



MAILLIE, FALCONIERO & COMPANY, LLP
Certified Public Accountants and Business Counselors

PO Box 680
Oaks, PA 19456-0680
610-935-1420

FAX NO.: 610-935-1632
www.maillie.com

George J. Falconero
James J. Lennon
John J. Crenny, Jr.
Frank L. Pellegrini
Sol I. Cohn
James M. Powers
Glenn B. Bachman
D. Scott Detar
Raymond T. Mock
Robert L. Caruso
Edward J. Furman
Robert L. Boland
Robert M. Manero

October 12, 2006

To the Members of City Council
City of York, Pennsylvania
York, Pennsylvania

We have audited the financial statements of the City of York, Pennsylvania for the year ended December 31, 2005, and have issued our report thereon dated October 12, 2006. Professional standards require that we provide you with the following information related to our audit.

**OUR RESPONSIBILITY UNDER U.S. GENERALLY ACCEPTED AUDITING
STANDARDS AND OMB CIRCULAR A-133**

As stated in our engagement letter dated May 22, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the City of York, Pennsylvania'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.



To the Members of City Council
City of York, Pennsylvania

- 2 -

October 12, 2006

As part of obtaining reasonable assurance about whether the City of York, Pennsylvania'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 of York, Pennsylvania's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City of York, Pennsylvania'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 of York, Pennsylvania's compliance with those requirements.

SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of York, Pennsylvania 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. We noted no transactions entered into by the City of York, Pennsylvania during the 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.

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. We have evaluated the key factors and assumptions used in establishing the estimates and believe they are reasonable.



To the Members of City Council
City of York, Pennsylvania

- 3 -

October 12, 2006

Material estimates are detailed below:

1. Depreciation and fixed asset life on assets capitalized in the financial statements.
2. The allowance for doubtful accounts for loans, taxes and accounts receivable.
3. The City's exposure to various risks of loss related to major medical self-insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claim liabilities are calculated considering the effects of recent claim settlement trends as determined by the City's independent third-party administrator.

AUDIT ADJUSTMENTS

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of York, Pennsylvania's financial reporting process (that is, cause future financial statements to be materially misstated). The following adjustments were made as a result of our audit, and, in our judgment, could have a significant effect on the City's financial reporting process:

- | | | |
|----|--|-------------------|
| 1. | Recorded deferred liability for grant funds received in excess of funds expended (General Fund). | \$ <u>59,192</u> |
| 2. | Recorded receivable for grant funds expended during 2005 (Capital Projects Fund). | \$ <u>489,117</u> |
| 3. | Adjustment made to reduce prepaid insurance and increase insurance expense to properly state prepaid insurance (Internal Service Fund). | \$ <u>215,661</u> |
| 4. | Recorded loan receivable due to City of York and corresponding deferred revenue (General Fund). | \$ <u>183,847</u> |
| 5. | Adjustment made to reduce Sewer Fees and adjust beginning retained earnings to correct the error made in the reversing of the prior year's accounts receivable (Sewer Fund). | \$ <u>929,431</u> |



To the Members of City Council
City of York, Pennsylvania

- 4 -

October 12, 2006

6.	To reclass revenue that was improperly posted to franchise fees to the correct revenue category of contributions in lieu of taxes (General Fund).	\$ <u>155,000</u>
7.	Adjustment made to remove receivable and revenue deferral that was posted twice (General Fund).	\$ <u>244,306</u>
8.	Adjustment made to remove a General Authority trust account that was posted as an asset on the Sewer Authority (Sewer Authority).	\$ <u>112,338</u>
9.	Adjustment made to reclass interest income that was posted to miscellaneous income to the investment income revenue category (Sewer Authority).	\$ <u>141,284</u>
10.	Various reclassification entries to adjust contributions and receivables as well as expense classifications (Weyer Trust).	\$ <u>48,344</u>
11.	Recorded interest income that was received in 2005 not recorded in the general ledger (General Fund).	\$ <u>47,594</u>
12.	Adjustment to reclass deposit in transit posted as accounts receivable (Sewer Intermunicipal Fund).	\$ <u>363,313</u>
13.	Recorded fees received in the control accounts as of December 31, 2005, not recorded in the general ledger (General Authority).	\$ <u>56,859</u>
14.	Adjustment to eliminate miscellaneous expense and revenue improperly posted to record a transfer between Authority cash accounts (General Authority).	\$ <u>45,775</u>
15.	Adjustment to correct cash balance and record due to other governments (Home Fund).	\$ <u>29,640</u>
16.	Adjustment to post unrecorded liability (Sewer Authority).	\$ <u>167,671</u>
17.	Adjustment to post unrecorded liability (Sewer Intermunicipal Fund).	\$ <u>92,668</u>



To the Members of City Council
City of York, Pennsylvania

- 5 -

October 12, 2006

- | | | |
|-----|--|-------------------|
| 18. | Adjustment to reverse receipt of revenue against receivable accrued in prior year (Sewer Authority). | \$ <u>77,500</u> |
| 19. | Adjustment to correct journal entry to reverse the prior year receivable improperly posted to miscellaneous expense (Health Fund). | \$ <u>104,282</u> |
| 20. | To adjust control cash account to appropriate balance and write off outstanding checks prior to 2005 (General Fund). | \$ <u>68,333</u> |

DISAGREEMENTS WITH MANAGEMENT

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

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 governmental unit'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 of York, Pennsylvania's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.



To the Members of City Council
City of York, Pennsylvania

- 6 -

October 12, 2006

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

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

Very truly yours,

Maillie, Falconiero & Company, LLP

MAILLIE, FALCONIERO & COMPANY, LLP
*Certified Public Accountants and
Business Counselors*