – Compliance
- Note 24 – Litigation
- Note 26 – Subsequent events

Supplementary Information

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly 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 proposed with respect to the City's recording of grant revenue, receivables (utility, taxes and other) and related allowances, due to other funds and due to other governments, capital assets, accounts payable, lease payable, and debt.

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, a disagreement with management is 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 November 8, 2013.

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

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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.

Other Audit Findings or Issues

The independent auditor's report, on the City's December 31, 2012 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 21. 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 Honorable Mayor, Members of City Council, audit committee, and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maher Duessel

Harrisburg, Pennsylvania
November 8, 2013

Client: **12430-0000 - City of Harrisburg**
 Engagement: **12430 - CITY OF HARRISBURG**
 Period Ending: **12/31/2012**
 Trial Balance: **A-100 07 - Debt Service Fund Trial Balance**
 Workpaper: **A-05-01a - Debt Service Fund - Passed Adjustment Report**

Account	Description	W/P Ref	Debit	Credit
Proposed JE # 8		Q-580		
	To record accrued interest on 3rd and 4th quarter 2007 capital lease			
07000000-138001	GENERAL		42,638.00	
07700704-447030	GO INTEREST PMT		42,638.00	
07000000-254001	Accrued Interest - 2007 capital lease			42,638.00
07700700-398001	GENERAL			42,638.00
Total			85,276.00	85,276.00

Client: **12430-0000 - City of Harrisburg**
 Engagement: **12430 - CITY OF HARRISBURG**
 Period Ending: **12/31/2012**
 Trial Balance: **A-100 29 - Sewer Revenue Trust Fund Trial Balance**
 Workpaper: **A-05-02a - Sewer Fund Passed Adjustment Report**

<u>Account</u>	<u>Description</u>	<u>W/P Ref</u>	<u>Debit</u>	<u>Credit</u>
Proposed JE # 16		A-05-02		
To correct credit recorded to electrical expense twice in 2012 - voided check and reversal of accounts payable				
29292920-422020	ELECTRICITY		68,989.00	
29292940-422020	ELECTRICITY		62,251.00	
29000000-299000	FUND BAL-RETAINED EARNING			131,240.00
Total			<u>131,240.00</u>	<u>131,240.00</u>

Client: **12430-0000 - City of Harrisburg**
 Engagement: **12430 - CITY OF HARRISBURG**
 Period Ending: **12/31/2012**
 Trial Balance: **A-100 01 - General Fund Trial Balance**
 Workpaper: **A-05-03a - General Fund Proposed Journal Entry Report**

<u>Account</u>	<u>Description</u>	<u>W/P Ref</u>	<u>Debit</u>	<u>Credit</u>
Proposed JE # 36		P-230		
	To record liability for separation pay due and payable at 12/31/12			
01010188-419005	SEVERANCE PAY		216,328.00	
01040142-419005	SEVERANCE PAY		52,467.00	
01040151-419005	SEVERANCE PAY		9,781.00	
01000000-229000	OTHER ACCRUED EXPENSES			278,576.00
Total			<u>278,576.00</u>	<u>278,576.00</u>