

# Zelenkofske Axelrod LLC

Members of City Council  
City of Allentown, Pennsylvania

We have audited the financial statements of the City of Allentown as of and for the year ended December 31, 2016, and have issued our report thereon dated June 27, 2017. Professional standards require that we advise you of the following matters relating to our audit.

## **Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated February 9, 2017, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance 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 respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City of Allentown solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

## **Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

## **Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, and our firm complied with all relevant ethical requirements regarding independence.

<b>Harrisburg</b>	<b>Philadelphia</b>	<b>Pittsburgh</b>	<b>Greensburg</b>
830 Sir Thomas Court, Suite 100 Harrisburg, PA 17109 717.561.9200 Fax 717.561.9202	2370 York Road, Suite A-5 Jamison, PA 18929 215.918.2277 Fax 215.918.2302	3800 McKnight E. Drive, Suite 3805 Pittsburgh, PA 15237 412.367.7102 Fax 412.367.7103	210 Tollgate Hill Rd Greensburg, PA 15601 724.834.2151 Fax 724.834.5969

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As part of our audit, we assisted with preparation of the City's financial statements and related notes. City management has acknowledged their responsibility as it relates to those nonaudit services, including that the City assumes all management responsibilities; oversee the services by designating an individual within senior management who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. City management has reviewed, approved, and accepted responsibility for those financial statements and related notes in its letter to us dated June 27, 2017.

## **Qualitative Aspects of the Entity's Significant Accounting Practices**

### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City of Allentown is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2016. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

The City of Allentown adopted all standards effective for the year ended December 31, 2016 promulgated by the Government Accounting Standards Board. These new adopted standards are described in Note 1 to the financial statements.

### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are allowances for uncollectible receivables, estimated useful lives of capital assets, and valuations of the pension and other postemployment benefit (OPEB) plans.

- Management's estimate of the allowances for uncollectible receivables is based on historic collection trends and management's estimate of the collectability of the outstanding receivables. We evaluated the key factors and assumptions used to develop the allowances and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

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- Management's estimate of the estimated useful lives of capital assets is based on historic length of time capital assets retain their usefulness to the City and in the City's operations. We evaluated the key factors and assumptions used to develop the estimated useful lives and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.
- Management uses the services of an actuary to estimate the net pension liabilities of the pension plans, Annual Required Contributions to the OPEB, and deferred inflows and deferred outflows of resources for the pension plans. The actuarial assumptions were adopted by the City of Allentown Pension Board and the Board of Pennsylvania Municipal Retirement System. We evaluated the key factors and assumptions used for valuation of the plans and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

## *Financial Statement Disclosures*

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the City of Allentown's financial statements relate to: revenue recognition; measurement focus, basis of accounting and financial statement presentation; fair value of investments; accounting for and disclosures about the utility system concession lease; credit and custodial credit risks; capital assets activities for the year; pension and other postemployment benefits (OPEB) plans valuation and disclosures; and long-term debt activities for the year.

## **Identified or Suspected Fraud**

We have not identified nor have we obtained information that indicates that fraud may have occurred.

## **Significant Difficulties Encountered during the Audit**

Although we ultimately received full cooperation of management and believe that we were given direct and unrestricted access to the City of Allentown's officials and senior management, we experienced significant difficulties in the performance of the audit owing to the delays of certain City of Allentown's accounting personnel in preparing the requested audit schedules as initially agreed. These delays in receiving incomplete or inaccurately prepared audit schedules added to the time needed to complete audit. We understand that there were individuals who were new to the year-end closing process in the areas they were assigned. Management does not anticipate these types of delays in the future.

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## **Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole or applicable opinion units.

## **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, which could be significant to the City of Allentown's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

## **Representations Requested from Management**

We have requested certain written representations from management, which are included in the attached letter dated June 27, 2017.

## **Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

## **Other Significant Matters, Findings, or Issues**

In the normal course of our professional association with the City of Allentown, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City of Allentown's auditors.

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## **Noncompliance with Laws and Regulations, Violations of Contract Provisions or Grant Agreements**

We have identified matters involving noncompliance with laws and regulations, violations of contract provisions or grant agreements that came to our attention during the course of the single audit. These instances of noncompliance have been reported in the Schedule of Findings and Questioned Costs presented in the single audit report package.

## **Other Information in Documents Containing Audited Financial Statements**

Pursuant to professional standards, our responsibility as auditors for other information in documents containing the City of Allentown 's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards, we have read the City's Comprehensive Annual Financial Report (CAFR) and determined that the manner of its presentation is consistent with the presentation in the financial statements.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

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



ZELENKOFSCHE AXELROD LLC  
Jamison, Pennsylvania  
June 29, 2017