

CITY OF READING

FINANCIAL AND COMPLIANCE AUDIT REPORT

Year Ended December 31, 2011

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HERBEIN+COMPANY, INC.

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INDEPENDENT AUDITOR'S REPORT

**Members of City Council
City of Reading
Reading, Pennsylvania**

We have audited the accompanying 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 Reading as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Reading's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Reading Area Water Authority and the Reading Redevelopment Authority. These financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they related to the amounts included for the Reading Area Water Authority and the Reading Redevelopment Authority, are based solely upon the reports of the other auditors.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As of December 31, 2011, the City of Reading was unable to provide records that reflect accounts receivable balances due by customer for the water and sewer operations.

In our opinion, except for the effect of such adjustments on the 2011 financial statements, if any, as might have been determined necessary had we been able to examine records reflecting accounts receivable balances due by customer for the water and sewer operations, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position 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 Reading as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the financial statements, the City of Reading adopted the provisions of *Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Activities*, beginning with the year ended December 31, 2011.

As more fully discussed in Note 2, the City is considered a distressed community under the provisions of the "Municipalities Financial Recovery Act" (Act 47) of the Commonwealth of Pennsylvania. Under the provisions of Act 47, the City adopted a financial recovery plan (Plan), which among other things, permits the City to increase certain tax rates and fees, levy new taxes, and requires reduction of certain spending levels. The Plan is intended to enable the City to maintain services at the current level. The implementation of the Plan is subject to periodic review by the Pennsylvania Department of Community and Economic Development.

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GREENSBURG



In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2012, on our consideration of the City of Reading's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and Schedules of Funding Progress and Employer Contributions - Retirement Plans and Schedule of Funding Progress and Employer Contributions - Post Employment Benefit Plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Reading's basic financial statements. The individual fund and combining nonmajor fund financial statements and schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the financial statements. The individual fund and combining nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund and combining nonmajor fund statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

Herbein + Company, Inc.

Reading, Pennsylvania
September 24, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Reading (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2011. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the City's basic financial statements that immediately follow this section.

FINANCIAL HIGHLIGHTS

- The City's net assets increased as a result of this year's operations. On a government-wide basis including all governmental activities and business-type activities, but excluding component units, the assets of the City exceeded its liabilities resulting in total net assets at the close of the fiscal year of \$62.8 million. This represents an increase of 47% over last fiscal year's net assets of \$42.8 million.
- During the year, the City had governmental expenses that were \$1.9 million less than the \$72.4 million generated in tax and other revenues for governmental programs. The difference was greater last year, when expenses exceeded revenues by \$10.5 million.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$23.0 million, an increase of \$8.1 million from the previous year. Approximately 83.4% of this total amount, \$19.2 million, is available for spending at the government's discretion (unassigned fund balance).
- In the City's business-type activities, operating revenues increased by \$8.3 million (or 15%) while operating expenses remained nearly flat, increasing by \$110,000.
- The general fund reported a surplus this year of \$8.1 million. As a result of the surplus, the general fund's fund balance ended the year with a positive \$19.2 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The Statement of Net Assets combines and consolidates the governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations.

Other non-financial factors should also be taken into consideration, such as changes in the City's property tax base and the condition of the City's infrastructure (i.e. roads, drainage, improvements, water and sewer lines, etc.), to assess the overall health or financial condition of the City. The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus,

revenues and expenses are reported in the this statement for some items that will only result in cash flows in future periods (e.g., uncollected taxed and earned but not used sick leave at termination.) Both the Statement of Net Assets and the Statement of Activities are prepared utilizing the accrual basis of accounting.

In the Statement of Net Assets and the Statement of Activities, the City is divided into three kinds of activities:

- **Governmental Activities** – Most of the City’s basic services are reported here, including general government, public safety, public works, culture and recreation, community development, and other expenses including interest payments on long-term debt.
- **Business-type Activities** – The City charges a fee to customers to help it cover all or most of the cost of certain services that it provides. The City’s Water, Sewer, and Recycling/Trash activities are reported here.
- **Component Units** – The City includes two separate component units in its report – Reading Parking Authority and the Reading Redevelopment Authority. Although legally separate, these component units are important because the City is financially accountable for them. Separately-issued statements are available for both the component units.

REPORTING THE CITY’S MOST SIGNIFICANT FUNDS

FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City establishes many other funds to help it to control and manage money for particular purposes or to show that it is meeting legal responsibilities for certain taxes, grants and other money. The City’s two funds – governmental and proprietary – utilize different accounting approaches.

Governmental Funds – The majority of the City’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short-term view of the City’s general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. By comparing information presented for governmental activities in the government-wide statements, readers may better understand the long-term effect of the government’s near-term financing decisions.

The City maintains three (3) major governmental funds, including: the General Fund, Community Development Fund, and the Agency Fund. All other funds are combined in the Non-Major Funds column.

Proprietary Funds – The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. The proprietary funds are broken down into Water Fund, Sewer Fund, Internal Service Funds and Other Enterprise Funds (Recycling/Trash). The fund financial statements consist of the balance sheets and income statements for all of the above listed funds.

THE CITY AS TRUSTEE

REPORTING THE CITY'S FIDUCIARY RESPONSIBILITIES

The City is trustee, or fiduciary, for the retirement funds of its various employee units. All of the City's fiduciary activities are reported in separate Statements of Net Assets – Fiduciary Funds and Changes in Net Assets – Fiduciary Funds. The activities of these funds are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

THE CITY AS A WHOLE – GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's combined net assets were \$62.8 million as of December 31, 2011. Analyzing the net assets of governmental and business-type activities separately, the governmental activities are -\$23.8 million and the business-type activities are \$86.7 million. The analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

The largest portion of the City's total assets (76%) reflects its investment in capital assets (e.g. land, buildings, machinery and equipment). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

TABLE 1
City of Reading, Pennsylvania
Net Assets
(amounts expressed in thousands)

	Governmental		% Change	Business - Type		% Change	Total		% Change
	Activities 2011	2010		Activities 2011	2010		2011	2010	
Current & Other Assets	108,348	105,051	3%	117,099	66,159	40%	225,447	171,210	32%
Capital Assets	53,999	47,453	14%	111,273	105,326	6%	165,272	152,779	8%
Total Assets	162,347	152,504	6%	228,372	171,485	33%	390,719	323,989	21%
Current & Other Liabilities	18,987	21,192	-12%	8,228	7,551	8%	27,215	28,743	-6%
Long-Term Liabilities	167,202	165,151	1%	133,495	87,322	35%	300,697	252,473	16%
Total Assets	186,189	186,343	0%	141,723	94,873	33%	327,912	281,216	14%
Net Assets:									
Invested in Capital Asset, net of related debts	0	0		31,350	42,846	-37%	31,350	42,846	-37%
Restricted	0	0		23,059	11,026	52%	23,059	11,026	52%
Unrestricted	-23,842	-33,839	30%	32,241	22,740	29%	8,399	-11,099	127%
Total Net Assets	-23,842	-33,839	30%	86,650	76,612	12%	62,808	42,773	47%

GOVERNMENTAL ACTIVITIES

To aid in understanding of the Statement of Activities, some additional explanation is given. Of particular interest is the format that is significantly different than a Statement of Revenues, Expenses, and Changes in Fund Balance.

You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants.

Table 3 presents the cost of each of the City's seven programs – General Government, Public Safety, Highways and Streets, Public Works – Other, Community Development, Culture and Recreation, Other Governmental Expenses and Debt Service– as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

TABLE 2
City of Reading, Pennsylvania
Changes in Net Assets
(amounts expressed in thousands)

	Governmental		%	Business - Type		%	Total		%
	Activities			Activities			Change		
	2011	2010	Change	2011	2010	Change	2011	2010	Change
Revenues:									
Program Revenues:									
Charges for services	20,800	14,789	29%	63,702	55,362	13%	84,502	70,151	17%
Operating Grants and Contributions	33,507	27,804	17%	576	339	41%	34,083	28,143	17%
General Revenues:				0	0		0	0	
Property Tax	19,741	16,543	16%	0	0		19,741	16,543	16%
Income Tax	16,589	15,976	4%	0	0		16,589	15,976	4%
Indirect Cost Allocation	2,278	2,013	188%	(2,278)	(1,856)	19%	0	(157)	
Other	6,421	542	92%	(23)	129		6,398	671	661%
Total Revenues:	99,336	77,667	18%	61,977	53,974	13%	161,313	131,641	16%
Expenses									
General Government	6,896	6,596	4%	0	0		6,896	6,596	4%
Public Safety	47,255	44,039	7%	0	0		47,255	44,039	7%
Highway and Streets	2,938	2,335	21%	0	0		2,938	2,335	21%
Public Works - Other	6,075	5,730	6%	0	0		6,075	5,730	6%
Community Development	21,783	24,658	-12%	0	0		21,783	24,658	-12%
Culture and Recreation	2,314	294	87%	0	0		2,314	294	87%
Other	1,421	1,634	-15%	0	0		1,421	1,634	-15%
Interest on Long Term Debt	7,919	8,239	-4%	0	0		7,919	8,239	-4%
Sewer				18,774	17,545	7%	18,774	17,545	7%
Water				20,021	16,995	15%	20,021	16,995	15%
Trash and Recycling				5,883	5,019	15%	5,883	5,019	15%
Total Expenses	96,601	93,525	3%	44,678	39,559	11%	141,279	133,084	6%
Excess (deficiency) of revenues over expenses before capital contributions and transfers	2,735	(15,858)		17,299	14,415	17%	20,034	(1,443)	
Transfers	7,262	7,520	-4%	(7,262)	(7,520)	-4%	0	0	
Increase (decrease) in net assets	9,997	(8,338)	262%	10,037	6,895	31%	20,034	(1,443)	89%
Net Assets-Beginning of Year (restated)	(33,839)	(25,501)	25%	76,613	69,718	9%	42,774	44,217	-3%
Net Assets-End of Year	(23,842)	(33,839)	-18%	86,650	76,613	12%	62,808	42,774	26%

TABLE 3
City of Reading, Pennsylvania
Governmental Activities
(amounts expressed in thousands)

	Total Cost of Services		% Change	Net Cost of Services		% Change
	2011	2010		2011	2010	
Expenses						
General Government	6,896	6,596	4%	9,334	8,627	8%
Public Safety	47,255	44,039	7%	(29,194)	(30,096)	-3%
Highway and Streets	2,938	2,335	21%	(1,411)	(910)	36%
Public Works - Other	6,075	5,730	6%	(4,151)	(2,836)	32%
Community Development	21,783	24,658	-12%	(9,524)	(15,049)	-58%
Culture and Recreation	2,314	294	87%	(1,154)	1,046	191%
Other	1,421	1,634	-15%	758	(1,462)	293%
Debt Service	7,919	8,239	-4%	(4,674)	(8,239)	43%
Total Expenses	96,601	93,525	4%	(40,016)	(48,919)	-15%

Business-Type Activities. Revenues of the City's business-type activities (see Table 2) increased by 13% (\$61.9 million in 2011 compared to \$53.9 million in 2010). However, expenses similarly increased by 11% (\$44.7 million in 2011 compared with \$39.6 million in 2010).

TABLE 4
City of Reading, Pennsylvania
Business Activities
(amounts expressed in thousands)

	Total Cost of Services		% Change	Net Cost of Services		% Change
	2011	2010		2011	2010	
Business Type Activities:						
Sewer	18,774	17,545	7%	14,621	10,360	29%
Water	20,021	16,995	15%	3,008	3,406	-13%
Trash and Recycling	5,883	5,019	15%	(307)	518	269%
Total Expenses	44,678	39,559	11%	17,322	14,284	18%

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The City's investment in capital assets as of December 31, 2011, amounted to \$129.9 million (net of accumulated depreciation). This investment, detailed in Table 5, is a broad range of capital assets including police and fire equipment, buildings, streets, water and sewer lines. This amount represents a net increase (including additions and deductions) of \$14.1 million or an 11% increase over the prior year.

TABLE 5
City of Reading, Pennsylvania
Capital Assets (net of depreciation and impairment loss)
(amounts expressed in thousands)

	Governmental			Business - Type			Total		% Change
	Activities		% Change	Activities		% Change	2011	2010	
	2011	2010		2011	2010				
Land	281	281	0%	2,074	2,074	0%	2,355	2,355	0%
Buildings	13,221	13,825	-5%	19,753	20,840	-6%	32,974	34,665	-5%
Machinery and Equipment	6,305	6,610	-5%	9,384	6,542	30%	15,689	13,152	16%
Improvements	18,497	15,351	17%	50,006	46,584	7%	68,503	61,935	10%
Infrastructure	1,923	2,084	-8%	0	0		1,923	2,084	-8%
Construction in Progress	13,772	9,303	32%	30,056	29,286	3%	43,828	38,589	12%
Total Net Assets	40,497	33,348	18%	89,446	82,412	8%	129,943	115,760	11%

Additional information regarding the City's capital assets can be found in Note 7 of the basic financial statements.

Long-Term Liabilities. At the end of the current year, the City's total long-term liabilities are as follows:

	Government Activities	Business Activities
Bond Premium, net of amortization	\$ -	\$ (713,880)
Bond Discount, net of amortization	524,739	782,532
Bonds/Notes/Leases Payable	(164,915,408)	(141,864,160)
Unamortized interest on capital appreciation bonds	-	4,088,614
Other Post Employment Benefits	(8,553,335)	(440,320)
Compensated Absences	(628,163)	-
Deferred Loss on Bond Issuance	4,133,449	300,381
	<u>\$ (169,438,718)</u>	<u>\$ (137,846,833)</u>

Bond Rating. The City's debt rating was **Baa2** by Moody's as of December 31, 2011. Insurance has been purchased to guarantee repayment of certain of the City's indentures.

THE CITY'S FUNDS

At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$23.0 million, an increase of \$8.1 million from the previous year. Approximately 83.4% of this total amount, \$19.2 million, is available for spending at the government's discretion (unassigned fund balance).

For the General Fund, the City has a surplus balance of \$1.9 million for the year ending December 31, 2011.

At the close of the current fiscal year, the City's proprietary funds reported combined ending fund balances of \$86.6 million, an increase of \$10.0 million from the previous year. Specifically, the Water Fund had a year-end balance of \$16.8 million, the Sewer Fund had a year-end balance of \$69.4 million, the Internal Service Fund had a year-end balance of \$2.6 million and the Other (non-major) Fund year-end balance was \$487 thousand.

ACT 47 STATUS

The City maintained its status within Act 47 for the fiscal year ending December 31, 2011. In partnership with the City's Act 47 coordinator, Public Financial Management (PFM), the City continued to take positive steps to reduce spending and improve revenues. However, the City still faces significant financial challenges which will force difficult choices to overcome long-term structural deficits.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT TEAM

The financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Carole Snyder, Managing Director at (610) 655-6222 or Matthew Bembenick, Director of Administrative Services at (610) 655-6227. Written inquiries may be made to City of Reading, 815 Washington Street, Room 2-48, Reading, PA 19601.

CITY OF READING
STATEMENT OF NET ASSETS

December 31, 2011

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Reading Parking Authority	Reading Redevelopment Authority
ASSETS					
Current assets					
Cash and cash equivalents	\$ 18,158,892	\$ 37,373,958	\$ 55,532,850	\$ 3,062,579	\$ 38,244
Investments	4,550,392	114,918	4,665,310	-	1,463,911
Accounts receivable, net	4,437,619	7,304,900	11,742,519	225,709	2,000
Taxes receivable, net	2,700,384	-	2,700,384	-	-
Internal balances	1,321,260	(1,321,260)	-	-	-
Intergovernmental receivables	9,322,056	3,798,662	13,120,718	1,060,122	-
Inventory	-	1,427,937	1,427,937	-	130,241
Other current assets	-	134,957	134,957	149,315	-
Lease rental receivable	110,000	-	110,000	-	-
Total current assets	40,600,603	48,834,072	89,434,675	4,497,725	1,634,396
Restricted assets					
Cash and investments	-	64,563,385	64,563,385	5,585,623	9,714
Other noncurrent assets					
Unamortized bond issue costs	3,900,382	2,681,680	6,582,062	448,883	-
Unamortized loan origination fee	-	-	-	202,516	-
Lease rental receivable, noncurrent	3,035,000	-	3,035,000	-	-
Notes receivable, noncurrent	21,771,020	-	21,771,020	-	-
Net pension asset	35,606,010	-	35,606,010	-	-
Lease receivable - noncurrent portion	-	-	-	-	3,363,804
Leased land rights	-	1,020,000	1,020,000	-	-
Deferred outflow of resources	3,434,733	-	3,434,733	-	-
Capital assets					
Land	280,960	2,074,359	2,355,319	2,614,070	-
Buildings, net of accumulated depreciation	13,220,603	19,753,216	32,973,819	40,463,454	-
Machinery and equipment, net of accumulated depreciation	6,304,640	9,384,264	15,688,904	598,400	-
Improvements, net of accumulated depreciation	18,497,366	50,005,556	68,502,922	64,042	-
Infrastructure, net of accumulated depreciation	1,923,134	-	1,923,134	-	-
Construction in progress	13,772,272	30,055,898	43,828,170	-	-
Total other noncurrent assets	121,746,120	114,974,973	236,721,093	44,391,365	3,363,804
TOTAL ASSETS	\$ 162,346,723	\$ 228,372,430	\$ 390,719,153	\$ 54,474,713	\$ 5,007,914

See accompanying notes.

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Reading Parking Authority	Reading Redevelopment Authority
LIABILITIES AND NET ASSETS					
LIABILITIES					
Current liabilities					
Accounts payable	\$11,880,325	\$3,486,081	\$15,366,406	\$ 234,395	\$ 11,773
Benefits payable	(215,445)	-	(215,445)	45,014	-
Accrued interest	900,422	208,365	1,108,787	59,198	11,112
Deferred revenue	426,163	-	426,163	67,063	-
Other current liabilities	324,381	57,061	381,442	-	-
Current portion lease payable	105,000	-	105,000	-	-
Current portion notes and bonds payable	5,566,537	4,476,086	10,042,623	2,862,925	105,000
Total current liabilities	18,987,383	8,227,593	27,214,976	3,268,595	127,885
Noncurrent liabilities					
Notes and bonds payable	155,933,871	137,388,074	293,321,945	38,928,749	3,310,000
Lease payable	3,310,000	-	3,310,000	-	-
Derivative instruments	3,434,733	124,391	3,559,124	-	-
Unamortized bond premium	-	713,880	713,880	-	-
Unamortized bond discount	(524,739)	(782,532)	(1,307,271)	-	-
Deferred loss on bond issuance	(4,133,449)	(300,381)	(4,433,830)	(2,922,806)	-
Unamortized interest on capital appreciation bonds	-	(4,088,614)	(4,088,614)	(6,144,308)	-
Other	-	-	-	62,426	-
Other post employment benefits	8,553,335	440,320	8,993,655	-	-
Accrued compensated absences	628,163	-	628,163	-	-
Total noncurrent liabilities	167,201,914	133,495,138	300,697,052	29,924,061	3,310,000
TOTAL LIABILITIES	186,189,297	141,722,731	327,912,028	33,192,656	3,437,885
NET ASSETS					
Invested in capital assets, net of related debt	-	31,349,686	31,349,686	11,015,406	(51,196)
Restricted for:					
Debt service	-	14,940,029	14,940,029	-	-
Capital projects	-	8,119,215	8,119,215	-	-
Unrestricted	(23,842,574)	32,240,769	8,398,195	10,266,651	1,621,225
TOTAL NET ASSETS	(23,842,574)	86,649,699	62,807,125	21,282,057	1,570,029
TOTAL LIABILITIES AND NET ASSETS	\$ 162,346,723	\$ 228,372,430	\$ 390,719,153	\$ 54,474,713	\$ 5,007,914

CITY OF READING
STATEMENT OF ACTIVITIES
Year Ended December 31, 2011

Functions/Programs	Expenses	Indirect Cost Allocation	Program Revenues			Net (Expense) Revenue and Changes in Net Assets					
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Unit (Reading Parking Authority)	Component Unit (Reading Redevelopment Authority)	
Primary government											
Governmental activities:											
General government	\$ 6,896,124	\$ (2,572,107)	\$ 5,879,990	\$ 7,778,332	\$ -	\$ 9,334,305	\$ -	\$ 9,334,305	\$ -	\$ -	
Public safety:											
Police	30,950,624	-	1,250,128	2,788,826	-	(26,911,670)	-	(26,911,670)	-	-	
Fire	12,560,699	-	3,406,534	80,896	-	(9,073,269)	-	(9,073,269)	-	-	
EMS	3,743,696	-	4,477,958	6,057,189	-	6,791,451	-	6,791,451	-	-	
Public works - highways and streets	2,938,585	-	131,191	1,396,630	-	(1,410,764)	-	(1,410,764)	-	-	
Public works - other	6,074,727	-	1,894,125	29,086	-	(4,151,516)	-	(4,151,516)	-	-	
Community development	21,781,973	293,584	1,070,898	11,480,682	-	(9,523,977)	-	(9,523,977)	-	-	
Culture and recreation	2,314,490	-	510,373	649,751	-	(1,154,366)	-	(1,154,366)	-	-	
Other	1,420,909	-	2,178,466	-	-	757,557	-	757,557	-	-	
Debt service - interest	7,919,458	-	-	3,245,567	-	(4,673,891)	-	(4,673,891)	-	-	
Total governmental activities	96,601,285	(2,278,523)	20,799,663	33,506,959	-	(40,016,140)	-	(40,016,140)	-	-	
Business-type activities:											
Water	20,020,747	802,170	23,897,474	(66,530)	-	-	3,008,027	3,008,027	-	-	
Sewer	18,774,058	1,173,849	34,075,799	493,061	-	-	14,620,953	14,620,953	-	-	
Trash and recycling	5,883,296	302,504	5,728,732	149,951	-	-	(307,117)	(307,117)	-	-	
Total business-type activities	44,678,101	2,278,523	63,702,005	576,482	-	-	17,321,863	17,321,863	-	-	
Total primary government	\$ 141,279,386	\$ -	\$ 84,501,668	\$ 34,083,441	\$ -	(40,016,140)	17,321,863	(22,694,277)	-	-	
Component Unit:											
Reading Parking Authority:											
Parking	\$ 7,566,057	\$ -	\$ 8,361,345	\$ -	\$ 404,540	-	-	-	1,199,828	-	
Reading Redevelopment Authority:											
Redevelopment	413,033	-	40,480	-	-	-	-	-	-	(372,553)	
General Revenues and Transfers:											
Taxes:											
Property taxes, levied for general purposes						19,741,355	-	19,741,355	-	-	
Earned income, franchise, and other taxes, levied for general purposes, net						16,588,606	-	16,588,606	-	-	
Investment earnings (loss)						6,270,909	226,114	6,497,023	543,028	6,995	
Miscellaneous income (expense)						-	(457,631)	(457,631)	3,848	178,277	
Change in derivative instrument						150,126	208,604	358,730	-	-	
Transfers						7,262,000	(7,262,000)	-	-	-	
Total General Revenues and Transfers						50,012,996	(7,284,913)	42,728,083	546,876	185,272	
Change in Net Assets						9,996,856	10,036,950	20,033,806	1,746,704	(187,281)	
Net Assets (Deficiency) - Beginning						(33,839,430)	76,612,749	42,773,319	19,535,353	1,757,310	
Net Assets (Deficiency) - Ending						\$ (23,842,574)	\$ 86,649,699	\$ 62,807,125	\$ 21,282,057	\$ 1,570,029	

See accompanying notes.

CITY OF READING
BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2011

	General	Community Development	Agency Fund	Nonmajor Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 9,235,559	\$ 1,076,035	\$ 901,035	\$ 1,925,843	\$ 13,138,472
Investments	1,081,934	-	45,472	572	1,127,978
Accounts receivable	4,435,204	-	-	-	4,435,204
Taxes receivable, net	2,003,286	-	-	-	2,003,286
Interfund receivable	5,500,470	452,057	1,211,764	1,081,106	8,245,397
Intergovernmental receivable	49,000	1,387,455	7,885,601	-	9,322,056
Lease rental receivable	3,145,000	-	-	-	3,145,000
Notes receivable - noncurrent	964,298	26,008,403	-	-	26,972,701
TOTAL ASSETS	\$ 26,414,751	\$ 28,923,950	\$ 10,043,872	\$ 3,007,521	\$ 68,390,094
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 1,161,061	\$ 931,044	\$ 7,315,087	\$ 251,060	\$ 9,658,252
Payroll withholdings	(215,445)	-	-	-	(215,445)
Interfund payable	-	1,633,450	1,548,934	125,038	3,307,422
Deferred revenue	5,922,811	26,008,403	426,163	-	32,357,377
Other liabilities	324,381	-	-	-	324,381
TOTAL LIABILITIES	7,192,808	28,572,897	9,290,184	376,098	45,431,987
FUND BALANCES					
Restricted for					
Capital projects	-	-	-	2,273,416	2,273,416
Debt service	-	-	-	163,693	163,693
Agency	-	-	753,688	-	753,688
Community development	-	351,053	-	-	351,053
Liquid fuels	-	-	-	194,314	194,314
Unassigned	19,221,943	-	-	-	19,221,943
TOTAL FUND BALANCES	19,221,943	351,053	753,688	2,631,423	22,958,107
TOTAL LIABILITIES AND FUND BALANCES	\$ 26,414,751	\$ 28,923,950	\$ 10,043,872	\$ 3,007,521	\$ 68,390,094

See accompanying notes.

CITY OF READING

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS

December 31, 2011

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 22,958,107

**Amounts reported for governmental activities in the statement
of net assets are different because:**

Capital assets used in governmental activities are not financial resources and therefore, are not reported as assets in governmental funds. The cost of the assets is \$105,692,433 and the accumulated depreciation is \$51,693,458. 53,998,975

Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and therefore, are deferred in the funds. 2,789,567

Other long-term loans (receivables) and lease rental receivable are not available to pay current period expenditures and therefore, are deferred in the funds. 30,117,701

Establish allowance for doubtful accounts - property taxes receivable (\$278,957) and other long-term asset receivables (\$5,201,681). (5,480,638)

Net pension asset established upon long-term financing of unfunded pension obligation to be amortized over future periods when benefit is received. 35,606,010

Internal service funds used by management to charge the costs of workman's compensation insurance and other insurance to individual funds. The change in net assets of internal service funds is transferred to the governmental funds. 2,606,462

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consists of:

Bond Discount, Net of Amortization	\$ 524,739	
Bond Issuance Costs, Net of Amortization	3,900,382	
Bonds/Notes/Leases Payable	(164,915,408)	
Accrued Interest on Bonds	(900,422)	
Other Post Employment Benefits	(8,553,335)	
Compensated Absences	(628,163)	
Deferred Loss on Bond Issuance	4,133,449	(166,438,758)

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES \$ (23,842,574)

CITY OF READING
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

Year Ended December 31, 2011

	General	Community Development	Agency Fund	Nonmajor Funds	Total Governmental Funds
Revenues:					
Real estate taxes	\$ 19,530,526	\$ -	\$ -	\$ -	\$ 19,530,526
Act 511 taxes	16,542,885	-	-	-	16,542,885
Licenses, permits and fines	4,609,149	-	-	-	4,609,149
Intergovernmental	6,904,119	10,221,591	15,370,796	1,329,673	33,826,179
Charges for services	7,394,066	1,062,183	-	-	8,456,249
Interest and rent	6,365,774	-	-	5,702	6,371,476
Other	11,081,920	-	169,020	34,520	11,285,460
TOTAL REVENUES	72,428,439	11,283,774	15,539,816	1,369,895	100,621,924
Expenditures:					
Current:					
General government	6,539,980	-	-	-	6,539,980
Public safety					
Police	26,382,256	-	481,227	-	26,863,483
Fire	10,707,904	-	169,633	-	10,877,537
EMS	3,710,804	-	-	-	3,710,804
Public works - highways and streets	443,761	-	-	2,777,888	3,221,649
Public works - other	6,174,727	-	-	-	6,174,727
Community development	2,633,815	11,102,305	9,004,952	-	22,741,072
Culture and recreation	730,278	-	5,836,998	-	6,567,276
Other	1,420,908	-	-	-	1,420,908
Capital outlays	-	-	-	1,979,333	1,979,333
Debt service - principal	4,595,703	-	-	-	4,595,703
Debt service - interest	7,157,409	-	-	-	7,157,409
TOTAL EXPENDITURES	70,497,545	11,102,305	15,492,810	4,757,221	101,849,881
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,930,894	181,469	47,006	(3,387,326)	(1,227,957)
OTHER FINANCING SOURCES (USES)					
Line of credit proceeds	-	-	-	3,245,567	3,245,567
Bond proceeds	21,265,000	-	-	-	21,265,000
Bond discounts	(22,310)	-	-	-	(22,310)
Swap termination fee	(1,350,000)	-	-	-	(1,350,000)
Line of credit issuance costs	-	-	-	(45,567)	(45,567)
Payment to escrow agent, refunding bond	(19,316,678)	-	-	-	(19,316,678)
Operating transfers in	7,262,000	-	-	-	7,262,000
Operating transfers out	(1,702,435)	-	-	-	(1,702,435)
TOTAL OTHER FINANCING SOURCES (USES)	6,135,577	-	-	3,200,000	9,335,577
NET CHANGE IN FUND BALANCES	8,066,471	181,469	47,006	(187,326)	8,107,620
FUND BALANCES - BEGINNING	11,155,472	169,584	706,682	2,818,749	14,850,487
FUND BALANCES - ENDING	\$ 19,221,943	\$ 351,053	\$ 753,688	\$ 2,631,423	\$ 22,958,107

See accompanying notes.

CITY OF READING

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2011

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 8,107,620

Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

Capital Outlays	\$ 9,872,876	
Less: Depreciation Expense	<u>(3,326,909)</u>	6,545,967

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These include the change of unavailable deferred revenue:

Tax Revenue	210,830	
Lease Rental Receivable	3,145,000	
Notes Receivable	<u>(4,498,156)</u>	(1,142,326)

Issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. However, neither transaction has any issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term transactions in the statement of activities as shown below:

Issuance of Bonds and Notes	(24,510,566)	
Bond Issue Costs (Income)	621,579	
Bond Discounts	22,310	
Amortization of Bond Discount	(37,299)	
Amortization of Deferred Gains/Losses on Bond Issuance	(432,302)	
Repayment of Bond Principal	4,495,703	
Payment to Escrow Agent	19,316,678	
Swap Termination Fee	1,350,000	
Amortization of Bond Issuance Costs	<u>(245,122)</u>	580,981

CITY OF READING

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES -
CONTINUED

Year Ended December 31, 2011

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest accrued in the statement of activities over the amount due is shown here. (92,449)

Recognition of investment income related to change in fair value of the investment derivative instrument 150,126

In the statement of activities, certain operating expenses - compensated absences (vacations and sick days) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used. 197,363

Internal service funds are used by management to charge the cost of insurance bond related claims to individual funds. Net revenues over expenditures were allocated back equitably to governmental activities. 1,229,411

Pension expense amortized to fund unfunded actuarial pension accrued liability in excess of the annual required contribution. (2,373,734)

Post employment benefits are recognized when they are paid on the fund statements. The estimated liability for future benefits due will be phased in over several years. This amount represents the difference between the estimated annual cost and the amount paid. (3,206,103)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 9,996,856

CITY OF READING

STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS

Year Ended December 31, 2011

	Water Fund	Sewer Fund	Nonmajor Enterprise Fund (Recycling)	Total Enterprise Funds	Internal Service Funds
ASSETS					
Current assets					
Cash and cash equivalents	\$ 5,923,155	\$ 31,412,910	\$ 37,893	\$ 37,373,958	\$ 5,020,420
Investments	114,918	-	-	114,918	3,422,414
Accounts receivable, net of allowance of \$6,934,629	3,047,668	2,818,891	1,438,341	7,304,900	2,415
Interfund receivables	1,934,782	4,283,763	338,888	6,557,433	523,804
Intergovernmental receivables	-	3,798,662	-	3,798,662	-
Other receivables	14,311	-	-	14,311	-
Inventory	1,427,937	-	-	1,427,937	-
Prepaid expenses	120,646	-	-	120,646	-
Total current assets	12,583,417	42,314,226	1,815,122	56,712,765	8,969,053
Restricted assets					
Cash and investments	57,562,261	7,001,124	-	64,563,385	-
Other noncurrent assets					
Unamortized bond issue costs	1,649,001	1,032,679	-	2,681,680	-
Leased land rights	1,020,000	-	-	1,020,000	-
Land	2,059,359	15,000	-	2,074,359	-
Buildings	7,789,674	38,240,779	-	46,030,453	-
Improvements	63,074,237	26,947,140	-	90,021,377	-
Machinery and equipment	13,511,372	8,954,784	823,415	23,289,571	-
Construction in progress	8,484,471	21,571,427	-	30,055,898	-
Less: accumulated depreciation	(41,733,145)	(37,974,794)	(490,426)	(80,198,365)	-
Total other noncurrent assets	55,854,969	58,787,015	332,989	114,974,973	-
TOTAL ASSETS	\$ 126,000,647	\$ 108,102,365	\$ 2,148,111	\$ 236,251,123	\$ 8,969,053

See accompanying notes.

	Water Fund	Sewer Fund	Nonmajor Enterprise Fund (Recycling)	Total Enterprise Funds	Internal Service Funds
LIABILITIES AND NET ASSETS					
LIABILITIES					
Current liabilities					
Accounts payable	\$1,780,231	\$ 1,341,548	\$ 364,302	\$ 3,486,081	\$ 120,303
Interfund payables	4,688,718	1,914,818	1,275,157	7,878,693	4,062,848
Accrued interest	208,365	-	-	208,365	-
Accrued claims	-	-	-	-	2,179,440
Escrow deposits	57,061	-	-	57,061	-
Current portion notes and bonds payable	3,146,098	1,329,988	-	4,476,086	-
Total current liabilities	<u>9,880,473</u>	<u>4,586,354</u>	<u>1,639,459</u>	<u>16,106,286</u>	<u>6,362,591</u>
Noncurrent liabilities					
Other post employment benefits obligations	174,067	244,915	21,338	440,320	-
Unamortized bond premium	713,880	-	-	713,880	-
Unamortized bond discount	(270,638)	(511,894)	-	(782,532)	-
Deferred loss on bond issuance	(237,150)	(63,231)	-	(300,381)	-
Unamortized interest on capital appreciation bonds	(4,088,614)	-	-	(4,088,614)	-
Derivative instrument	124,391	-	-	124,391	-
Notes and bonds payable	102,947,206	34,440,868	-	137,388,074	-
Total noncurrent liabilities	<u>99,363,142</u>	<u>34,110,658</u>	<u>21,338</u>	<u>133,495,138</u>	<u>-</u>
TOTAL LIABILITIES	109,243,615	38,697,012	1,660,797	149,601,424	6,362,591
NET ASSETS					
Invested in capital assets, net of related debt	4,635,223	26,381,474	332,989	31,349,686	-
Restricted for debt service	14,940,029	-	-	14,940,029	-
Restricted for capital projects	4,922,224	3,196,991	-	8,119,215	-
Unrestricted net assets	(7,740,444)	39,826,888	154,325	32,240,769	2,606,462
TOTAL NET ASSETS	16,757,032	69,405,353	487,314	86,649,699	2,606,462
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 126,000,647</u>	<u>\$ 108,102,365</u>	<u>\$ 2,148,111</u>	<u>\$ 236,251,123</u>	<u>\$ 8,969,053</u>

CITY OF READING
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS

Year Ended December 31, 2011

	Water Fund	Sewer Fund	Nonmajor Enterprise Fund (Recycling)	Total Enterprise Funds	Internal Service Funds
OPERATING REVENUES					
Charges for services	\$23,869,929	\$ 34,075,799	\$ 5,699,507	\$ 63,645,235	\$ -
Other	27,545	-	29,225	56,770	617,060
TOTAL OPERATING REVENUES	23,897,474	34,075,799	5,728,732	63,702,005	617,060
OPERATING EXPENSES					
Personnel	4,706,657	5,450,563	895,173	11,052,393	77,464
Depreciation	2,366,058	2,569,120	96,494	5,031,672	-
Other	10,625,019	8,798,387	5,194,133	24,617,539	2,807,818
TOTAL OPERATING EXPENSES	17,697,734	16,818,070	6,185,800	40,701,604	2,885,282
NET OPERATING INCOME (LOSS)	6,199,740	17,257,729	(457,068)	23,000,401	(2,268,222)
NONOPERATING REVENUES (EXPENSES)					
Grants	(66,530)	493,061	149,951	576,482	-
Interest income	194,291	31,823	-	226,114	21,563
Interest expense	(2,256,548)	(2,224,837)	-	(4,481,385)	-
Change in derivative instrument	208,604	-	-	208,604	-
Other	9,845	(481,784)	14,308	(457,631)	-
NET NONOPERATING REVENUES (EXPENSES)	(1,910,338)	(2,181,737)	164,259	(3,927,816)	21,563
INCOME (LOSS) BEFORE OPERATING TRANSFERS	4,289,402	15,075,992	(292,809)	19,072,585	(2,246,659)
Operating transfers in	-	-	-	-	3,476,070
Operating transfers out	(4,913,635)	(4,080,000)	(42,000)	(9,035,635)	-
NET INCOME (LOSS)	(624,233)	10,995,992	(334,809)	10,036,950	1,229,411
NET ASSETS, BEGINNING OF YEAR	17,381,265	58,409,361	822,123	76,612,749	1,377,051
NET ASSETS, END OF YEAR	\$ 16,757,032	\$ 69,405,353	\$ 487,314	\$ 86,649,699	\$ 2,606,462

See accompanying notes.

CITY OF READING
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended December 31, 2011

	Water Fund	Sewer Fund	Nonmajor Enterprise Fund (Recycling)	Totals	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 23,265,958	\$ 34,233,397	\$ 5,670,862	\$ 63,170,217	\$ 614,645
Cash payments to employees for services	(4,706,657)	(5,402,580)	(886,228)	(10,995,465)	(77,464)
Cash payments to suppliers for goods and services	(9,289,616)	(16,381,382)	(6,789,027)	(32,460,025)	835,900
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	9,269,685	12,449,435	(2,004,393)	19,714,727	1,373,081
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Nonoperating revenues/expenses, net	9,845	(481,784)	14,308	(457,631)	-
Grants	(66,530)	493,061	149,951	576,482	-
Operating transfers in	-	-	-	-	3,476,070
Operating transfers out	(4,913,635)	(4,080,000)	(42,000)	(9,035,635)	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(4,970,320)	(4,068,723)	122,259	(8,916,784)	3,476,070
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from bonds payable, less discount and issuance costs	48,975,805	-	-	48,975,805	-
Proceeds from note payable	1,806,590	-	-	1,806,590	-
Advance to bond proceeds account	(40,971,012)	-	-	(40,971,012)	-
Acquisition of property and equipment	(8,388,007)	(2,585,906)	(4,700)	(10,978,613)	-
Interest paid	(1,518,590)	(2,224,837)	-	(3,743,427)	-
Payments of long-term debt	(4,495,654)	(1,195,100)	-	(5,690,754)	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(4,590,868)	(6,005,843)	(4,700)	(10,601,411)	-
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest earnings	178,160	31,823	-	209,983	21,563
Net purchase (redemption) of investments	32	7,036,242	-	7,036,274	(17,565)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	178,192	7,068,065	-	7,246,257	3,998
NET INCREASE (DECREASE) IN CASH	(113,311)	9,442,934	(1,886,834)	7,442,789	4,853,149
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	6,036,466	21,969,976	1,924,727	29,931,169	167,271
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 5,923,155</u>	<u>\$ 31,412,910</u>	<u>\$ 37,893</u>	<u>\$ 37,373,958</u>	<u>\$ 5,020,420</u>

See accompanying notes.

CITY OF READING
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - CONTINUED

Year Ended December 31, 2011

	Water Fund	Sewer Fund	Nonmajor Enterprise Fund (Recycling)	Totals	Internal Service Fund
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 6,199,740	\$ 17,257,729	\$ (457,068)	\$ 23,000,401	\$ (2,268,222)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation expense	2,366,058	2,569,120	96,494	5,031,672	-
Amortization of bond issue costs	71,782	47,750	-	119,532	-
Amortization of bond (premium) discount costs	-	23,445	-	23,445	-
Amortization of deferred loss on bond issuance	60,549	290,285	-	350,834	-
Net (increase) decrease in assets:					
Accounts receivable	(681,625)	157,598	705,545	181,518	(2,415)
Other receivables	29,673	-	-	29,673	-
Prepaid expenses	(120,646)	-	-	(120,646)	-
Due from other funds	3,759,744	(2,882,145)	-	877,599	3,040,976
Due from other governments	-	(1,196,237)	-	(1,196,237)	-
Inventory	268,013	-	-	268,013	-
Net increase (decrease) in liabilities:					
Accounts payable	546,085	249,299	27,184	822,568	50,000
Due to other funds	(3,250,124)	(4,115,391)	(1,622,078)	(8,987,593)	967,423
Other liabilities	20,436	47,982	(754,470)	(686,052)	-
Accrued claims	-	-	-	-	(414,681)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 9,269,685	\$ 12,449,435	\$ (2,004,393)	\$ 19,714,727	\$ 1,373,081

See accompanying notes.

CITY OF READING
STATEMENT OF NET ASSETS - FIDUCIARY FUNDS
December 31, 2011

	Pension Trust Funds
ASSETS	
Cash and cash equivalents	\$ 8,742,673
Investments	155,330,985
TOTAL ASSETS	\$ 164,073,658
 LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable	\$ 207,671
Interfund payable	77,671
TOTAL LIABILITIES	285,342
 NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	 163,788,316
TOTAL NET ASSETS AND LIABILITIES	\$ 164,073,658

See accompanying notes.

CITY OF READING

STATEMENT OF CHANGES IN NET ASSETS - FIDUCIARY FUNDS

Year Ended December 31, 2011

	<u>Pension Trust Funds</u>
ADDITIONS	
Contributions	
Member, city and state contributions	\$ 9,830,263
Investment income	
Interest and dividends	4,159,319
Realized and unrealized gain (loss) on value of investments	<u>(4,332,615)</u>
TOTAL ADDITIONS	9,656,967
DEDUCTIONS	
Benefits, including tax withheld	17,020,278
Administrative expenses	1,015,268
Refunds paid	<u>292,901</u>
TOTAL DEDUCTIONS	<u>18,328,447</u>
NET DECREASE	(8,671,480)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, BEGINNING OF YEAR	<u>172,459,796</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, END OF YEAR	<u><u>\$ 163,788,316</u></u>

CITY OF READING

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

The City of Reading, Pennsylvania (the City) was founded by Thomas and Richard Penn in 1748, established as a borough in 1783 and incorporated as a city on March 26, 1847. The City operates as a home rule/strong mayor form of government and provides all municipal services to its residents. Those services include: public safety (police, fire, and emergency medical services), highways and streets, sanitation, economic development, cultural and recreational, public improvements, planning and zoning, and general administrative services.

The major accounting principles and practices followed by the City are presented below to assist the reader in evaluating the financial statements and the accompanying notes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City conform to generally accepted accounting principles as applicable to governmental units. The more significant policies and practices of the City are discussed in subsequent sections of this Note. The remainder of the notes are organized to provide explanations, including required disclosures of the City's financial activities for the year ended December 31, 2011.

A summary of the City's significant accounting policies is as follows:

A. Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City (the primary government) and its component units.

The City used guidance contained in generally accepted accounting principles to evaluate the possible inclusion of related entities (authorities, boards, councils, etc.) within its reporting entity. The criteria used by the City for inclusion are financial accountability and the nature and significance of the relationships. In determining financial accountability in a given case, the City reviews the applicability of the following criteria. The City is financially accountable for:

- Organizations that make up the legal City entity.
- Legally separate organizations if City officials appoint a voting majority of the organizations' governing body and the City is able to impose its will on the organization, or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City as defined below.

Impose its will - If the City can significantly influence the programs, projects or activities of, or the level of services performed or provided by, the organization.

Financial benefit or burden - exists if the City (1) is entitled to the organization's resources; (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization; or (3) is obligated in some manner for the debt of the organization.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- Organizations that are fiscally dependent on the City. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes, set rates or charges, or issued bonded debt without approval by the City.

Based on the foregoing criteria, the reporting entity has been defined to include all criteria for which the City is financially accountable or for which there is another significant relationship. Specific information on the nature of the various potential component units and a description of how the aforementioned criteria have been considered in determining whether or not to include or exclude such units in the City's financial statements are provided in the following paragraphs. Separately published audit reports of the component units are available for public inspection in the City's finance office.

1. Blended Component Units

Some component units, despite being legally separate from the primary government (City), are so intertwined with the primary government that they are, in substance, the same as the primary government and are reported as part of the primary government. The component unit reported in this way is the Reading Area Water Authority.

Reading Area Water Authority - The authority was formed pursuant to the Municipal Authority Act of 1986 for the purpose of providing certain utility services to the residents of the City, through lease of city-owned assets. The five-member board of directors is appointed by the mayor. The Authority's only financial transaction is the operation of the water operations on behalf of the City. The Authority publishes a separate financial statement and is accounted for in the enterprise funds of the City's financial statements.

2. Discretely Presented Component Units

Component units which are not blended as part of the primary government are discretely presented, which entails reporting component unit financial data in a column separate from the financial data of the primary government. The component units presented in this way are the Reading Parking Authority and the Reading Redevelopment Authority.

Reading Parking Authority - The Authority was incorporated in 1953 under the provisions of the parking authority law. The entire board of directors is appointed by the mayor, and members can be removed from the board at will. The Authority was formed to provide parking facilities to residential and commercial users. The City has agreed to guarantee all of the existing revenue bonds of the Authority.

Reading Redevelopment Authority - The Redevelopment Authority was established pursuant to the Urban Redevelopment Act of 1945 (Public Law-991). The Redevelopment Authority is administered by a five-member board, all of whom are appointed by the mayor. The Authority was established to provide a broad range of urban renewal and maintenance programs within the City, in addition to coordination of efforts to improve the economic vitality, the housing stock and overall living conditions within the City. The Redevelopment Authority operates on a calendar year. The City is presently financing operations of the Redevelopment Authority.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Potential Component Units Excluded

Reading Housing Authority - The Housing Authority was established pursuant to the housing authority law to promote the availability of safe and sanitary dwelling accommodations at affordable rents to families of low income. The Housing Authority is administered by a five-member board, all of whom are appointed by the mayor.

The Housing Authority operates low rent subsidized housing projects established within the City. The Authority manages the acquisition of federal and state funds for the construction and/or improvements to low income properties and reviews programs with the landlords to insure compliance with various rules and regulations. The City has no financial accountability over the Authority's operations.

The Housing Authority operates and reports on a fiscal year ending March 31.

School Board and Other Entities

The reporting entity excludes the Reading School District and Reading Area Community College (RACC), both of which operate within the City's geographic boundaries. The School District is a governmental unit with its own elected governing body, and RACC is governed by a board of trustees whose members are appointed by the County of Berks.

4. Related Organizations

The city council and mayor are also responsible for appointing the members of several boards, but the City's accountability for these organizations does not extend beyond making appointments. These boards include:

Stadium Commission
Plumbing Board of Examiners
Heating Board of Examiners
Vacant Property Review Committee
Board of Historical and Architectural Review
Board of Health
Electricians Examining Board

The amounts the City appropriated to these organizations during the year ended December 31, 2011, were immaterial to the basic financial statements taken as a whole.

CITY OF READING

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Measurement Focus and Basis of Accounting

The basic financial statements of the City are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to financial statements

1. **Government-wide financial statements** (i.e., the statement of net assets and the statement of activities) display information about the reporting entity, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government, as well as its discretely presented component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions.*

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or segment. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment. In addition, program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function or business activity is self-financing or the extent it is covered by the general revenues of the City.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as expenditure.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are the yearly contributions made to the component units from the City's governmental funds and transfers between governmental funds and business-type and fiduciary funds. Elimination of these contributions would distort the direct costs and program revenues reported for the various functions concerns. The City chooses to allocate indirect costs in a separate column in the government-wide financial statements.

- 2. Fund financial statements.** The underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for as individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The financial statements for governmental, proprietary, and fiduciary funds are presented after the government-wide financial statements. These statements display information about major funds individually and nonmajor funds in the aggregate for governmental and enterprise funds. The fiduciary statements include financial information for the private purpose trust fund and activity fund. The agency fund primarily represents assets held by the City in a custodial capacity for other individuals or governments, and do not involve the measurement of results of operations. Agency funds do not have a measurement focus, but assets and liabilities are reported using the accrual basis of accounting. The private purpose trust fund accounts for the additions and deductions to the trust fund in a manner similar to a proprietary fund.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

- **Governmental funds**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected with 60 days of the end of the current fiscal period.

CITY OF READING

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Revenue from federal, state, and other grants designated for payment of specific city expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recorded as deferred revenues until earned. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Under the current financial resources measurement focus, only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered to be a measure of "available spendable resources."

Governmental funds operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as other financing source rather than as a fund liability. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

- **Proprietary funds**

The City's enterprise funds are proprietary funds. In the fund financial statements, proprietary funds are presented using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, proprietary funds are presented using the economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net assets. The City applies all GASB pronouncements as well as all FASB Statements and Interpretations, APB Opinions and Accounting Research Bulletins, issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements.

Proprietary fund operating revenues and expenses, such as charges for services, program services, and administrative expenses, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues and expenses, such as operating grants, subsidies, investment earnings, interest expense, and bond issuance costs, result from nonexchange transactions or ancillary activities.

CITY OF READING

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Amounts paid to acquire capital assets are capitalized as assets in the fund financial statements, rather than reported as expenses. Proceeds of long-term debt are recorded as a liability in the fund financial statements, rather than as revenue. Amounts paid to reduce long-term indebtedness are reported as a reduction of the related liabilities, rather than an expense.

C. Basis of Presentation

The determination of major funds is based on minimum criteria as set forth in GASB Statement No. 34, "*Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*". The nonmajor funds are combined in a column in the fund financial statements. The following are the City's major funds for 2011:

1. Governmental Fund Types

General Fund: This fund is established to account for resources devoted to financing the general services that the City performs for its citizens. General tax revenues and other sources of revenue used to finance the fundamental operations of the City are included in this fund. The fund is charged with all costs of operating the government for which a separate fund has not been established.

Community Development (Special Revenue Fund): This fund was established to account for the proceeds of specific revenue sources other than special assessments, expendable trusts, or major capital projects that are legally restricted to expenditures for specified purposes.

Agency Funds: These special revenue funds are established for the purpose of accumulating special purpose grants and other resources for purposes (other than for community development of capital projects) that are restricted to expenditures for specified purposes as imposed by outside parties.

The City has the following nonmajor funds:

Debt Service Fund: This fund is established for the purpose of accumulating resources for the payment of interest and principal on long-term general obligation debt other than those payable from Enterprise Funds.

Capital Projects Fund: This fund is established to account for major capital expenditures not financed by Enterprise Funds, Internal Service Funds, or Trust Funds.

Liquid Fuels Fund: This special revenue fund is established to account for liquid fuels tax revenue allocated by the Commonwealth of Pennsylvania.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Proprietary Fund Types

Enterprise Funds: (Water Fund and Sewer Fund are major funds). These funds are maintained to account for activities that are financed and operated in a manner similar to private business, with the intent that the costs (expenses, including depreciation) of providing goods or services on a continuing basis be financed or recovered, primarily through user charges.

Internal Service Funds: Internal Service Funds (Self-Insurance) are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other Governments on a cost-reimbursement basis.

3. Other Fiduciary Fund Types

Pension Trust Funds: These funds were established to provide pension benefits for City employees. The principal revenue source for these funds is employer and employee contributions (includes Police, Fire, and Officers and Employees Trust Funds).

D. Cash and Cash Equivalents

The City's reporting entity considers all highly-liquid investments with a maturity of three months or less when purchased to be cash equivalents. Exceptions include the three pension funds which classify cash as cash equivalents in order to appropriately report investment activity.

E. Investments

For funds other than Pension Trust Funds, State law allows the City to invest in obligations of the United States of America, the Commonwealth of Pennsylvania or any agency or instrumentality of either, which are secured by the full faith and credit of such entity. The law also allows for the City to invest in certificates of deposit of banks, savings and loan associations and savings banks both within and outside the Commonwealth of Pennsylvania provided such amounts are insured by the FDIC or other like insurance and that deposits in excess of such insurance are collateralized by the depository. The State also imposes limitations with respect to the amount of investments in certificates of deposit to the extent that such deposits may not exceed 20 percent of a bank's total capital surplus or 20 percent of a savings and loan association's or savings bank's net assets.

Compensated absences are reported as accrued on the government-wide, proprietary and component unit financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees and are included in wages and benefits payable.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The City may also invest in shares of registered investment companies, provided that investments of such companies are in authorized investments as noted above.

The law provides that the City's Pension Trust Funds may be invested in any form or type of investment or financial instrument when determined by the City to be prudent.

Temporary cash investments and investments for all funds, except the Pension Trust Funds, are stated at market value. Investments of the Pension Trust Funds are stated at fair value, in accordance with the provisions of Statement 25 of the Governmental Accounting Standards Board.

F. Receivables/Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the year are referred to as "interfund receivables/payables." Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as "internal balances."

G. Inventories

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

Inventories of the governmental funds, consisting principally of expendable supplies, are recorded under the purchase method. Inventories are recorded as expenditures when purchased.

Inventories of the enterprise funds are carried at the lower of cost or market, using the first-in, first-out method.

H. Prepaid Expenses

In both the government-wide and fund financial statements, prepaid expenses are recorded as assets in the specific governmental fund in which future benefits will be derived.

CITY OF READING

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

I. Capital Assets, Depreciation, and Amortization

The City's property, plant, and equipment, with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Proprietary capital assets are also reported in their respective financial statements. The government reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount. In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

The City generally capitalizes assets with cost of \$5,000 or more as purchase and construction outlays occur. Assets purchased or constructed with long-term debt may be capitalized regardless of the threshold established. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	10 - 40
Machinery and equipment	3 - 25
Improvements	5 - 75
Infrastructure	30 - 50

J. Capitalized Interest

Interest costs are capitalized when incurred by proprietary funds and similar component units on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

K. Long-Term Debt, Deferred Debt Expense, and Bond Discounts/Premiums

In the government-wide, proprietary, and component unit financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs and discounts are reported as expenditures.

L. Compensated Absences

The City allows employees to accumulate sick leave based on contractual agreements. Police accumulate a maximum of 30 days; firemen accumulate a maximum of 105 days; nonuniformed employees accumulate a maximum of 45 days of sick leave. Upon termination, police are paid their accumulated sick leave at their hourly rate. Firemen and nonuniformed employees, upon retirement only, are paid at the rate of \$30 per day and \$20 per day, respectively, for accumulated sick leave. Earned vacation time is generally required to be used within one year of accrual. Additionally, all employees are permitted to accrue compensatory time, paid at their standard hourly rate upon termination.

M. Unearned and Deferred Revenues

Revenues that are received but not earned are deferred in the government-wide and enterprise funds financial statements. In the City's governmental funds, deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred and unearned revenues also arise when resources are received by the government before it has legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has legal claim to the resources, the liability for unearned revenue is removed from the governmental funds' balance sheet and revenue is recognized.

N. Net Assets

Government Accounting Standards requires the classification of net assets into the three components shown below, which are defined as follows:

Invested in capital assets, net of related debt - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvements of these assets reduce the balance in this category.

CITY OF READING

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Restricted net assets - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets - This category represents net assets of the City, which are not restricted for any project or other purpose.

O. Governmental Fund Balances

Government Accounting Standards has established accounting and financial standards for all governments that report governmental funds. The standards established criteria for classifying funds balances into specifically defined classifications as follows:

Nonspendable - Amounts that are not in a spendable form such as inventory and prepaid expenses or are required to be maintained intact such as the principal of an endowment. The nonspendable portion of fund balance must be identified before any other categories are determined.

Restricted Fund Balance - Amounts that can be spent only for the specific purposes stipulated by external resource providers such as grantors or enabling legislation. Restrictions may be changed or lifted only with the consent of the resource providers.

Committed Fund Balance - Amounts that can be used only for a specific purpose determined by a formal action of the city council, the government's highest level of decision-making authority. The formal action to commit fund balance to a specific purpose must occur prior to the end of the reporting period, but the amount which will be subject to the constraint may be determined in the subsequent period. Committed funds may only be changed or lifted by the same formal action taken to commit them.

Assigned Fund Balance - Amounts that the city council decide to use for a specific purpose. Assignments of fund balance are made by the city council.

Unassigned Fund Balance - Amounts that are not included within any other classification noted. Unassigned amounts are the portion of fund balance not obligated or specifically designated and is available for any purpose.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

P. Indirect Costs, Central Government Services

The City allocates indirect costs primarily comprised of central governmental services to operating functions and programs benefiting from those services. Central services include overall City management, centralized budgetary formulation and oversight, accounting, financial reporting, payroll, procurement contracting and oversight, investing and cash management, personnel services, and other central administrative services. Allocations are charged to programs based on use of central services determined by various allocation methodologies. These charges are separately reported in the statement of activities. As a matter of policy, certain functions that use significant central services are not charged for the use of these services. These functions or programs include police, fire, and certain divisions within public services and parks.

Q. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

R. Subsequent Events

In preparing these financial statements, the City has evaluated events and transactions for potential recognition and disclosure through September 24, 2012, the date the financial statements were available to be issued.

On April 2, 2012, the City issued General Obligation Notes (GON) Series 2012 and 2012A. The proceeds for GON Series 2012 totaled \$4,030,000 and were used to currently refund the General Obligation Bonds, Series of 2008A. The proceeds for GON Series 2012A totaled \$2,647,000 and were used to currently refund the General Obligation Notes, Series of 2005.

Reading Area Water Authority awarded \$793,000 of capital project contracts from January through August 2012. The Authority also authorized and issued the Guaranteed Water Revenue Notes, Series of 2012 in the amount of \$2,459,000 to currently refund the Guaranteed Water Revenue Bonds, Series of 2002, the 1997 PennVest Loan, and to pay note issuance costs.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Data

The City follows the following procedures in establishing the budgetary data reflected in the financial statements:

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY- CONTINUED

During September, City department heads are required to submit requested operating budgets to the City manager for the fiscal year commencing the following January 1. The budgets submitted include proposed expenditures along with a narrative justification for such expenditures. Budgets, as submitted, are subject to a detailed review by the finance director and City manager. This review process, which continues through November, includes meetings with the city council, comparisons with prior year's spending patterns, and forecasting of future needs.

As required by the Home Rule Charter, the proposed budget is made available for public inspection for at least thirty days prior to the date of adoption, with adoption required by December 31. Subsequent to the budget approval, the city council adopts the appropriation measures required to put the budget into effect and fix the rate of taxation.

Within 31 days subsequent to the legal adoption of the budget, the finance director files a copy of the budget with the Department of Community and Economic Development of the Commonwealth of Pennsylvania. Should supplemental budget appropriations be required, the city council may, within statutory limitations, authorize the transfer of funds between line items by means of a resolution approved at a regularly scheduled council meeting. Expenditures may not legally exceed budgeted amounts at the line item level.

Annual budgets providing comprehensive appropriations are legally adopted for all Governmental Funds except the Community Development Fund and General Agency Fund, which are both Special Revenue Funds, and the Capital Projects Funds. Budgets are adopted on a modified accrual basis; accordingly, revenues are reported when susceptible to accrual and expenditures are recorded when incurred.

Appropriations in Governmental Funds are encumbered upon issuance of purchase orders, contracts or other forms of legal commitment. Even though goods and services have not been received, the transactions are accounted for as a reservation of fund balances in the year the commitment is made. While appropriations lapse at the end of the year, encumbrances outstanding are reported as reservations of fund balance for subsequent expenditures.

Excess of Expenditures over Appropriations

For the year ended December 31, 2011, expenditures exceeded appropriations in the general operating fund. The excess expenditures were satisfied by the repayment of long-term receivables and by the issuance of long-term debt.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY- CONTINUED

Net Asset Deficit and Liquidity

As of December 31, 2011, the City, in its statement of assets, shows a total net deficit of \$23,842,574 for governmental activities. A structural imbalance had been growing over years as a result of demographic shifts of residents and businesses, nonprofit legislation and a stagnant taxation authority for the City which has led to this deficit. The largest components of the unrestricted deficit are principally the general obligation debt to meet funding requirements to the Pension Fund, borrowings to finance economic development efforts, maintenance, and equipment expenditures on City infrastructure. The City's debt service expenditures in its governmental funds were \$11,753,112, 8.1 percent of its total expenditures, and the City used 27.2 percent of its current tax revenues to finance debt service requirements.

In October 2009, the City sought municipal self-help as a "financially distressed" municipality under the Municipalities Financial Recovery Act (Act 47) of the Commonwealth of Pennsylvania. The Act 47 coordinators appointed by the Commonwealth issued their five-year recovery plan, which was originally adopted by the city council on June 11, 2010. During 2011, the City continued efforts to control costs, improve collections, and maintain solvency. The cash balance available for general operations of the City as of December 31, 2011 was \$10,317,493. This was sufficient to maintain normal functions of the City until tax revenues were received. Currently, the Act 47 coordinators will provide continued oversight to ensure compliance with the operating budget and the approved five-year plan.

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

The carrying amount of cash and investments at December 31, 2011 consist of the following:

	Primary Government	Blended Component Unit	Total
Petty cash	\$ 10,775	\$ 300	\$ 11,075
Demand deposit accounts	58,797,888	5,523,621	64,321,509
Pooled cash and investments	7,388,410	-	7,388,410
Investments	159,609,009	57,505,200	217,114,209
			\$ 288,835,203

Classification per statement of net assets and trust statements:

Unrestricted current assets, cash	\$ 55,532,850
Investments	4,665,310
Restricted current assets	64,563,385
Trust and agency cash and cash equivalents	8,742,673
Trust and agency investments	155,330,985
	\$ 288,835,203

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Custodial Credit Risk - Deposit

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a policy for custodial credit risk. As of December 31, 2011, the carrying amount of the City's deposits was \$64,321,509 and the bank balance was \$68,303,224. Of the balance, \$1,923,596 was covered by federal depository insurance and \$66,379,628 was exposed to custodial credit risk.

A portion of the City's deposits are in the Pennsylvania School District Liquid Asset Fund (PSDLAF) and the Pennsylvania Local Government Investment Trust (PLGIT). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, the funds act like money market mutual funds in that their objectives are to maintain a stable net asset value of \$1 per share, are rated by a nationally recognized statistical rating organization, and are subject to an independent annual audit. The carrying amount and bank balance amount was \$7,388,410.

The City's investment authority for all funds, except Fiduciary Funds, is set by state statute to include: U.S. Treasury Bills, short-term U.S. Government or Agency obligations, deposits in savings accounts, time deposits or share accounts, obligations of the United States or any of its agencies or instrumentalities, obligations of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities and shares of any investment company which invests only in the above or certificates of deposit. Pursuant to Act 72 of the Pennsylvania State Legislature, a depository must pledge assets to secure state and municipal deposits. The pledged assets must at least be equal to the total amount of such assets required to secure all of the public deposits at the depository and may be on a pooled basis. Additionally, all such pledged assets must be delivered to a legal custodian.

Investments

As of December 31, 2011, the City had the following nonpension investments:

Investment Type	Fair Market Value	Investment Maturities from December 31, 2011		
		0-5 Years	5-10 Years	> 10 Years
Federal Home Loan Mortgage Corporation	\$ 189,160	\$ 189,160	\$ -	\$ -
Federated Treasury Obligation Funds	53,771,200	53,771,200		
Federal National Mortgage Association Notes	3,734,000	3,734,000		
US Treasury Notes	758,399	758,399	-	-
US Treasury Bonds	35,234	-	35,234	-
	58,487,993	<u>\$ 58,452,759</u>	<u>\$ 35,234</u>	<u>\$ -</u>
Money Market Funds	2,962,802			
Certificates of Deposits	332,429			
	<u>\$ 61,783,224</u>			

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Interest Rate Risk

The City does have a formal investment policy that limits maturities in certain investments as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The City does have an investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2011, the City's investments were rated as:

Investments	Standard & Poor's (Moody's & Fitch)
Federated Treasury Obligation Funds	AAA
Federal Home Loan Mtg Corp	AAA
US Treasury Notes	AAA
US Treasury Bonds	AAA
Federal National Mortgage Association Notes	AAA

The Component Unit, Reading Area Water Authority does not have an investment policy that would limit its investment choices to certain credit ratings. However, the Authority limits the type of investments permitted as defined in the Local Government Unit Debt Act and the Municipal Authorities Act.

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. At December 31, 2011, the City's investments consisted of 87 percent of Federal Treasury Obligation Funds and 6 percent of Federal National Mortgage Association Notes.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. As of December 31, 2011, the carrying amount of the City's nonpension investments was \$4,278,024 (includes restricted investments). Of the balance, \$600,572 was covered by federal depository insurance and \$3,677,452 was exposed to custodial credit risk.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Pension Trust Fund

The pension trust funds' investments are held separately from those of other City funds. Assets in the pension trust funds are stated at fair value. Any premiums or discounts are recognized as a gain or loss upon disposition. The City maintains investment policies that summarize the investment philosophy of the City and establishes investment guidelines and performance objectives for the Police, the paid Firemen and City Officers and Employees' Pension Funds.

As of December 31, 2011, the City had the following cash and investments in its pension trust funds:

<u>Police</u>	Fair	<u>Investment Maturities from December 31, 2011</u>		
		Market Value	1 - 5 years	6 - 10 years
<u>Cash or Investment Type</u>				
Corporate Bonds	\$ 7,343,378	\$ 3,957,796	\$ 2,891,246	\$ 494,336
Government Bonds	11,772,885	7,768,023	2,818,525	1,186,337
Mortgage-Backed Securities	37,550	-	37,550	-
Foreign Bonds	828,300	813,866	-	14,434
Gov't Asset-Backed Securities	5,898,419	-	588,832	5,309,587
Total Debt Securities	25,880,532	<u>12,539,685</u>	<u>6,336,153</u>	<u>7,004,694</u>
Cash and Cash Equivalents	2,514,053			
Equity Mutual Funds	<u>41,773,419</u>			
Total Cash and Investments	<u>\$ 70,168,004</u>			

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Pension Trust Fund – continued

<u>Paid Firemen</u>	<u>Investment Maturities from December 31, 2011</u>			
<u>Cash or Investment Type</u>	Fair Market Value	0 - 5 years	5 - 10 years	More than 10 years
Asset-Backed	\$ 76,892	\$ 76,892	\$ -	\$ -
Corporate Bonds	4,475,716	2,356,751	1,763,932	355,033
Collateralized Mortgage Obligations	7,535	-	-	7,535
Private Placement	188,210	188,210	-	-
Foreign Bonds and Notes	959,555	397,908	500,044	61,603
Agency	297,671	282,638	-	15,033
Mortgage-Backed	1,370,947	36,937	219,309	1,114,701
Other	1,814,938	1,814,938	-	-
Treasuries - Notes and Bonds	5,068,790	2,533,549	2,122,960	412,281
Total Debt Securities	14,260,254	\$ 7,687,823	\$ 4,606,245	\$ 1,966,186
Cash and Cash Equivalents	125,584			
Equity Mutual Funds	24,579,257			
Fixed Income Mutual Funds	1,087,573			
Due to Brokers	(112,086)			
Total Cash and Investments	\$ 39,940,582			
Officers & Employees	Fair Market Value			
Cash and Cash Equivalents	\$ 2			
Short Term Investments	28,037			
Fixed Funds	16,025,769			
Equity Funds	29,168,591			
Total Cash and Investments	\$ 45,222,399			

Credit Risk

The risk that an issuer or other counterparty to an investment will not fulfill its obligation is called credit risk. The pension trust funds have no formal investment policy that would limit its investment choices based on credit ratings by nationally recognized statistical rating organizations. As of December 31, 2011, the pension trust funds' investment in corporate bonds ranged from AAA to BB.

Investments held in mutual funds are not subject to credit risk.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Custodial Credit Risk

For deposits and investments, custodial credit risk is the risk that in the event of the failure of the bank or counterparty, the pension trust funds will not be able to recover the value of their deposits or investments or collateral securities that are in the possession of an outside entity. The pension trust funds do not have a formal deposit or investment policy for custodial credit risk. As of December 31, 2011, \$250,000 was covered by federal depository insurance and \$155,080,985 was exposed to custodial credit risk.

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. There were no investments in any pension plan that constituted more than five percent of any of the pension plan net assets available for benefits at December 31, 2011. In addition, the plans did not have any investment transactions with related parties during the year.

Interest Rate Risk

The pension trust funds do not have a formal deposit or investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Component Unit (Reading Parking Authority)

Cash is carried at cost and investments are carried at market. Cash and investments consist of the following at December 31, 2011:

Unrestricted	
Deposits	\$ 3,047,196
Petty cash	15,383
	\$ 3,062,579
Restricted	
Deposits	\$ 1,824,697
Investments	3,760,926
	\$ 5,585,623

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority does not have a policy for custodial credit risk. As of December 31, 2011, the carrying amount of the Authority's deposits was \$4,871,893 and the bank balance was \$4,926,822. As of December 31, 2011, \$501,094 was covered by federal depository insurance and \$ 4,425,728 was exposed to custodial credit risk because it was uninsured and the collateral held by the depository agent was not in the Authority's name.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Investments

The Authority is permitted to invest funds in:

Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities back by the full faith and credit of the Commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approval collateral as provided by law therefore, shall be pledged by the depository.

As of December 31, 2011, the Authority had the following investments:

US Government Issues

	Maturities	Fair Value
Resolution FDG Corp Fed 0% Cpn Strips	4 months - 12 years	\$ 1,305,545
U.S. Treasury Strips	12 years	2,455,381
		\$ 3,760,926

Interest Rate Risk

The Authority does not have a formal investment policy that limits maturities in certain investments as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Authority does not have an investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2011, the Authority's investments were all rated as AAA by a nationally recognized rating organization.

Concentration of Credit Risk

The Authority places no limit on the amount the Authority may invest in any one issuer. 65.3 percent of the Authority's investments are U.S. Treasury Strips and 34.7 percent are Resolution FDG Corp Fed 0% Cpn Strips for the year ended December 31, 2011.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

Component Unit (Reading Redevelopment Authority)

The carrying amount of the Authority's cash and cash equivalents as of December 31, 2011 was \$47,958 and the bank balance was \$60,260.

The Authority has a total of \$1,463,911 in investments with two separate entities. The Authority has funds invested with the Commonwealth of Pennsylvania's INVEST Program with a market value of \$1,163,163. The INVEST Program is an investment pool designed for local government and nonprofit groups. The INVEST Program funds are managed by the Pennsylvania Department of Treasury. The INVEST Programs authorized investments are limited to Federal Obligations, Repurchase Agreements with bank or nonbank financial institutions, and other debt instruments of banks, financial institutions, and nonfinancial institutions that are authorized for the shareholder by Commonwealth of Pennsylvania statute. The Authority also has \$300,748 invested in a 13-month CD with Customers Bank that collateralizes the Line of Credit that Customers Bank provided to the Authority during the fiscal year.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority does not have a policy for custodial credit risk. As of December 31, 2011, \$250,000 was covered by federal depository insurance and \$111,008 was exposed to custodial credit risk because it was uninsured and the collateral held by the depository agent was not in the Authority's name.

Interest Rate Risk

The Authority does not have a formal investment policy that limits maturities in certain investments as a means of managing its exposure to fair value losses arising from increasing interest rates.

NOTE 4 - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND DEFERRED REVENUE

Government Fund Receivables, Uncollectible Accounts, and Deferred Revenue Accounts Receivable

Accounts Receivable

	General Fund
Grants and Accounts Receivable	\$ 4,435,204
Less Allowance	-
Accounts Receivable	\$ 4,435,204

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

**NOTE 4 - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND DEFERRED REVENUE -
CONTINUED**

Real Estate Taxes and Receivables

Real estate taxes are based on assessed valuations provided by Berks County (County) and are levied on January 1 and billed March 1. The 2011 assessed value of real property totaled \$1,440,969,800. These taxes are billed and collected by the City of Reading tax office. Taxes paid through April 30 are given a two percent discount. Amounts paid after June 30 are assessed a ten percent penalty. Any uncollected balances as of January 15 in the year following the billings are sent to the delinquent tax collector to be liened. Current tax collections for the year ended December 31, 2011 were 90.6 percent of the tax levy.

For 2011, City real estate taxes were levied at 14.334 mills for general purposes.

Real estate taxes receivable as of December 31, 2011 are \$2,979,340 before allowing \$278,956 for uncollectible amounts. Deferred taxes totaled \$1,813,513 at December 31, 2011 and real estate tax revenue recognized was \$886,870. A receivable for other taxes in the amount of \$173,246 has been recorded by the City in accounts receivable.

Business-Type Activities Receivables, Uncollectible Accounts, and Deferred Revenue

Significant receivables include amounts due from customers primarily for utility services. These receivables are all due. An allowance for uncollectible accounts is estimated using accounts receivable more than 60 to 90 days depending on the fund. Related amounts are shown in the following table:

	Major Enterprise		Other Enterprise (Recycling)	Total Primary Government	Component Units	
	Water	Sewer			Reading Parking Authority	Reading Redevelopment Authority
	<u>Water</u>	<u>Sewer</u>			<u>Authority</u>	<u>Authority</u>
Accounts receivable, gross	\$ 6,768,521	\$ 4,359,655	\$ 3,111,353	\$ 14,239,529	\$ 225,709	\$ 2,000
Less: allowance uncollectible accounts	<u>3,720,853</u>	<u>1,540,764</u>	<u>1,673,012</u>	<u>6,934,629</u>	-	-
Net accounts receivable	<u>\$ 3,047,668</u>	<u>\$ 2,818,891</u>	<u>\$ 1,438,341</u>	<u>\$ 7,304,900</u>	<u>\$ 225,709</u>	<u>\$ 2,000</u>

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 5 - RESTRICTED ASSETS - LIMITED AS TO USE

Pursuant to an Indenture of Trust agreed to by the Redevelopment Fund, blended and discretely presented component units, or by law, the following restricted cash and investments are held at December 31, 2011:

	Primary Government			Component Units	
	City of Reading Sewer Fund	Reading Area Water Authority	Total	Reading Parking Authority	Reading Redevelopment Authority
Construction Account	\$ 7,001,124	\$ 42,450,430	\$ 49,451,554	\$ -	\$ 8,952
Debt Service Account	-	7,518,131	7,518,131	4,750	1
Debt Service Reserve Account	-	7,421,898	7,421,898	5,579,778	-
Clearing Account	-	114,741	114,741	-	28
Other	-	57,061	57,061	1,095	733
Total	\$ 7,001,124	\$ 57,562,261	\$ 64,563,385	\$ 5,585,623	\$ 9,714

NOTE 6 - FUTURE LEASE RENTALS RECEIVABLE

During the year ended December 31, 2011, the City issued the 2010 term note in the amount of \$3,245,566 to provide a source of funds with which to renovate First Energy Stadium. The Stadium is owned by the City and leased to a third party. The lease provides, among other things, for rentals to be paid to the City for a term of years coinciding with the life of the term note from the third party. The proceeds of these lease payments are then used to satisfy the annual debt service on the term note. In the current year, the City received lease payments totaling \$228,341 of which \$100,566 was used to reduce the lease rentals receivable account and also to reduce the outstanding obligation on the 2010 term note. The remaining \$127,775 was used for interest payments on the 2010 term note.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011 was as follows:

	Beginning Balance	Increase	(Reclass) Decrease	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 280,960	\$ -	\$ -	\$ 280,960
Construction in progress	9,302,928	7,758,502	(3,289,158)	13,772,272
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	9,583,888	7,758,502	(3,289,158)	14,053,232
Capital assets being depreciated:				
Buildings	28,462,920	4,557	-	28,467,477
Machinery and equipment	32,756,706	848,862	-	33,605,568
Improvements	19,802,777	1,260,955	3,289,158	24,352,890
Infrastructure	5,213,266	-	-	5,213,266
Totals at historical cost	86,235,669	2,114,374	3,289,158	91,639,201
Less accumulated depreciation for:				
Buildings	14,638,144	608,730	-	15,246,874
Machinery and equipment	26,146,528	1,154,400	-	27,300,928
Improvements	4,452,125	1,403,399	-	5,855,524
Infrastructure	3,129,752	160,380	-	3,290,132
Total accumulated depreciation	48,366,549	3,326,909	-	51,693,458
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	37,869,120	(1,212,535)	3,289,158	39,945,743
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 47,453,008</u>	<u>\$ 6,545,967</u>	<u>\$ -</u>	<u>\$ 53,998,975</u>

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 7 - CAPITAL ASSETS - CONTINUED

Business-Type Activities	Beginning Balance	Increase	(Reclass) Decrease	Ending Balance
Capital assets not being depreciated:				
Land	\$ 2,074,359	\$ -	\$ -	\$ 2,074,359
Construction in progress	29,285,631	10,333,503	(9,563,236)	30,055,898
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	31,359,990	10,333,503	(9,563,236)	32,130,257
Capital assets being depreciated:				
Buildings	46,005,926	24,527	-	46,030,453
Machinery and equipment	19,015,571	4,274,000	-	23,289,571
Improvements	84,111,555	5,909,822	-	90,021,377
Totals at historical cost	149,133,052	10,208,349	-	159,341,401
Less accumulated depreciation for:				
Buildings	25,166,068	1,111,169	-	26,277,237
Machinery and equipment	12,473,111	1,432,196	-	13,905,307
Improvements	37,527,514	2,488,307	-	40,015,821
Total accumulated depreciation	75,166,693	5,031,672	-	80,198,365
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	73,966,359	5,176,677	-	79,143,036
BUSINESS-TYPE ACTIVITIES, CAPITAL ASSETS, NET	\$ 105,326,349	\$ 15,510,180	\$ (9,563,236)	\$ 111,273,293

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 7 - CAPITAL ASSETS - CONTINUED

	Beginning Balance	Increase	Decrease	Ending Balance
Component Unit - Reading Parking Authority				
Capital assets not being depreciated:				
Land	\$ 2,614,070	\$ -	\$ -	\$ 2,614,070
Capital assets being depreciated:				
Buildings	61,036,885	79,709	-	61,116,594
Machinery and equipment	1,637,233	270,940	(17,027)	1,891,146
Improvements	144,620	-	-	144,620
Totals at historical cost	<u>62,818,738</u>	<u>350,649</u>	<u>(17,027)</u>	<u>63,152,360</u>
Less accumulated depreciation for:				
Buildings	19,142,842	1,510,298	-	20,653,140
Machinery and equipment	1,210,295	99,478	(17,027)	1,292,746
Improvements	77,829	2,749	-	80,578
Total accumulated depreciation	<u>20,430,966</u>	<u>1,612,525</u>	<u>(17,027)</u>	<u>22,026,464</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	<u>42,387,772</u>	<u>(1,261,876)</u>	<u>-</u>	<u>41,125,896</u>
COMPONENT UNIT, CAPITAL ASSETS, NET	<u>\$45,001,842</u>	<u>\$ (1,261,876)</u>	<u>\$ -</u>	<u>\$43,739,966</u>

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities</u>		<u>Business-type Activities</u>	
General government	\$ 1,220,604	Water system	\$ 2,366,058
Public safety:		Sewer system	2,569,120
Police	475,956	Recycling	<u>96,494</u>
Fire	605,762		
Public works - highway/streets	219,113		<u>\$ 5,031,672</u>
Community development	211,748		
Culture and recreation	<u>593,726</u>		
	<u>\$ 3,326,909</u>		

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The City had interfund receivables and payables balances for the following accounts at December 31, 2011:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental Activities		
Major Funds		
General	\$ 5,500,470	\$ -
Community Development	452,057	1,633,450
Agency Fund	1,211,764	1,548,934
Nonmajor Governmental Funds	1,081,106	125,038
Business-Type Activities		
Major Funds		
Water	1,934,782	4,688,718
Sewer	4,283,763	1,914,818
Nonmajor Proprietary Funds	338,888	1,275,157
	<u>14,802,830</u>	<u>11,186,115</u>
Internal Service	523,804	4,062,848
Fiduciary and Agency Funds	<u>-</u>	<u>77,671</u>
	<u>\$ 15,326,634</u>	<u>\$ 15,326,634</u>

Interfund receivables and payables are a result of timing differences between when a cost is incurred and when it is paid. It is also the result of interfund charges not yet reimbursed.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS - CONTINUED

The City had operating transfers in and out for the following amounts at December 31, 2011:

	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
Governmental Activities		
Major Funds:		
General	\$ 7,262,000	\$ 1,702,435
Business-Type Activities		
Water	-	4,913,635
Sewer	-	4,080,000
NonMajor	-	42,000
Internal Service Funds	<u>3,476,070</u>	<u>-</u>
	<u>\$ 10,738,070</u>	<u>\$ 10,738,070</u>

Transfers and payments within the reporting entity are substantially for the purpose of subsidizing operating functions, funding self-insurance requirements, and maintaining debt service on a routine basis.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 9 - LIABILITIES

Governmental Activities <u>Bonds Payable and Other Long-Term Liabilities</u>	<u>Balance at Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at End of Year</u>	<u>Due Within One Year</u>
General Obligation Bonds, Series of 2002, (Capital Appreciation Bonds) with 2.75% - 5.75% interest payable through 2019. Proceeds of the bonds were used to finance capital project and bond issuance costs. This note was advance refunded in 2011.	\$ 24,100,000	\$ -	\$ 24,100,000	\$ -	\$ -
General Obligation Note, Series of 2005, 3.0% - 3.75% interest payable through 2019. Proceeds of the notes were used to advance refund the General Obligation Bonds, Second Series of 1998. The note was advance refunded in 2008.	2,570,000	-	-	2,570,000	-
Federally Taxable General Obligation Bonds, Series of 2006, 4.85% - 5.42% interest payable through 2031. Proceeds of the notes were used to fund the City's unfunded pension fund actuarial accrued liabilities. A portion of the bonds were advance refunded in 2008.	32,905,000	-	-	32,905,000	-
General Obligation Bonds, Series of 2008, with 2.5% - 6.25% interest payable through 2033. Proceeds of the bonds were used to currently refund a portion of the General Obligation Note Series A of 2006, terminate a forward fixed payer swap, fund various capital projects, and pay bond issuance costs.	12,927,797	-	318,200	12,609,597	329,012
General Obligation Bonds, Series of A of 2008, 4.46% interest payable through 2018. Proceeds were used to currently refund the Washington County Authority lease revenue bonds and pay bond issuance costs.	4,340,000	-	465,000	3,875,000	485,000
General Obligation Bonds, Series of C, D & E of 2008, variable interest payable through 2033. Proceeds were used to advance refund a portion of the Federally Taxable General Obligation Bonds Series of 2006, a portion of the General Obligation Notes Series of 2005, all of the outstanding General Obligation Bonds Series of 2002, and pay bond issuance costs.	40,620,318	-	2,053,200	38,567,118	2,491,000
General Obligation Bonds, Series of 2009, with 3.0% - 5.0% interest payable through 2029. Proceeds were used to currently refund a the General obligation Line of Credit of 2006, fund various capital projects of the City, fund the termination payment for fixed payer swap and pay	25,000,000	-	5,000	24,995,000	5,000

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 9 - LIABILITIES - CONTINUED

General Obligation Bonds, Series C of 2010, with 7.5% interest payable through 2020. Proceeds were used to pay unfunded debt of the City and pay bond issue costs.	17,280,000	-	1,130,000	16,150,000	1,705,000
On April 20, 2011, General Obligation Note Series A of 2011, with .65% - 5.25% interest payable through 2019. Proceeds were used to advance refund the General Obligation Bonds (Capital Appreciation Bonds) Series of 2002, to pay termination costs of interest rate management agreement and pay bond issuance costs. The net cash savings from the refunding was \$275,267.	-	20,945,000	100,000	20,845,000	100,000
On April 20, 2011, General Obligation Bonds, Series B of 2011, with 3.25% interest payable through 2013. Proceeds were used to pay the remainder of the termination costs of interest rate management agreement.	-	320,000	5,000	315,000	5,000
Term loan of 2010 with interest at bank's prime rate not to fall below 4.00% nor exceed 12% payable through 2027. Interest at December 31, 2011 was 5.75%. Proceeds from the issuance were used to renovate First Energy Stadium.	-	3,245,566	100,566	3,145,000	110,000
Federally Taxable Guaranteed Lease Revenue Notes, Series of 2006 (Redevelopment Authority) with 6.10% interest payable through 2026. Proceeds used to finance the City's 2006 pension costs.	5,742,430	-	218,737	5,523,693	231,525
Capital lease payable to the Redevelopment Authority with 2.5% - 4.25% interest payable through 2033. Proceeds used to finance construction of public waste facility.	3,515,000	-	100,000	3,415,000	105,000
Compensated absences	825,526	-	197,363	628,163	-
TOTAL	169,826,071	24,510,566	28,793,066	165,543,571	5,566,537
Less: unamortized interest on Capital Appreciation Bonds	(6,155,320)	-	(6,155,320)	-	-
Total Governmental Activities	<u>\$ 163,670,751</u>	<u>\$ 24,510,566</u>	<u>\$ (22,637,746)</u>	<u>\$ 165,543,571</u>	<u>\$ 5,566,537</u>

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 9 - LIABILITIES - CONTINUED

<u>Business-Type Activities</u> <u>Bonds and Notes Payable</u>	<u>Balance at</u> <u>Beginning</u> <u>of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>at End</u> <u>of Year</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Note payable to Pennsylvania Infrastructure Investment Authority with interest at 1% payable through 2012.	\$ 1,433,833	\$ -	\$ 1,335,747	\$ 98,086	\$ 98,086
General Obligation Bonds, Series of 2008, with 2.5% - 6.25% interest payable through 2033. Proceeds of the bonds were used to currently refund a portion of the General Obligation Note Series A of 2006, terminate a forward fixed payer swap, fund various capital projects, and pay bond issuance costs.	30,687,201	-	756,800	29,930,401	780,988
General Obligation Bonds, Series of C, D & E of 2008, variable interest payable through 2033. Proceeds were used to advance refund a portion of the Federally Taxable General Obligation Bonds Series of 2006, a portion of the General Obligation Notes Series of 2005, all of the outstanding General Obligation Bonds Series of 2002, and pay bond issuance costs.	9,864,303	-	681,803	9,182,500	854,000
Note payable to bank with interest at a variable rate. Interest and principal payments due quarterly through 2011.	23,422	-	23,422	-	-
Note payable to Pennsylvania Infrastructure Investment Authority, 3.2% - 4% interest payable through 2018.	1,346,641	-	170,128	1,176,513	177,056
Guaranteed Water Revenue Bonds, Series of 2002, 1.4% - 4.4% interest payable through 2017.	1,665,000	-	215,000	1,450,000	215,000
Guaranteed Water Revenue Bonds, Series of 2003 (Capital Appreciation Bonds), 3.60% - 4.62% interest payable through 2020.	21,080,000	-	610,000	20,470,000	1,935,000
Guaranteed Water Revenue Bonds, Series of 2007, 4.25% - 5% interest payable through 2027.	25,000,000	-	125,000	24,875,000	135,000

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 9 - LIABILITIES - CONTINUED

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due Within One Year
Business-Type Activities					
Bonds and Notes Payable - continued					
Note payable to Pennsylvania Infrastructure Investment Authority, maximum drawdown of \$6,550,000 interest only for first 36 months. Principal and interest due monthly thereafter; interest at 1.274% for first five years and 2.547% thereafter. Guaranteed by the City of Reading.	2,875,070	1,806,590	-	4,681,660	280,956
Guaranteed Water Revenue Note, Series of 2009, maximum drawdown of \$6,550,000, interest payable at 3.15% principal due October 2012.	1,772,854	-	1,772,854	-	
Guaranteed Water Revenue Bonds, Series of 2011, initial issue \$50,000,000, with interest rates ranging from 2.35% to 5.25%. The effective rate at December 31, 2011 was 5.10%.	-	50,000,000	-	50,000,000	-
	95,748,324	51,806,590	5,690,754	141,864,160	4,476,086
Less: unamortized interest on Capital Appreciation Bonds	(4,777,137)	-	(688,523)	(4,088,614)	-
TOTAL	\$ 90,971,187	\$ 51,806,590	\$ 5,002,231	\$ 137,775,546	\$ 4,476,086

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 9 - LIABILITIES - CONTINUED

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due Within One Year
Component Unit - Reading Parking Authority:					
Bonds Payable and Other Long-Term Liabilities					
Guaranteed Authority Revenue Bonds, Series of 1993. The bonds were current interest and capital appreciation bonds (CAB). In 2003, \$9,550,000 of remaining current interest bonds were refunded. The remaining CABs have imputed interest of 5.85% to 6.10%. Final payment is due in 2020.	\$ 27,570,000	\$ -	\$ 2,755,000	\$ 24,815,000	\$ 2,760,000
Guaranteed Parking Revenue note payable to a local bank for \$1,570,000. \$44,250 was drawn on the note as of December 31, 2006, and the balance was drawn as needed to pay construction expenses. The note is 3.9% per annum through 2014. This note was refunded with the Parking Revenue notes Series A of 2011.	1,570,000	-	1,570,000	-	-
Guaranteed Parking Revenue note payable to a local bank for \$10,000,000. \$75,000 was drawn on the note as of December 31, 2004, and the balance was drawn as needed to pay construction expenses. The note is 3.9% per annum through 2018, and repayment is in 2024.	9,665,000	-	95,000	9,570,000	95,000
On December 22, 2011, the Series A of 2011 Parking Revenue notes was issued by a local bank for \$1,570,000. The note was issued to refinance the Series of 2006 Guaranteed Parking Revenue Note. Repayment of the note is due November 15, 2024. Interest on the note is stated at 3.15% per annum from the date of issue through November 15, 2021, and thereafter at an interest rate equal to 65% of the bank's prime rate, but in no event less than 2.85% or more than 6.00% per annum. The Authority will realize an estimated present value savings of \$69,145.	-	1,570,000	-	1,570,000	-

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 9 - LIABILITIES - CONTINUED

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due Within One Year
<u>Component Unit - Reading Parking Authority</u> <u>Bonds Payable and Other Long-Term Liabilities -</u> <u>continued:</u>					
Build America Bond to be drawn on as needed to pay construction expenses relating to the 700 Penn Street project. Repayments of the note begin in 2010 in varying amounts. Interest is at a taxable fixed rate of 6.30% through November 15, 2019 and thereafter at an interest rate equal to the LIBOR rate plus 1.75% through 2026. The Note was refunded with the Parking Revenue note Series of 2011. Final subsidy payment from the note was received in 2011.	6,595,000	-	6,595,000	-	-
On December 19, 2011, the Series of 2011 Parking Revenue notes was issued by a local bank for \$5,570,000. The note was issued to refinance the Federally Taxable Parking Revenue Note - Series of 2009 (Build America Bond - Direct Payment). Repayment of the note begins in 2012 in varying amounts, and the maturity of the note is November 15, 2025. Interest on the note is stated at 3.15% per annum from the date of issue through November 15, 2021, and thereafter at an interest rate equal to 65% of the bank's prime rate, but in no event less than 2.85% or more than 6.00% per annum. The Authority will realize an estimated present value savings of \$332,483 on the fixed rate amount.	-	5,570,000	-	5,570,000	-
Capital lease with the Reading Redevelopment Authority, whereby the Authority will pay \$1,667 monthly to the RRA for a term of 25 years for a parcel of land at 2nd & Washington Streets.	274,244	-	7,570	266,674	7,925
	45,674,244	7,140,000	11,022,570	41,791,674	2,862,925
Less: unamortized interest on Capital Appreciation Bonds	(7,223,991)	-	(1,079,683)	(6,144,308)	-
Total Long-term Liabilities	\$ 38,450,253	\$ 7,140,000	\$ 9,942,887	\$ 35,647,366	\$ 2,862,925

Component unit - Reading Redevelopment Authority has debt outstanding of \$3,415,000 which was utilized in the construction of the consolidated Public Works facility. This debt was guaranteed by the City of Reading and is recorded and included in the City's governmental activities debt as a capital lease.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 9 - LIABILITIES - CONTINUED

The annual requirements to pay principal and interest on all long-term debt outstanding at December 31, 2011 are as follows:

	Component Units					
	Governmental Activities		Business-Type Activities		Reading Parking Authority	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 5,566,537	\$ 7,517,555	\$ 4,476,086	\$ 5,932,506	\$ 2,875,000	\$ 466,667
2013	6,157,369	7,263,730	3,671,410	6,055,925	2,880,000	525,262
2014	6,444,741	6,996,239	3,725,547	6,077,750	2,885,000	521,955
2015	6,733,252	6,753,327	4,104,871	6,094,124	2,885,000	518,177
2016	7,049,822	6,540,403	4,159,510	6,170,586	3,020,000	514,396
2017 - 2021	37,572,577	27,963,255	22,385,864	30,642,744	14,995,000	2,464,243
2022 - 2026	33,357,419	19,606,153	27,124,121	23,190,483	12,285,000	1,038,217
2027 - 2031	42,701,213	10,496,893	34,819,608	15,481,602	100,000	-
2032 - 2033	19,332,478	1,313,957	37,397,143	5,591,570	13,333	-
Less unamortized interest	-	-	-	-	(6,144,308)	-
Less capital lease interest	-	-	(4,088,614)	-	(146,659)	-
	<u>* \$164,915,408</u>	<u>\$ 94,451,512</u>	<u>\$137,775,546</u>	<u>\$105,237,290</u>	<u>\$ 35,647,366</u>	<u>\$6,048,917</u>

The Reading Area Water Authority has an unused letter of credit of \$800,000 as of December 31, 2011.

* Amount includes the Reading Redevelopment Authority capital lease obligation that related to the Guarantee lease revenue bond, series of 2003.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 9 - LIABILITIES - CONTINUED

Defeasance of Debt:

During the year ended December 31, 2008, the City issued variable rate general obligation refunding bonds Series C, D & E of 2008 to provide resources to purchase securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of general obligation bonds Series of 2002, a portion of the general obligation notes Series of 2005, and a portion of the federally taxable general obligation bonds series of 2006. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets.

During the year ended December 31, 2011, the City issued general obligation refunding note Series A & B of 2011 to provide resources to purchase securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of general obligation bonds (capital appreciation) Series of 2002 along with an interest rate swap termination fee of \$1,350,000. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets.

As of December 31, 2011, outstanding general obligation bonds of the City in the amount of \$37,225,000 were considered defeased with a related \$33,146,613 held in escrow funds.

Lease Agreement:

The City of Reading entered into a master lease agreement for an energy management system which is being treated as an operating lease. Terms of the lease agreement require 28 semi-annual payments beginning March 2009 through September 2022. Payments range from \$83,000 to \$119,500 during the term of the lease. Total cost of the system and services is \$2,000,000.

NOTE 10 - INVESTMENT DERIVATIVE INSTRUMENTS

Introduction

Accounting and financial reporting for derivative instruments addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. All derivatives are to be reported on the statement of net assets at fair value, and depending on whether a derivative is deemed a hedge or an investment instrument under current accounting standards, the changes in fair value are either reported on the statement of net assets as a deferral, or in the statement of activities as investment revenue or loss.

The City engaged an independent party to perform the valuations on the Swap and Water Authority Swap. The Water authority swap was deemed to be an investment instrument and the change in fair value is reported in the statement of activities. The City Swap is considered a hedging derivative instrument with the fair value of the derivative reported as deferred outflow of \$3,434,733.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 10 - INVESTMENT DERIVATIVE INSTRUMENTS

Terms and Fair Value

The terms as of December 31, 2011, are as follows:

Counter-party	Credit Rating by Moody's/S&P/Fitch	Issuer receives/ Issuer Pays	Initial Notional	Effective Date/ Maturity Date	Market Value
Wells Fargo	Aa3 / AA- / AA-	USD/Floating - 67% of 30 day LIBOR USD/Floating/BMA/1W USD/Fixed 5.097%	21,080,000	7/1/2005 11/1/2020	(124,391)
Wells Fargo	Aa3 / AA- / AA-	USD/Floating - 30 day LIBOR USD/Fixed 4.053%	37,940,000	5/1/2009 11/1/2014	(3,434,733)

The fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction, and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

Credit Risk

The City is exposed to credit risk in the amount of the derivatives fair value. At the present time since the swaps have negative values, the City is not exposed to credit risk. The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated. The current credit rating of Wells Fargo Bank NA is noted above.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 10 - INVESTMENT DERIVATIVE INSTRUMENTS

Basis Risk

Basis risk is the risk that the interest rate paid by the City on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The City bears basis risk on its swaps. The swaps have basis risk since the City receives a percentage of LIBOR to offset the actual variable bond rate the City pays on its bonds. The City is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis shortfall, the expected cost of the basis risk may vary.

Tax Risk

Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the City's underlying variable-rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, e.g., a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. The City is receiving a percentage of LIBOR (a taxable index) on the swap and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

Termination Risk

The City or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value. The swap option related to the \$18,595,000 notional amount was terminated during 2011 with the City incurring \$1,350,000 of termination costs.

NOTE 11 - CITY OF READING RETIREMENT PLANS

The City administers three single employer defined benefit pension plans covering all full-time police officers, full-time paid firemen and nonuniform employees respectively; the City of Reading Police Pension Plan (PPP), the City of Reading Paid Firemen's Pension Plan (PFPP) and the City of Reading Nonuniformed Employees' Pension Plan (NEPP).

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

Plan Descriptions and Contribution Information

Membership of each plan consisted of the following at January 1, 2011, the date of the latest actuarial valuation:

	PPP	PFPP	NEPP
Retired/disabled participants	222	94	228
Beneficiaries receiving benefits	58	33	78
Deferred Benefits	0	0	16
Terminated vested participants	1	1	0
Active plan members	121	107	298
Number of participating	402	235	620

Plan provisions are established and amended by City ordinance with the authority for municipal contribution required by Act 205 of the commonwealth (the Act).

City of Reading Police Pension Plan (PPP)

Plan Description: The PPP is a contributory plan available to all full-time City police officers. Pension benefits become 100 percent vested after the completion of twenty years of service. Eligibility for the normal retirement benefit is attained for employees completing 20 years of service, including any service purchased. A member may purchase up to five years of additional service credit. Effective January 1, 2008, police officers must retire after 30 years of service. The monthly pension benefit is equal to 60 percent of “final average monthly salary” plus 2.00 percent of “Average Monthly Salary” for each year of service in excess of 20 years to a maximum of five years. An additional benefit of 2.50 percent (1/40th) of the pension benefit determined for each year of service in excess of 20 years to a maximum of \$500 per month is also payable. “Final Average Monthly Salary” is the greater of final monthly salary or the monthly average of any five calendar years of salary. Salary is defined as the sum of base pay, longevity pay, and holiday pay. Retirement benefits are payable for life with 100 percent of the benefit to continue upon death to the eligible spouse or children.

Members who are eligible to retire may elect to enter into the DROP (Deferred Retirement Option Program) for no more than five years. Officers in the DROP have their retirement benefit calculated as of the date of entry into the DROP and accrue no further benefit under the plan. The retirement benefit is paid from the plan and deposited into an account established for the officer, which will be paid in full upon retirement.

Contributions. Plan members are required to contribute 6.5 percent of salary, plus \$1 per month. Member contributions are not credited with interest. The City is required to contribute at an actuarially determined rate. The rate of the annual minimum municipal obligation under PA Act 205.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

City of Reading Paid Firemen's Pension Plan (PFPP)

Plan Description. The PFPP is a contributory plan available to all full-time City police officers. Pension benefits become 100 percent vested after the completion of twelve years of service. Eligibility for the normal retirement benefit is attained for employees completing 20 years of service and attaining the age of 50. The monthly pension benefit is equal to 50 percent of "final average monthly compensation" plus an incremental pension equal to 2.50 percent (1/40th) of the pension benefit determined for each year of service in excess of 20 years, and prior to attainment of age 65. The maximum incremental pension is \$500 per month. "Final Average Monthly Compensation" is the higher of average compensation over the highest five consecutive years of employment or the rate of compensation during the month of retirement. Retirement benefits are payable monthly during the member's lifetime, with payments continuing after the member's death to the surviving spouse or to dependent children under the age of 18 equal to 100 percent of the amount payable to the member at the time of the member's death.

Members who were hired before January 1, 2011, and who had met the eligibility requirements for normal retirement may elect to participate in the DROP (Deferred Retirement Option Program) for no more than five years. His monthly pension benefit shall be calculated as of the date of entry into the DROP and shall be accumulated with annual interest and distributed in a lump sum at retirement.

Contributions. Plan members are required to contribute 5.0 percent of compensation, plus \$5 per month. Members who elect to participate in the DROP after April 1, 2011, also contribute 5.0 percent of compensation. Member contributions are not credited with interest. The City is required to contribute at an actuarially determined rate. The rate of the annual minimum municipal obligation under PA Act 205.

Nonuniformed Employees' Pension Plan (NEPP)

Plan Description. The NEPP is a contributory plan available to any person appointed or elected to regular service for the City of Reading who is not a police officer or a fire fighter.

Officers and employees hired prior to January 1, 1998 become 100 percent vested after the completion of twelve years of service. Eligibility for the normal retirement benefit is attained for employees completing 20 years of service and attaining the age of 60. The monthly pension benefit is equal to 50 percent of "average monthly compensation" plus a service increment equal to 2.50 percent (1/40th) of the monthly retirement benefit for each completed year of service in excess of 20 years, provided the employee elected to contribute an additional 0.5 percent of compensation to be covered by this provision. "Final Average Monthly Compensation" is the higher of average compensation over the highest five years of employment or the rate of compensation during the month of retirement. The retirement benefits will be reduced by 40 percent of the social security benefit. The reduction will commence the month following eligibility for social security benefits. The offset can be eliminated if the member elects to contribute an extra 1.5 percent of compensation, retroactive to their date of participation. Pension benefits are paid monthly for the member's lifetime. Compensation is defined as total wages paid by the employer.

CITY OF READING

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

Member's who are vested in the plan are eligible for death benefits. A monthly benefit equal to 50 percent of the benefit the member was receiving or entitled to receive at the time of death is payable to the spouse for life or until remarriage, provided the employee was contributing the additional 0.5 percent of compensation for spousal benefit coverage. Payment of benefits to the spouse of a participant who had not reached normal retirement eligibility is subject to vesting provisions.

Employees hired before November 7, 1987, may retire with a normal retirement benefit after 20 years of service and age 55.

Contributions. Plan members are required to contribute 3.5 percent of compensation subject to social security taxation, plus five percent of the excess. Members who elect dual coverage (no offset to pension for social security benefits) contribute 5.0 percent of all compensation. Married participants contribute an additional 0.5 percent of compensation. Participants who elected to be covered by the service increment provision contribute an additional 0.5 percent of compensation. Member contributions are not credited with interest. The City is required to contribute at an actuarially determined rate. The rate of the annual minimum municipal obligation under PA Act 205.

Officers and employees hired on or after January 1, 1998 become 100 percent vested after the completion of ten years of service. Eligibility for the normal retirement benefit is attained for employees completing ten years of service and attaining the age of 65. The monthly pension benefit is equal to two percent of "average monthly compensation" multiplied by years of service plus a service increment equal to 1.25 percent of the monthly retirement benefit multiplies by years of service in excess of 25. "Final Average Monthly Compensation" is the higher of average compensation over the highest five consecutive years of employment of the last ten that produce the greatest average. Pension benefits are paid monthly for the member's lifetime. Compensation is defined as base pay plus longevity, excluding overtime pay, educational incentive payments, bonuses, payments in lieu of dependent's health insurance, and other special forms of pay.

Members who are vested in the plan are eligible for death benefits. A monthly benefit equal to 50 percent of the benefit the member was receiving or entitled to receive at the time of death is payable to the spouse provided the employee was married at least prior to the date of death. Payment of benefits to the spouse of a participant who had not reached normal retirement eligibility is subject to vesting provisions.

Employees can elect early retirement after the completion of ten years of service and attaining age 50. Accrued benefit at date of actual retirement reduced by 1/3 of one percent for each month early.

Contributions. Plan members are required to contribute 3.0 percent of compensation. Member contributions are credited with 5.0 percent interest compounded annually. The City is required to contribute at an actuarially determined rate. The rate of the annual minimum municipal obligation under PA Act 205.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

PA Act 205 requires that annual contributions be based upon the calculation of the Minimum Municipal Obligation (MMO). The MMO calculation is based upon the biennial actuarial valuation. Employees are not required to contribute under the Act; such contributions are subject to collective bargaining. The commonwealth allocates certain funds to assist in pension funding. Any financial requirement established by the MMO, which exceeds the commonwealth allocation, must be funded by the township (and could include employee contributions).

Annual Pension Cost and Net Pension Obligation

The following is the Net Pension Obligation Calculation from the January 1, 2011 actuarial reports for the Police and Employees' Pension Plans:

	PPP	PFPP	NEPP
Annual required contribution	\$ 5,631,258	\$ -	\$ 1,376,733
Interest on net pension obligation	(1,421,974)	(1,242)	(65,306)
Adjustment to annual required contribution	1,817,110	1,780	85,001
Annual pension cost	<u>6,026,394</u>	<u>538</u>	<u>1,396,428</u>
Contributions made - City	3,932,111	-	1,404,139
Increase (decrease) in net pension obligation	2,094,283	538	(7,711)
Net pension obligation (asset) beginning of year	<u>(18,959,659)</u>	<u>(16,558)</u>	<u>(816,319)</u>
Net pension obligation (asset) at end of year	<u><u>\$ (16,865,376)</u></u>	<u><u>\$ (16,020)</u></u>	<u><u>\$ (824,030)</u></u>

Actuarial methods and assumptions. The following is information as of the most recent actuarial valuation:

	PPP	PFPP	NEPP
Valuation date	01/01/11	01/01/11	01/01/11
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level dollar, open	Level dollar, closed	Level dollar, closed
Remaining amortization period	18 years	12 years	17 years
Asset valuation method	130% of market value	130% of market value	120% of market value (4 yr. smoothing)
Actuarial assumptions			
Investment rate of return	7.5%	7.5%	7.5%
Projected salary increases	5%	6%	5%
Includes inflation - at	-	Included in rates above	3%

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

Fiscal Year	Annual Pension Cost	Actual Contribution	Percentage Contributed	Net Pension Obligation (Asset)
POLICE PENSION FUND				
2009	\$ 2,796,023	\$ 2,428,329	86.8%	\$ (22,261,621)
2010	5,909,324	2,607,362	44.1%	(18,959,659)
2011	6,026,394	3,932,111	65.2%	(16,865,376)
FIREMEN'S PENSION FUND				
2009	\$ 1,346,126	\$ 1,406,097	100+%	
2010	1,380,603	1,611,489	100+%	
2011	1,976,423	1,984,463	100+%	
OFFICERS' AND EMPLOYEES' PENSION FUND				
2009	\$ 775,359	\$ 806,692	100+%	
2010	800,416	1,670,803	100+%	
2011	1,376,733	1,404,139	100+%	

Funded Status and Funding Progress

The funded status of each plan as of January 1, 2011, the most recent actuarial valuation date is as follows:

	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (AAL)(b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a/c)
PPP	\$ 91,040,541	\$ 130,699,482	\$ 39,658,941	69.7 %	\$ 8,233,879	481.66 %
PFPP	55,815,180	64,823,775	9,008,595	86.1	8,048,446	111.93
NEPP	50,403,788	67,774,877	17,371,089	74.4	14,270,137	121.73

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 12 - POST EMPLOYMENT BENEFITS

Plan Description:

The City of Reading sponsors a single-employer defined benefit healthcare plan (the Retiree Health Plan). The plan provides medical and pharmacy benefits plus life insurance for eligible retirees and their dependents through the City's health insurance plan, which covers both active and retired members. Benefit provisions are established through negotiation with the City and the unions representing the City's employees. The Retiree Health Plan does not issue a publicly available financial report and the City is implementing GASB Statement 45 prospectively.

Funding Policy:

Contribution requirements also are negotiated between the City and union representatives. The required contribution is based on pay-as-you-go financing. For nonuniform employees retired prior to 2004, the City contributes 100 percent of the cost of the current year premiums for eligible retired plan members and their dependents. For nonuniform employees retired after 2004 to current, the retired plan member pays the retiree contribution rate supplied by the City, and the balance of the remaining premium is paid by the City. For fire department employees hired prior to January 1, 2011, the City contributes 100 percent of the cost of the current year premiums for eligible retired plan members and their dependents. For police department employees retired prior to 2007, the City contributes 100 percent of the cost of the current year premiums for eligible retired plan members and their dependents. For police department employees retired after 2007 to current, the retired plan member pays the retiree contribution rate supplied by the City, and the balance of the remaining premium is paid by the City. Certain employees hired on or after June 1, 2010 and firefighters hired on or after January 1, 2011 are not eligible for benefits. For the fiscal year ended December 31, 2011, the City contributed \$2,210,000 to the plan related to retirees.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 12 - POST EMPLOYMENT BENEFITS - CONTINUED

Annual OPEB Cost and Net OPEB Obligation:

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation as of December 31:

	2011
Annual required contribution	\$ 5,536,735
Interest on net OPEB obligation	97,069
Adjustment to annual required contribution	(140,338)
Annual OPEB Cost	5,493,466
Contributions made	(2,210,000)
Increase in net OPEB obligation	3,283,466
Net OPEB obligation - beginning of year	5,710,189
Net OPEB obligation - end of year	\$ 8,993,655

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of December 31, 2011 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2011	\$ 5,493,466	40.2%	\$ 8,993,655
12/31/2010	5,493,466	40.2%	5,710,189
12/31/2009	2,571,242	48.7%	2,426,723

Funded Status and Funding Progress:

As of December 31, 2010, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$67,683,582, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$67,683,582. The covered payroll (annual payroll of active employees covered by the plan) was \$0, and the ratio of the UAAL to the covered payroll was 0.0%.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 12 - POST EMPLOYMENT BENEFITS - CONTINUED

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about actuarial value of plan assets and actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2010, actuarial valuation, the Projected Unit Credit Cost Method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend based on the Society of Actuaries-Getzen Model version 4.0 utilizing the baseline assumptions included in the model, except for an inflation assumption of 2.75 percent and a real GDP growth assumption of 1.9 percent. The unfunded actuarial accrued liability is being amortized over a 30-year period using the Projected Unit Credit Cost Method.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

In the normal course of business, the City is subject to various contingent liabilities arising from litigation. The City does not anticipate future losses resulting from these transactions to be material to the City's financial statements.

Under the terms of federal and state grants, periodic audits are required and the allowability of certain costs may be questioned under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. City management believes such disallowances, if any, will be immaterial.

The City has in effect three labor agreements, which cover approximately 90 percent of the total labor force. The collective bargaining agreement with AFSCME - The American Federation of State, County and Municipal Employees Local 3799 was renewed in 2010 and is effective through December 31, 2014. AFSCME Local 2763 expired December 31, 2011 and a new agreement was entered and is effective through December 31, 2016. The Reading Lodge #9 Fraternal Order of Police's labor agreement was in effect through December 31, 2011. The agreement has not been renewed and is currently in arbitration. The labor agreement with the International Association of Fire Fighters, Local 1803 was amended in April 2011 and is effective through December 31, 2015.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 13 - COMMITMENTS AND CONTINGENCIES - CONTINUED

The City has entered into contracts for capital improvements related to the wastewater treatment plant, information improvement, First Energy Stadium, and other miscellaneous projects. At December 31, 2011, the balance of open contracts was \$4,474,947, \$780,380, and \$71,173, respectively. Subsequent to year-end, the City entered into contracts for the construction to the waste water treatment plant totaling \$9,946,500. These commitments will be paid with the proceeds received subsequent to year-end from a PennVest loan totaling \$10,013,950.

The Reading Area Water Authority has entered into several contracts for capital improvements. At December 31, 2011, the balance of open contracts was \$806,000.

The Reading Area Water Authority has an unused letter of credit of \$800,000 at December 31, 2011.

NOTE 14 - RISK MANAGEMENT AND SELF-INSURANCE

The City is exposed to various risks of losses related to torts; theft, damage, destruction of assets, errors and omissions; injuries to employees, and natural disasters. The City manages these risks through self-insurance and coverage from commercial insurance companies for excess liabilities. The table below outlines the limits and deductibles for these lines of coverage at December 31, 2011:

	Carrier	Limit	Deductible
Property	St. Paul Travelers	\$ 212,736,573	\$ 100,000
Liability	St. Paul Travelers	1,000,000	150,000
Crime	St. Paul Travelers	1,000,000	10,000
Auto Liability	St. Paul Travelers	1,000,000	150,000
Auto Property Damage	St. Paul Travelers	Cash value or cost to repair	10,000
Excess Liability	St. Paul Travelers	4,000,000	10,000
Fire Equipment	St. Paul Travelers	282,705	500
Law Enforcement	Scottsdale	2,000,000	150,000
Employment Practices	Scottsdale	1,000,000	150,000
Public Officials	Scottsdale	2,000,000	100,000
Excess Worker Comp	Safety National	Statutory	450,000
Pollution Liability	Illinois Union	1,000,000	50,000

The City of Reading is recognized and meets the qualifications of the Pennsylvania Department of Labor and Industry as a Self-Insured Workers' Compensation Employer. As part of the qualifications to maintain self-insured status, the City of Reading purchases excess workers' compensation coverage for police claims that exceed \$1,000,000, US Longshoremen Act claims that exceed \$750,000 and all other claims that exceed \$450,000. This insurance policy is underwritten by Safety National Casualty Corporation. The City also is required to maintain a trust for outstanding liabilities for workers' compensation. That trust is in the amount of \$2,179,440.

CITY OF READING

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 14 - RISK MANAGEMENT AND SELF-INSURANCE - CONTINUED

Activity of the self-insurance program including liability exposure is accounted for in the Self-Insurance Internal Service Fund (the Fund). The Fund is responsible for collecting interfund premiums, paying claim settlements and purchasing other specified insurance policies. Claims settled and loss expense are accrued in the Fund for estimated reported claims. This fund has a net asset balance of \$120,000 reserved for a sick leave pool.

The City had an actuarial study performed to estimate the workers' compensation liability. Based on past experience, management of the City believes incurred, but not reported claims, to be immaterial and therefore, has not established an accrual for such claims at December 31, 2011. An analysis of claims activity is presented below:

	Beginning of Year Liabilities	Estimated Current Year Claims	Actual Claim Payments	Balance at Fiscal Year-End
2011	\$ 2,594,121	\$ 3,476,070	\$ 3,890,751	\$ 2,179,440

Employee Benefit

The City pays premiums for certain employee benefits such as health and life insurance, in accordance with stipulations of collective bargaining agreements. Such expenditures are not accounted for through the self-insurance fund, but rather are allocated to the particular fund that records the related payroll expenditures. Total expense for these employee benefits for the year ended December 31, 2011 was \$10,266,208.

NOTE 15 - FUND EQUITY AND CHANGE IN FUND BALANCES

Primary Government

Effective January 1, 2011, the City adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* to be in conformity with generally accepted accounting principles. The statement clarified the use of special revenue fund types and established a hierarchy for classifying fund balances into specifically defined classifications resulting in the City adopting a fund balance policy effective for the December 31, 2011 reporting period. Details of the City's governmental fund balance reporting and policy can be found in Note 1, *Summary of Significant Accounting Policies*. Fund balance classifications for the year ended December 31, 2011 were as follows:

General Fund: The general fund has an unassigned fund balance of \$19,221,943.

Community Development Fund: The community development fund has restricted funds of \$351,053, consisting primarily of unspent federal and state grant funds restricted by federal or state law.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 15 - FUND EQUITY AND CHANGE IN FUND BALANCES - CONTINUED

Agency Fund: The agency fund has restricted funds of \$753,688, consisting primarily of unspent funds donated by various parties which are to be used according to the donor's wishes.

Capital Projects Fund: The capital projects fund has restricted funds of \$2,273,416, consisting primarily of bond proceeds related to be used for future capital purchases.

Debt Service: The debt service fund has restricted funds of \$163,693, consisting primarily of unspent monies from debt issuances for future debt payments.

Liquid Fuels Fund: The liquid fuels fund has restricted funds of \$194,314, consisting primarily of unspent state road funds.

The City has established and will maintain reservations of fund balance in accordance with GASB 54. This policy applies to the City's General Fund and all governmental funds. Fund balance is composed on nonspendable, restricted, committed, assigned, and unassigned amounts.

Fund balance information is used to identify the available resources to repay long-term debt, reduce property taxes, add new governmental programs, expand existing programs, or enhance the financial position of the City in accordance with policies established by the members of council.

Spending policy

The City's policy is to first use restricted fund balance when expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.

The City's policy is to use unrestricted fund balance in the following order: committed, assigned, and unassigned, when expenditure is incurred for purposes for which each of these fund balance classifications is available.

Minimum fund balance policy

The City has not formally adopted a minimum fund balance policy.

Committed fund balance policy

The members of council are the City's highest level of decision-making authority. The City has not formally adopted a policy as to the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment.

Assigned fund balance policy

The City has not formally adopted a policy regarding the body or official authorized to assign amounts to a specific purpose and the policy established by the governing body pursuant to which that authorization is given.

CITY OF READING
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 16 - NEW ACCOUNTING STANDARDS

- Statement No. 60, Service Concession Arrangements which is required to be implemented by the year ended June 30, 2013. The objective of this statement is to address how to account for and report service concession arrangements, a type of public-private or public-public partnership that governments are increasingly entering into. At this time, the City does not have any service concession arrangements in place.
- Statement No. 61, The Financial Reporting Entity - Omnibus which is required to be implemented by the year ended June 30, 2013. The objective of this statement is to improve financial reporting for a governmental financial reporting entity to better meet user needs and address reporting entity issues. This statement modifies certain requirements for inclusion of component units in the financial reporting entity, and amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. The statement also clarifies the reporting of equity interests in legally separate organizations.
- Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position which is required to be implemented by the year ended June 30, 2013. The objective of this statement is to provide a framework that will serve to standardize the presentation of deferred balances and their effects on a government's net position and address uncertainty related to their display.
- Statement No. 65, Items Previously Reported as Assets and Liabilities, which is required to be implemented by the year ended June 30, 2013. The objective of this statement is to improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement also restricts the use of the term "deferred" only to those items designated as deferred outflows or deferred inflows of resources by the standards.
- Statement No. 67, Financial Reporting for Pension Plans, which is required to be implemented by the year ended June 30, 2014. The objective of this statement is to improve financial reporting by enhancing financial statement note disclosure and required supplementary information for government pension plans.
- Statement No. 68, Accounting and Financial Reporting for Pensions, which is required to be implemented by the year ended June 30, 2015. The objective of this statement is to improve accounting and financial reporting by governments for pensions. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures. This statement also enhances note disclosure and required supplementary information for government pension plans. This pronouncement applies to employers that have a legal obligation to make contributions directly to a pension plan.

The City has not yet completed the analysis necessary to estimate the financial statement impact of these new pronouncements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF READING

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended December 31, 2011

	General Fund			
	Original Budget	Final Budget	Actual	Variance
Revenues:				
Real estate taxes	\$ 18,966,209	\$ 18,966,209	\$ 19,530,526	\$ 564,317
Act 511 taxes	17,403,562	17,403,562	16,542,885	(860,677)
Licenses, permits, and fines	5,241,850	5,241,850	4,609,149	(632,701)
Intergovernmental	4,885,175	4,885,175	6,904,119	2,018,944
Charges for services	7,314,774	7,314,774	7,394,066	79,292
Interest and rent	4,470,000	4,280,000	6,365,774	2,085,774
Other	5,427,200	5,617,200	11,081,920	5,464,720
TOTAL REVENUES	63,708,770	63,708,770	72,428,439	8,719,669
Expenditures:				
Current:				
General government	6,003,510	6,023,510	6,539,980	(516,470)
Public safety				
Police	26,138,495	26,138,495	26,382,256	(243,761)
Fire	10,946,171	10,962,521	10,707,904	254,617
EMS	3,265,455	3,248,205	3,710,804	(462,599)
Public works: highways and streets	371,899	371,899	443,761	(71,862)
Public works: other	5,539,600	5,540,500	6,174,727	(634,227)
Community development	2,738,469	2,718,469	2,633,815	84,654
Culture and recreation	800,875	800,875	730,278	70,597
Other	1,706,216	1,387,578	1,420,908	(33,330)
Debt service - principal	5,531,937	5,080,575	4,595,703	484,872
Debt service - interest	6,186,208	6,956,208	7,157,409	(201,201)
TOTAL EXPENDITURES	69,228,835	69,228,835	70,497,545	(1,268,710)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(5,520,065)	(5,520,065)	1,930,894	7,450,959
OTHER FINANCING SOURCES (USES)				
Bond proceeds	-	-	21,265,000	21,265,000
Bond discounts	-	-	(22,310)	(22,310)
Swap termination fees	-	-	(1,350,000)	(1,350,000)
Payment to escrow agent, refunding bond	-	-	(19,316,678)	(19,316,678)
Operating transfers in	7,222,500	7,222,500	7,262,000	39,500
Operating transfers out	(1,702,435)	(1,702,435)	(1,702,435)	-
TOTAL OTHER FINANCING SOURCES (USES)	5,520,065	5,520,065	6,135,577	615,512
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ -	8,066,471	\$ 8,066,471
FUND BALANCE, BEGINNING OF YEAR			11,155,472	
FUND BALANCE, END OF YEAR			\$ 19,221,943	

See note to required supplementary information.

CITY OF READING

SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS - RETIREMENT PLANS

December 31, 2011

I. SCHEDULES OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (AAL)(b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
POLICE PENSION FUND						
01/01/11	\$ 91,040,541	\$ 130,699,482	\$ 39,658,941	69.7%	\$ 8,233,879	481.7%
01/01/09	85,324,284	116,213,452	30,889,168	73.4%	11,349,615	272.2%
01/01/07	81,188,059	88,275,688	7,087,629	92.0%	11,186,195	63.4%
PAID FIREMEN'S PENSION FUND						
01/01/11	\$ 55,815,180	\$ 64,823,775	\$ 9,008,595	86.1%	\$ 8,048,446	111.9%
01/01/09	49,852,024	56,291,280	6,439,256	88.6%	8,018,210	80.3%
01/01/07	47,326,524	48,343,372	1,016,848	97.9%	7,187,428	14.1%
OFFICERS' AND EMPLOYEES' PENSION FUND						
01/01/11	\$ 50,403,788	\$ 67,774,877	\$ 17,371,089	74.4%	\$ 14,270,137	121.7%
01/01/09	53,650,657	60,800,584	7,149,927	88.2%	15,450,113	46.3%
01/01/07	57,572,084	57,081,669	(490,415)	100.9%	14,190,597	(3.5%)

II. SCHEDULES OF EMPLOYER CONTRIBUTIONS

Fiscal Year	Annual Required Contribution	Percentage Contributed	Employer Contributions	Net Pension Obligation (Asset)
POLICE PENSION FUND				
2011	\$ 5,631,258	70%	\$ 3,932,111	\$ (16,865,376)
2010	5,547,605	47%	2,607,362	(18,959,659)
2009	2,428,329	100%	2,428,329	(22,261,621)
2008	1,705,470	100%	1,705,470	(22,629,315)
2007	3,203,156	33%	1,054,474	(23,003,082)
2006	3,496,057	827%	28,910,737	(25,414,680)
FIREMEN'S PENSION FUND				
2011	\$ 1,976,423	100+%	\$ 1,984,463	
2010	1,380,603	100+%	1,611,489	
2009	1,346,126	100+%	1,406,097	
2008	1,289,485	100+%	1,337,816	
2007	537,686	100+%	582,314	
2006	1,268,949	100+%	1,268,949	
OFFICERS' AND EMPLOYEES' PENSION FUND				
2011	\$ 1,376,733	102%	\$ 1,404,139	
2010	800,416	209%	1,670,803	
2009	775,359	104%	806,192	
2008	598,539	105%	626,961	
2007	616,822	0%	-	
2006	1,650,339	100%	1,650,339	

CITY OF READING

SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS
POST EMPLOYMENT BENEFITS PLAN

Year Ended December 31, 2011

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2010	\$ -	\$ 67,683,582	\$ 67,683,582	0.00%	N/A	N/A
12/31/2008	-	26,676,711	26,676,711	0.00%	N/A	N/A

Schedule of Employer Contributions

Fiscal Year End	Annual OPEB Cost	City Contributions	% of OPEB Cost Contributed	Net OPEB Obligation
12/31/2011	\$ 5,493,466	\$ 2,210,000	40.20%	\$ 8,993,655
12/31/2010	5,493,466	2,210,000	40.20%	5,710,189
12/31/2009	2,571,242	1,250,917	48.70%	2,426,726

CITY OF READING

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2011

NOTE 1 - BUDGETARY COMPARISON SCHEDULE

The budgetary comparison schedule for the general fund is prepared using the modified accrual basis of accounting which is the same basis used to report actual expenditures. Expenditures exceed appropriations by \$1,268,710.

The Community Development and Agency fund are major special revenue funds, but have no legally adopted budget; therefore, no schedules are included in this report.

SUPPLEMENTARY INFORMATION

CITY OF READING

SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES - BUDGETARY BASIS -
GENERAL FUND

Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance
REAL ESTATE TAXES	\$ 18,966,209	\$ 18,966,209	\$ 19,530,526	\$ 564,317
ACT 511 Taxes				
Per capita tax	80,000	80,000	66,115	(13,885)
Per capita tax - prior years	20,000	20,000	5,374	(14,626)
Real estate transfer tax	2,750,000	2,750,000	2,227,730	(522,270)
Earned income tax	11,797,117	11,797,117	11,534,142	(262,975)
Occupation tax	780,195	780,195	924,679	144,484
Occupation tax - prior years	341,250	341,250	376,400	35,150
Business privilege tax	1,350,000	1,350,000	1,326,539	(23,461)
Business privilege tax - prior years	285,000	285,000	81,906	(203,094)
Total Act 511 Taxes	17,403,562	17,403,562	16,542,885	(860,677)
LICENSES, PERMITS, AND FINES				
Food permits	75,000	75,000	130,121	55,121
Building and electrical	976,500	976,500	1,023,862	47,362
Trades licenses	105,000	105,000	114,250	9,250
Business privilege	275,000	275,000	242,534	(32,466)
Street and pavement	56,000	56,000	131,191	75,191
Zoning and land development	222,000	222,000	186,057	(35,943)
Housing	1,500,000	1,500,000	757,335	(742,665)
Tax administration licenses	12,750	12,750	10,725	(2,025)
Franchise fees	705,000	705,000	704,540	(460)
No parking signs	600	600	800	200
Traffic fines	315,000	315,000	337,182	22,182
Penalties and interest	108,000	108,000	109,733	1,733
District court	800,000	800,000	799,923	(77)
Other	91,000	91,000	60,896	(30,104)
Total Licenses, Permits, and Fines	5,241,850	5,241,850	4,609,149	(632,701)
INTERGOVERNMENTAL				
Payments in lieu of taxes	100,000	100,000	127,679	27,679
Malt and liquor tax	40,000	40,000	51,800	11,800
Public utility tax	45,000	45,000	45,721	721
Snow and ice control	50,000	50,000	66,957	16,957
Reading Public Library	800,875	800,875	649,751	(151,124)
School guard	255,000	255,000	227,677	(27,323)
Pension - state aid	2,975,000	2,975,000	4,482,741	1,507,741
Volunteer Fire Relief Aid	-	-	80,896	80,896
Police training	130,000	130,000	92,051	(37,949)
Grant reimbursement - police	489,300	489,300	1,078,846	589,546
Total Intergovernmental	4,885,175	4,885,175	6,904,119	2,018,944

CITY OF READING

SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES - BUDGETARY BASIS -
GENERAL FUND - CONTINUED

Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance
CHARGES FOR SERVICES				
Recreational facilities	25,000	25,000	33,053	8,053
Swimming pool	66,000	66,000	57,848	(8,152)
Pagoda and tower	6,500	6,500	8,364	1,864
School district tax collection	42,763	42,763	118,503	75,740
Tax certifications	-	-	9,188	9,188
Admissions fee/tax	480,000	480,000	411,108	(68,892)
Police services	1,384,711	1,384,711	1,250,128	(134,583)
Fire services	394,300	394,300	423,711	29,411
Ambulance services	2,713,000	2,713,000	2,982,823	269,823
Housing Authority	265,000	265,000	250,616	(14,384)
Public works	69,000	69,000	29,086	(39,914)
Meter surcharge	1,750,000	1,750,000	1,700,000	(50,000)
Other	118,500	118,500	119,638	1,138
Total Charges for Service	7,314,774	7,314,774	7,394,066	79,292
INTEREST AND RENT				
Interest on investments	-	-	941	941
CD bond interest	200,000	200,000	478,291	278,291
Stadium rental	278,000	278,000	250,342	(27,658)
Building rental	75,000	75,000	65,063	(9,937)
Parking Authority	400,000	400,000	399,998	(2)
Greater Berks	3,517,000	3,327,000	5,171,139	1,844,139
Total Interest and Rent	4,470,000	4,280,000	6,365,774	2,085,774
OTHER				
Sale of city property	85,000	85,000	275	(84,725)
Donation from parking authority	760,000	950,000	950,002	2
Refund of prior year expenses	700	700	4,521,025	4,520,325
Recovery of damages	25,000	25,000	52,900	27,900
Indirect cost reimbursement:				
Community development	190,000	190,000	293,584	103,584
Recycling	170,000	170,000	302,504	132,504
Sewer	992,000	992,000	1,173,849	181,849
Water	700,000	700,000	802,170	102,170
Direct cost reimbursement				
Code services	495,000	495,000	563,889	68,889
Civic Service	25,000	25,000	3,150	(21,850)
Community development	33,000	33,000	8,715	(24,285)
Pension	38,000	38,000	77,671	39,671
Sewer	-	-	194,125	194,125
Grants and gifts	219,000	219,000	282,773	63,773
Other shared revenues	39,000	39,000	37,500	(1,500)
Miscellaneous	1,655,500	1,655,500	1,817,788	162,288
Total Other	5,427,200	5,617,200	11,081,920	5,464,720
TOTAL REVENUES	63,708,770	63,708,770	72,428,439	8,719,669

CITY OF READING

SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES - BUDGETARY BASIS -
GENERAL FUND - CONTINUED

Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance
OTHER FINANCING SOURCES				
Bond proceeds	-	-	21,265,000	21,265,000
Bond discount	-	-	(22,310)	(22,310)
Operating transfers in:				
Capital Reserve City	2,500	2,500	-	(2,500)
General Agency Fund	-	-	-	-
Water Fund	4,220,000	4,220,000	4,220,000	-
Sewer Fund	3,000,000	3,000,000	3,000,000	-
Recycling Fund	-	-	42,000	42,000
Total Other Financing Sources	<u>7,222,500</u>	<u>7,222,500</u>	<u>28,504,690</u>	<u>21,282,190</u>
 TOTAL REVENUES AND OTHER FINANCING SOURCES	 <u><u>\$ 70,931,270</u></u>	 <u><u>\$ 70,931,270</u></u>	 <u><u>\$ 100,933,129</u></u>	 <u><u>\$ 30,001,859</u></u>

CITY OF READING

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES - BUDGETARY BASIS -
GENERAL FUND

Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance
GENERAL GOVERNMENT				
Office of the Mayor				
Personal services	\$ 265,031	\$ 265,031	\$ 220,399	\$ 44,632
Other operating expenditures	16,200	16,200	21,535	(5,335)
City Council				
Personal services	239,401	239,401	232,784	6,617
Other operating expenditures	43,300	43,300	46,336	(3,036)
City Auditor				
Personal services	155,104	155,104	145,043	10,061
Other operating expenditures	-	-	-	-
Office of the Managing Director				
Personal services	309,435	309,255	306,483	2,772
Other operating expenditures	3,000	3,180	1,474	1,706
Department of Finance:				
Office of the Director				
Personal services	340,720	330,220	356,452	(26,232)
Other operating expenditures	5,200	15,700	11,797	3,903
Purchasing				
Personal services	95,686	95,686	72,892	22,794
Other operating expenditures	340,210	340,210	362,489	(22,279)
Accounting				
Personal services	344,656	344,656	419,493	(74,837)
Other operating expenditures	1,450	1,450	3,022	(1,572)
Mailroom				
Personal services	61,276	61,276	31,440	29,836
Other operating expenditures	72,500	72,500	71,156	1,344
Information Technology				
Personal services	661,683	661,683	687,256	(25,573)
Other operating expenditures	937,000	957,000	1,113,778	(156,778)
Department of Human Resources				
Personal services	395,578	395,578	329,239	66,339
Other operating expenditures	62,650	62,650	62,419	231
Citizens Service Center				
Personal services	749,195	749,195	823,099	(73,904)
Other operating expenditures	138,448	138,448	454,288	(315,840)
Department of Law				
Personal services	459,337	459,337	403,647	55,690
Other operating expenditures	306,450	306,450	363,459	(57,009)
TOTAL GENERAL GOVERNMENT	6,003,510	6,023,510	6,539,980	(516,470)

CITY OF READING

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES - BUDGETARY BASIS -
GENERAL FUND - CONTINUED

Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance
PUBLIC WORKS				
Department of Public Works:				
Fleet Management				
Personal services	564,066	564,066	518,711	45,355
Other operating expenditures	810,996	811,896	1,102,679	(290,783)
Traffic Engineering				
Personal services	-	-	-	-
Other operating expenditures	330,000	330,000	372,175	(42,175)
Public Works Administration				
Personal services	213,886	213,886	214,286	(400)
Other operating expenditures	259,700	259,700	431,907	(172,207)
Engineering				
Personal services	84,714	84,714	98,857	(14,143)
Other operating expenditures	7,000	7,000	40	6,960
Streets				
Personal services	330,899	330,899	409,056	(78,157)
Other operating expenditures	41,000	41,000	34,705	6,295
Parks				
Personal services	837,593	837,593	875,073	(37,480)
Other operating expenditures	107,075	107,075	58,305	48,770
Recreation				
Personal services	338,698	337,698	359,610	(21,912)
Other operating expenditures	49,950	50,950	76,667	(25,717)
Public Property				
Personal services	519,422	519,422	435,415	84,007
Other operating expenditures	1,416,500	1,416,500	1,631,002	(214,502)
TOTAL PUBLIC WORKS	5,911,499	5,912,399	6,618,488	(706,089)
PUBLIC SAFETY				
Police - Criminal Investigation				
Personal services	4,348,640	4,353,640	4,185,421	168,219
Other operating expenditures	97,800	87,800	53,697	34,103
Police - Special Services				
Personal services	2,683,601	2,688,601	2,444,598	244,003
Other operating expenditures	305,747	305,747	225,659	80,088
Police - Patrol				
Personal services	17,424,663	17,424,663	18,164,160	(739,497)
Other operating expenditures	443,675	443,675	480,870	(37,195)
Police - Administration				
Personal services	776,794	776,794	788,519	(11,725)
Other operating expenditures	57,575	57,575	39,332	18,243
Fire Administration				
Personal services	642,222	642,572	606,118	36,454
Other operating expenditures	9,714	45,740	152,569	(106,829)
Fire Special Services				
Personal services	459,870	459,870	396,915	62,955
Other operating expenditures	82,535	82,535	43,507	39,028
Fire Suppression				
Personal services	9,448,669	9,441,769	9,257,940	183,829
Other operating expenditures	303,161	290,035	250,855	39,180
Fire EMS				
Personal services	2,744,527	2,745,577	3,365,010	(619,433)
Other operating expenditures	520,928	502,628	345,794	156,834
TOTAL PUBLIC SAFETY	40,350,121	40,349,221	40,800,964	(451,743)

CITY OF READING

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES - BUDGETARY BASIS -
GENERAL FUND - CONTINUED

Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance
COMMUNITY DEVELOPMENT				
Planning				
Personal services	82,923	82,923	76,601	6,322
Other operating expenditures	1,700	1,700	577	1,123
Administration				
Personal services	17,942	17,942	26,052	(8,110)
Other operating expenditures	10,060	10,060	8,502	1,558
Zoning				
Personal services	15,837	15,837	21,409	(5,572)
Other operating expenditures	27,000	27,000	18,879	8,121
Trades				
Personal services	312,607	309,307	339,172	(29,865)
Other operating expenditures	16,500	19,800	29,369	(9,569)
Codes				
Personal services	2,147,900	2,090,925	1,874,340	216,585
Other operating expenditures	106,000	142,975	238,914	(95,939)
TOTAL COMMUNITY DEVELOPMENT	2,738,469	2,718,469	2,633,815	84,654
CULTURE AND RECREATION				
Library				
Personal services	800,875	800,875	730,020	70,855
Other operating expenditures	-	-	258	(258)
TOTAL CULTURE AND RECREATION	800,875	800,875	730,278	70,597
DEBT SERVICE				
Principal	5,531,937	5,080,575	4,495,703	584,872
Interest	6,186,208	6,956,208	7,257,409	(301,201)
TOTAL DEBT SERVICE	11,718,145	12,036,783	11,753,112	283,671
NONDEPARTMENTAL				
Payroll and benefits	2,011,513	1,692,875	434,934	1,257,941
Other	(305,297)	(305,297)	985,974	(1,291,271)
TOTAL NONDEPARTMENTAL	1,706,216	1,387,578	1,420,908	(33,330)
TOTAL EXPENDITURES	69,228,835	69,228,835	70,497,545	(1,268,710)
OTHER FINANCING USES				
Swap termination fees	-	-	1,350,000	(1,350,000)
Payment to escrow agent, refunding bond	-	-	19,316,678	(19,316,678)
Transfers to other funds	1,702,435	1,702,435	1,702,435	-
TOTAL OTHER FINANCING USES	1,702,435	1,702,435	22,369,113	(20,666,678)
TOTAL EXPENDITURES AND OTHER FINANCING USES	\$ 70,931,270	\$ 70,931,270	\$ 92,866,658	\$ (21,935,388)

CITY OF READING

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

December 31, 2011

	Debt Service	Capital Projects	Liquid Fuels Fund	Totals
ASSETS				
Cash and cash equivalents	\$ 4,463	\$ 1,521,501	\$ 399,879	\$ 1,925,843
Investments	572	-	-	572
Interfund receivables	158,658	922,448	-	1,081,106
TOTAL ASSETS	\$ 163,693	\$ 2,443,949	\$ 399,879	\$ 3,007,521
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	\$ -	\$ 118,741	\$ 132,319	\$ 251,060
Interfund payables	-	51,792	73,246	125,038
TOTAL LIABILITIES	-	170,533	205,565	376,098
FUND BALANCES				
Restricted for debt service	163,693	-	-	163,693
Restricted for capital projects	-	2,273,416	-	2,273,416
Restricted for liquid fuels	-	-	194,314	194,314
TOTAL FUND BALANCES	163,693	2,273,416	194,314	2,631,423
TOTAL LIABILITIES AND FUND BALANCES	\$ 163,693	\$ 2,443,949	\$ 399,879	\$ 3,007,521

CITY OF READING

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS

Year Ended December 31, 2011

	Debt Service	Capital Projects Fund	Liquid Fuels Fund	Totals
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 1,329,673	\$ 1,329,673
Interest and rent	-	4,570	1,132	5,702
Other	-	-	34,520	34,520
TOTAL REVENUES	-	4,570	1,365,325	1,369,895
EXPENDITURES				
Public works - highways and streets	-	-	1,979,333	1,979,333
Capital outlay	-	2,777,888	-	2,777,888
TOTAL EXPENDITURES	-	2,777,888	1,979,333	4,757,221
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	(2,773,318)	(614,008)	(3,387,326)
OTHER FINANCING SOURCES (USES)				
Line of credit proceeds	-	3,245,567	-	3,245,567
Bond Issuance costs	-	(45,567)	-	(45,567)
TOTAL OTHER FINANCING SOURCES	-	3,200,000	-	3,200,000
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	-	426,682	(614,008)	(187,326)
FUND BALANCES, BEGINNING OF YEAR	163,693	1,846,734	808,322	2,818,749
FUND BALANCES, END OF YEAR	<u>\$ 163,693</u>	<u>\$ 2,273,416</u>	<u>\$ 194,314</u>	<u>\$ 2,631,423</u>

CITY OF READING

COMBINING STATEMENT OF NET ASSETS - FIDUCIARY FUNDS

December 31, 2011

	<u>Police Pension Fund</u>	<u>Paid Firemen's Pension Fund</u>	<u>Officers' and Employees' Pension Fund</u>	<u>Total Pension Trust Funds</u>
ASSETS				
Cash and cash equivalents	\$ 4,769,653	\$ 2,049,338	\$ 1,923,682	\$ 8,742,673
Investments	<u>70,168,004</u>	<u>39,940,582</u>	<u>45,222,399</u>	<u>155,330,985</u>
TOTAL ASSETS	74,937,657	41,989,920	47,146,081	<u>\$ 164,073,658</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	90,901	33,965	82,805	\$ 207,671
Interfund payable	<u>26,210</u>	<u>14,431</u>	<u>37,030</u>	<u>77,671</u>
TOTAL LIABILITIES	<u>117,111</u>	<u>48,396</u>	<u>119,835</u>	285,342
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 74,820,546</u>	<u>\$ 41,941,524</u>	<u>\$ 47,026,246</u>	163,788,316
TOTAL NET ASSETS AND LIABILITIES				<u>\$ 164,073,658</u>

CITY OF READING

COMBINING STATEMENT OF CHANGES IN NET ASSETS - FIDUCIARY FUNDS

Year Ended December 31, 2011

	Police Pension Fund	Paid Firemen's Pension Fund	Officers' and Employees' Pension Fund	Total Pension Trust Funds
ADDITIONS				
Contributions				
Member, city, and state contributions	\$ 5,545,166	\$ 2,391,975	\$ 1,893,122	\$ 9,830,263
Investment income				
Interest and dividends	3,313,485	844,929	905	4,159,319
Realized and unrealized gain on value of investments	<u>(3,328,626)</u>	<u>(1,651,025)</u>	<u>647,036</u>	<u>(4,332,615)</u>
TOTAL ADDITIONS	5,530,025	1,585,879	2,541,063	9,656,967
DEDUCTIONS				
Benefits, including tax withheld	9,122,866	3,544,003	4,353,409	17,020,278
Administrative expenses	463,251	192,339	359,678	1,015,268
Refunds paid	<u>60,232</u>	<u>3,257</u>	<u>229,412</u>	<u>292,901</u>
TOTAL DEDUCTIONS	<u>9,646,349</u>	<u>3,739,599</u>	<u>4,942,499</u>	<u>18,328,447</u>
NET DECREASE	(4,116,324)	(2,153,720)	(2,401,436)	(8,671,480)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, BEGINNING OF YEAR	<u>78,936,870</u>	<u>44,095,244</u>	<u>49,427,682</u>	<u>172,459,796</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, END OF YEAR	<u>\$ 74,820,546</u>	<u>\$ 41,941,524</u>	<u>\$ 47,026,246</u>	<u>\$ 163,788,316</u>

CITY OF READING
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2011

Federal Grantor/Pass Through Grantor/Program Title	Source Code	Federal CFDA Number	Grant Period	Grant Contract	Total Award	Accrued (Deferred) 12/31/10	Amount Received	Revenue/ Expenditures	Accrued (Deferred) 12/31/11
U.S. DEPARTMENT OF HOUSING									
Community Development Block Grant/Entitlement Grant	D	14.218	01/01/09-12/31/09	B-09-MC-42-0013	\$ 3,098,764	\$ 464,206	\$ 464,206	\$ -	\$ -
Community Development Block Grant/Entitlement Grant	D	14.218	01/01/10-12/31/10	B-10-MC-42-0013	3,360,585	964,829	3,360,585	2,395,756	-
Community Development Block Grant/Entitlement Grant	D	14.218	01/01/11-12/31/11	B-11-MC-42-0013	2,804,510	-	369,915	974,229	604,314
Community Development Block Grant/Entitlement Grant (ARRA)	D	14.253	06/04/09-09/30/12	B-09-MY-42-0013	828,217	17,751	102,226	96,466	11,991
Entitlement Grant Cluster Subtotal						1,446,786	4,296,932	3,466,451	616,305
Community Development Block Grant/Brownsfields Economic Development Initiative	D	14.246		B-06-BD-42-0013	500,000	-	500,000	500,000	-
Community Development Block Grant/Brownsfields Economic Development Initiative	D	14.246		B-05-BD-42-0013	1,000,000	-	1,000,000	1,000,000	-
Subtotal						-	1,500,000	1,500,000	-
Community Development Block Grants - Section 108 Loan Guarantees	D	14.248		B-05-MC-42-0013	1,500,000		1,500,000	1,500,000	-
Emergency Shelter Grant	D	14.231		S-09-MC-42-0006	135,829	64,931	64,931	-	-
Emergency Shelter Grant	D	14.231		S-10-MC-42-0006	135,899	28,670	131,988	107,229	3,911
Emergency Shelter Grant	D	14.231		E-11-MC-42-0006	136,152	-	35,236	58,325	23,089
Subtotal						93,601	232,155	165,554	27,000
Homelessness Prevention and Rapid Re-Housing Program (ARRA)	D	14.257		S-09-MY-42-0006	1,267,021	44,639	362,430	360,893	43,102
HOME Investment Partnership Program	D	14.239		M-07-MC-42-0204	992,956	22,606	71,907	49,301	-
HOME Investment Partnership Program	D	14.239		M-08-MC-42-0204	962,215	323,540	196,057	-	127,483
HOME Investment Partnership Program	D	14.239		M-09-MC-42-0204	1,071,352	(240,495)	479,971	863,760	143,294
HOME Investment Partnership Program	D	14.239		M-10-MC-42-0204	967,214	-	94,032	228,520	134,488
HOME Investment Partnership Program	D	14.239		M-11-MC-42-0204	943,508	-	-	-	-
Subtotal						105,651	841,967	1,141,581	405,265
Neighborhood Stabilization Program 2 (ARRA)	D	14.256	02/11/10-02/11/13	B-09-CNPA-0014	5,000,000	433,126	2,379,755	2,038,258	91,629
Fair Housing	D	14.401	10/01/07-09/30/08	FF-203-K-10-3012	87,140	-	78,640	78,640	-
Fair Housing	D	14.401	10/01/08-09/30/09	FF-203-K-11-3012	43,994	-	-	-	-
Subtotal						-	78,640	78,640	-
TOTAL U.S. DEPARTMENT OF HOUSING						2,123,803	11,191,879	10,251,377	1,183,301
U.S. DEPARTMENT OF JUSTICE									
Edward Byrne Memorial Justice Assistance Program	D	16.738	10/01/07-09/30/11	2008-DJ-BX-0396	43,212	-	815	815	-
Edward Byrne Memorial Justice Assistance Program	D	16.738	10/01/08-09/30/12	2009-DJ-BX-1229	134,365	-	104,093	114,260	10,167
Edward Byrne Memorial Justice Assistance Program	D	16.738	10/01/09-09/30/13	2010-DJ-BX-0863	121,998	12,346	25,146	12,800	-
Edward Byrne Memorial Justice Assistance Program	D	16.738	10/01/10-09/30/14	2011-DJ-BX-2349	93,069	-	-	-	-
FY 2009 Recovery Act Justice Assistance Grant Program (ARRA)	D	16.804	03/01/09-02/28/13	2009-SB-B9-2498	640,806	70,494	228,942	221,199	62,751
PCCD Pass Through (ARRA)									
Reading Weed and Seed Federal Award #2007-JG-01-21612	I	16.738	07/01/10-06/30/11	2007-JG-01-21612	74,480	9,565	72,710	63,145	-
Reading Weed and Seed Daytime Curfew Project Federal Award #2009-JG-01-22087	I	16.738	01/01/11-12/31/11	2009-JG-01-22087	50,000	-	13,258	36,292	23,034
Reading Weed and Seed Federal Award #2009-SU-B9-0014	I	16.803	07/01/10-06/30/11	2009-AJ-03-21581	80,000	20,000	60,795	40,795	-
Edward Byrne Memorial Justice Assistance Program Cluster Subtotal						112,405	505,759	489,306	95,952
Bulletproof Vest Partnership	D	16.607	01/01/11-12/31/11	2011	8,156	-	-	8,156	8,156
COPS	D	16.710	12/26/07-12/25/10	2008-CK-WX-0171	1,169,125	7,364	110,032	117,302	14,634
COPS	D	16.710	12/26/07-12/25/10	2008-CK-WX-0255	607,945	-	111,944	111,944	-
COPS Hiring Recovery Program (ARRA)	D	16.710	07/01/09-06/30/12	2009RkW0716	1,000,100	76,958	329,486	336,704	84,176
Subtotal						84,322	551,462	565,950	98,810
PCCD Pass Through (ARRA)									
Police Domestic Violence Prevention Program Federal Award #2009-EF-S6-0037	I	16.588	01/01/10-04/30-11	2009-AS-03/05-20454	93,577	17,335	26,716	9,381	-
TOTAL U.S. DEPARTMENT OF JUSTICE						214,062	1,083,937	1,072,793	202,918

CITY OF READING
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2011

Federal Grantor/Pass Through Grantor/Program Title	Source Code	Federal CFDA Number	Grant Period	Grant Contract	Total Award	Accrued (Deferred) 12/31/10	Amount Received	Revenue/ Expenditures	Accrued (Deferred) 12/31/11
U.S. DEPARTMENT OF DEFENSE									
Office of Economic Adjustment	D	12-607	06/01/08-03/31/10	CL0613-08-02	120,000	25,000	-	(25,000) *	-
TOTAL U.S. DEPARTMENT OF DEFENSE						25,000	-	(25,000)	-
U.S. DEPARTMENT OF ENERGY									
Energy Efficiency and Conservation Block Grant (ARRA)	D	81.128	08/04/09-08/03/12	DE-SC0001250	791,000	32,200	480,892	547,866	99,174
TOTAL U.S. DEPARTMENT OF ENERGY						32,200	480,892	547,866	99,174
U.S. DEPARTMENT OF THE INTERIOR									
Passed through the PA Historical and Museum Commission									
Historic Preservation Fund Grants-in-Aid	I	15.904	08/01/10-07/31/11	42-10-21945	15,000	1,629	15,000	13,371	-
Historic Preservation Fund Grants-in-Aid	I	15.904	08/01/11-07/31/12	42-11-31945	15,000	-	-	1,630	1,630
TOTAL U.S. DEPARTMENT OF THE INTERIOR						1,629	15,000	15,001	1,630
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES									
Community Services Block Grant	I	93.569	01/01/10-12/31/10	C000047436	80,000	80,000 ^^	80,000	-	-
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						80,000	80,000	-	-
U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION									
Equal Employment Opportunity Commission	D	30.001	10/01/10-09/30/13	EECCN110067	14,500	-	1,500	1,855	355
TOTAL U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION						-	1,500	1,855	355
TOTAL FEDERAL AWARDS						<u>\$ 2,476,694</u>	<u>\$ 12,853,208</u>	<u>\$ 11,863,892</u>	<u>\$ 1,487,378</u>

** The \$25,000 dollars written off relates to office of economic adjustment drawn down period expiring.

^^ DCED Grant was not included on the schedule in the prior year and should have. Amount was properly accrued in other receivables at 12/31/2010

Source Codes - I = Indirect; D = Direct

CITY OF READING

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2011

NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting which recognizes income in the period it is earned and expenses in the period they are incurred.

NOTE 2 - SUBRECIPIENTS

The City of Reading provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided</u>
Community Development Block Grant (CDBG)	14.218	\$ 183,542
Emergency Shelter Grant (ESG)	14.231	147,063
HOME Program	14.239	966,115
Homeless Prevention and Rapid Re-Housing Program	14.257	306,818



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Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
with *Government Auditing Standards*

**Members of the Council
City of Reading
Reading, 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 Reading, as of and for the year ended December 31, 2011, which collectively comprise the City of Reading's basic financial statements, and have issued our report thereon dated September 24, 2012. The report on the business type activities and the major water and sewer fund balance was qualified because the City was unable to provide records that reflect accounts receivable balances due by customer for water and sewer operations. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Reading is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Reading's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Reading's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Reading's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned cost, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies 11-1 through 11-5 and 11-7 through 11-12 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency 11-6 described in the accompanying schedule of findings and questioned costs to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Reading's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 11-3, 11-4, 11-10, and 11-11.

We noted certain other matters that we reported to management of the City of Reading in a separate letter dated September 24, 2012.

The City of Reading's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Reading's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, city council, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Herbein + Company, Inc.

Reading, Pennsylvania

September 24, 2012



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Independent Auditor's Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major
Program and on Internal Control Over Compliance in
Accordance with OMB Circular A-133

**Members of the Council
City of Reading
Reading, Pennsylvania**

Compliance

We have audited the City of Reading's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Reading's major federal programs for the year ended December 31, 2011. The City of Reading's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Reading's management. Our responsibility is to express an opinion on the City of Reading's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Reading's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Reading's compliance with those requirements.

As described in items 11-1, 11-5, 11-8, 11-12, and 11-13 in the accompanying schedule of findings and questioned costs, the City of Reading did not comply with requirements regarding allowable costs, cash management, availability of federal funds and reporting requirements that are applicable to Community Development Block Grant, Home Investment Partnership Program, Homelessness Prevention and Rapid Re-Housing Program, and the Neighborhood Stabilization Program. Compliance with such requirements is necessary, in our opinion, for the City of Reading to comply with requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Reading complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

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Internal Control Over Compliance

Management of the City of Reading is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Reading's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Reading's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program with not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 11-1, 11-5, 11-8, 11-12, and 11-13 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The City of Reading's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Reading's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the audit committee, management, others within the organization, city council, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Herbein + Company, Inc.

Reading, Pennsylvania
September 24, 2012

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: qualified

Internal control over financial reporting:
 Material weakness(es) identified? X yes no
 Significant deficiency(s) identified not considered to be material weaknesses? X yes none reported

Noncompliance material to financial statements noted? X yes no

Federal Awards

Internal Control over major programs:
 Material weakness(es) identified? X yes no
 Significant deficiency(s) identified not considered to be material weaknesses? X yes none reported

Type of auditor's report issued on compliance for major programs: qualified for all major programs

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? X yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
	Entitlement Grant Cluster:
14.218	Community Development Block Grant/Entitlement Grant
14.253	Community Development Block Grant ARRA Entitlement Grant
14.246	Community Development Block Grants/Economic Development Initiative
14.248	Community Development Block Grant Section 108 Loan Guarantees
14.257	Homelessness Prevention and Rapid Re-Housing Program
14.239	Home Investment Partnerships Program
14.256	Neighborhood Stabilization Program 2 (ARRA)
16.710	Public Safety Partnership and Community Policing Grants
	JAG Cluster:
16.738	Edward Byrne Memorial Justice Assistance Grant (JAG)
16.803	Edward Byrne Memorial JAG to States - ARRA
16.804	Edward Byrne Memorial JAG to Local Governments - ARRA
81.128	Energy Efficiency and Conservation Block Grant (EECBG) - ARRA

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? yes X no

CITY OF READING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2011

Section II - Financial Statement Findings

11-1 MODIFIED ACCRUAL/FULL ACCRUAL BASIS OF ACCOUNTING

Criteria

Reporting in accordance with generally accepted accounting principles requires financial information for governmental funds to be reported on the modified accrual basis of accounting and for proprietary funds to be reported on the full accrual basis of accounting.

Condition/Cause

The accounting department records accounts payable throughout the fiscal year, but accounts receivable are only reconciled at year-end. In addition, significant adjustments are posted at year-end to bring numerous other accounts into compliance with U.S. generally accepted accounting principles including the receivable accounts.

Effect

Revenues are not being recognized consistently with expenditures and material adjustments are necessary at year-end resulting in inconsistent reporting.

Recommendation

All accounts should be reconciled on a timely basis to the general ledger consistent with reporting as required by U.S. generally accepted accounting principles. Policies and procedures should be adopted setting up deadlines for reconciliation of material balance sheet accounts and review and oversight responsibilities.

Benefit

Matching revenues to expenditures and reconciling balance sheet accounts for all funds on a monthly basis provides for more consistent reporting to provide a more accurate assessment of financial needs.

Management Response

See corrective action plan included in this report package.

11-2 CASH DISBURSEMENTS - SEGREGATION OF DUTIES

Criteria

The process for the City to disburse funds includes an accounts payable request form that is required to be approved by the initiating department and the finance department. The managing director also approves the voucher if a specific dollar threshold is met.

CITY OF READING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2011

11-2 CASH DISBURSEMENTS - SEGREGATION OF DUTIES - CONTINUED

Condition/Cause

The disbursement process for authorizations is no longer being followed due to turnover in management positions and the need to timely disburse funds. The assistant to the finance director has been given the responsibility to sign on behalf of numerous individuals, thus eliminating critical steps in the control process.

Effect

The City no longer has an appropriate segregation of duties over cash disbursements. In addition, there is no documented evidence that management has reviewed numerous disbursements which allows for the City to be more susceptible to misappropriation of assets.

Recommendation

We recommend that the policies and procedures be reviewed and streamlined to allow for the proper approval of purchases and related invoices as well as their timely payment. The City has an electronic purchase order process which allows for more timely approval and payment of expenditures. Although better use of the purchase order process was noted in the current year, payment timeliness while having the proper authorizations would continue to improve with additional use of the electronic purchase order process. Policies and procedures established need to be communicated and enforced once defined.

Benefit

The City will enhance its controls over disbursements while improving the timeliness of its payments to vendors.

Management Response

See corrective action plan included in this report package.

11-3 PENSION REPORTING

Criteria

The City reports annual wages related to their active pension plans on Form AG-385 and submits the form to the commonwealth. The form is used to assist in the calculation of annual pension subsidy the City will be receiving from the commonwealth.

Condition/Cause

There has been turnover in the pension administrator position as well as within the finance department. This turnover has not allowed any individual to gain comfort with the requirements of the Form AG-385 plus there is no supervision or review of the reporting process.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2011

11-3 PENSION REPORTING - CONTINUED

Effect

During our procedures, we noted one payroll run for police in which longevity pay was not properly paid within the paychecks. To correct the problem, additional checks were cut to these individuals for the corrected amount. These checks were not included in the wages reports on the AG-385. The police and fire make percentage and fixed contributions to the pension fund. It was noted during our testing that several employees were not making the fixed contribution (\$1/month for policemen and \$5/month for firemen) as noted in the collective bargaining agreement.

Recommendation

The pension office, payroll, and human resources must work together to ensure that new employees entering a position are having the proper withholdings taken each pay in accordance with the collective bargaining agreements. We also recommend that any instance in which payroll deviates from the normal pay (issuing checks for longevity) the pension office is notified to make any adjustments deemed necessary for reporting purposes. Additionally, we recommend a member of management review the completed AG-385 with the supporting documentation for unusual items and accuracy.

Benefit

The City will be more capable of substantiating the AG-385 during state audits if appropriate supporting documentation is maintained. In addition, there is less likely to be excess funds received from the state.

Management Response

See corrective action plan included in this report package.

11-4 PENSION COMPLIANCE

Criteria

The City has made significant changes to the pension plans over the past several years. It is imperative that these changes are made in accordance with state code for third class cities.

Condition/Cause

Numerous benefits have been granted to union employees that were not within the parameters of the established codes.

Effect

The City has granted benefits that are out of compliance with state code for third class cities. As a result, the pension subsidy from the commonwealth covers a smaller portion of the pension obligation since it will not factor the excess benefits into its calculation. This ultimately results in higher costs to the City.

CITY OF READING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2011

11-4 PENSION COMPLIANCE - CONTINUED

Recommendation

State code for third class cities should be evaluated during negotiations to ensure pension compliance prior to settlement of all union contracts. The City should also monitor requirements for remitting funding obligations to each fund.

Benefit

The City will be in compliance with governing documents related to pension.

Management Response

See corrective action plan included in this report package.

11-5 ACCOUNT RECONCILIATIONS/MATERIAL ADJUSTMENTS POSTED AS A RESULT OF THE AUDIT

Criteria

Statement of Auditing Standards (SAS) No. 115 indicates that the "Identification by the audit or of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity's internal control" should be regarded as a material weakness in internal controls.

Condition/Cause

Material audit adjustments were proposed during the audit, and recorded to properly reflect material accounts on the financial statement. Many of the material adjustments were related to material balance sheet accounts in the proprietary funds related to accounts receivable and community development funds related to grants receivable.

Effect

As a result of the reconciliations and other monitoring activities not being performed, the financial statements were materially misstated at year-end.

Recommendation

The accounting department should review its policies and procedures for key transaction classes to ensure that the appropriate individual is assigned the proper task. We also recommend that a further understanding of the reports needed and the analysis of said reports be obtained by the appropriate personnel in order to identify possible under/overstatements in material accounts and investigate the possible cause. It is strongly recommended that these material accounts are reconciled monthly to the general ledger timely and analyzed for potential misstatements that may exist.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2011

11-5 ACCOUNT RECONCILIATIONS/MATERIAL ADJUSTMENTS POSTED AS A RESULT OF THE AUDIT - CONTINUED

Benefit

Management and council are able to have confidence in the support they are using during the decision-making process. Management will also be able to identify areas of deviation from budget and other trends which may allow a more pro-active approach then reactive at the time of audit.

Management Response

See corrective action plan included in this report package.

11-6 REAL ESTATE TAX REVENUE

Criteria

The City of Reading levies a real estate tax on its residents on an annual basis to provide services to those residents.

Condition/Cause

Commencing in the 2011 fiscal year, the City outsourced its real estate tax collection to the County of Berks. At a minimum monthly, but normally more often than that, the County sends an e-mail to the accounting and treasury manager indicating the payment being made to the City for the taxes collected during that period. During our procedures we noted that no reconciliation of the taxes levied to the taxes collected was being performed to monitor the collection activity.

Effect

At fiscal year-end, the City lacked documentation for the assessed taxes (including interims and splits), collected taxes and outstanding taxes. Real estate taxes are a material revenue source for the City and should be monitored for completeness.

Recommendation

We recommend that the City request the monthly tax collector reports required to be filed by the collector to the government agency by DCED. A member of the accounting department should then reconcile the assessed taxes with the collections to monitor the outstanding balances.

Benefit

The City will have an ongoing reconciliation of the outstanding taxes as well as an accurate picture of the additions and subtractions from the tax duplicate.

Management Response

See corrective action plan.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2011

11-7 TIME CARD APPROVAL

Criteria

The City's internal control procedures for hourly employee payroll state that the employee, time keeper, and department head should sign off time cards to ensure accuracy and approval of the hours worked.

Condition/Cause

During our testing of payroll, we found several instances of unsigned and unapproved time cards. It was determined that the hours were properly allocated based on the time cards; however, a lack of supervisory approval was noted.

Effect

Lack of supervisory approval can allow errors in the time charged or allocated among divisions to pass undetected and lead to possible misappropriation of funds.

Recommendation

We recommend that all time cards at the City be signed by the employee, and approved by department head as stated in the City's payroll policy. With the implementation of the new payroll software, this is a good opportunity for new policies to be presented which strengthen the internal controls over the time card process.

Benefit

Proper hours worked would be paid and captured into the general ledger. This would also add another safeguard against possible misappropriation of expenses and clerical errors.

Management Response

See corrective action plan.

11-8 PURCHASING CARD PROCEDURES

Criteria

Proper segregation of duties should be maintained for key areas to ensure the proper review and approval of transactions is occurring.

Condition/Cause

During our procedures, we noted that the purchasing cards that are in possession of certain department directors were only being approved by the same director before payment. No monitoring review was being performed at the upper management level to ensure only allowable costs were being charged. Due to turnover in key management positions, this monitoring activity was not taking place for a good portion of the year.

CITY OF READING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2011

11-8 PURCHASING CARD PROCEDURES - CONTINUED

Effect

Without the proper segregation of duties and independent approval, misappropriation of assets may occur without being detected.

Recommendation

The City has implemented a control process for the purchasing cards commencing in September 2011. We commend the City for making the appropriate change in policies and procedures and encourage enforcement of the new policy which includes a monthly review of transactions and mandates receipts for all purchases.

Benefit

By implementing a stronger internal control process over the purchasing card transactions, the City will be able to mitigate the opportunity for misappropriation to occur.

Management Response

See corrective action plan included in this report package.

11-9 BILLING - REVENUE/ACCOUNTS RECEIVABLE FOR WATER AND SEWER

Criteria

After proprietary billings take place, bill monitoring should occur monthly to support the amount outstanding and a determination made as to an allowance for uncollectible accounts.

Condition/Cause

Our audit procedures disclosed inadequate support of the accounts receivable balance for water and sewer operations as of the balance sheet date. The report that was generated by management did not appear to accurately reflect the outstanding balances at year-end. In addition, there was no evidence that anyone was monitoring or analyzing the report information throughout the year as evidenced by the unadjusted balances in the trial balance received.

Effect

Management is not able to provide sufficient, accurate support for the receivables outstanding at year-end, reconcile the report to the general ledger or estimate the allowance for uncollectible accounts.

Recommendation

With the outsourcing of the sewer and water billing to a third party mid-way through 2012, it is important for the City to have access to certain reports such as monthly accounts receivable aging reports and monthly billing reports. These reports will allow the City to make the correct entries to the sewer fund for the receivables outstanding and properly adjust the allowance for doubtful accounts. The accounts receivable aging should be analyzed monthly for trends in aging or unusual items that could be an indicator of a bad meter reading or other problem.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2011

11-9 BILLING - REVENUE/ACCOUNTS RECEIVABLE FOR WATER AND SEWER - CONTINUED

Benefit

The City will be able to make an accurate determination of uncollectible accounts as well as enhance collection efforts and improve cash flow. This process will also allow the City to notice significant variances from historical trends related to receivables and revenues.

Management Response

See corrective action plan included in this report package.

11-10 MICRO LOAN PROGRAM APPROVAL

Criteria

The community development office initiated a micro loan program in August 2010. The program allows for loans of \$1,000 to \$35,000 to small business owners in the City at a fixed rate of three percent for five to ten year terms. The loans can be used for equipment, working capital, renovations and repairs, marketing, and adding jobs.

Condition/Cause

In October 2010, a transfer from the E-Z Fred account of \$550,000 was made to a bank account in the name of a third party to fund this program. There is no signed contract for services that the third party is providing to the City nor was there any note of approval by city council of the creation of the program or the related transfer of funds.

Effect

Although a contract was obtained that noted monitoring procedures in place, the agreement was not signed by all parties, not approved by city council, and the money is not in control of the City.

Recommendation

We recommend that the City re-evaluate the policies in place for employees of the City to contract with a third party in the name of the City without council approval. We also recommend that a signed agreement be obtained regarding the program and the third party consultant.

Benefit

By having the proper policies in place, council will be aware of any contracts the City is obligated to in the future. We also believe that a signed agreement adds a level of assurance as to the procedures involved in the micro loan program.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2011

11-11 MONITORING - STATE GRANTS

Criteria

Over the past year, there has been an increase in state grants received by the City and passed-through to other agencies within the City. The grants are being generated through the City and the Reading Redevelopment Authority, which is a component unit of the City. Each grant notes that the recipients are responsible for managing and monitoring each project's activity supported by the award. In addition, the agreement requires the monitoring of compliance by a subgrantee or subrecipient.

Condition/Cause

It was noted in our procedures that certain grant funds were received by the City and passed-through to the subrecipients without the proper documentation for expenses and other reports being received. In addition, the actual award and its related expenditures were not recorded on the City's general ledger. The City also is not maintaining an accurate listing of all state awards that have been applied for and the status of these awards.

Effect

The City is ultimately responsible for the proper reporting and usage of the grant monies received from the commonwealth. Any money that is spent on ineligible activities by the City or a subrecipient will need to be refunded to the state.

Recommendation

We recommend that the City re-evaluate its procedures for handling state grants to allow for proper documentation of the award and related expenditures. Procedures should include verifying allowability of costs, tracking the availability of funds for a project including the remaining balance available, tracking the matching expenses related to the agreements, and monitoring subrecipients. We also recommend that a listing of awards applied for and received be maintained to allow the City to monitor grant status. With the involvement of the Reading Redevelopment Authority, it is also important for open communication to take place between the City grants coordinator and the Authority.

Benefit

By implementing these policies, the City will be able to better safeguard its assets as well as monitor the activity of subrecipients and mitigate its exposure for unallowable activity.

Management Response

See corrective action plan included in this report package

CITY OF READING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2011

11-12 PREPARATION OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)

Criteria

OMB Circular A-133, Section 310(b) requires the auditee to prepare a complete and accurate SEFA.

Condition/Cause

The City does not prepare a SEFA containing all required information. The City provided information related to the federal programs including agreements and other supporting documentation; however, the SEFA was prepared by the auditor. In addition, certain federal awards were not identified at all.

Effect

No schedule was maintained noting the awards received, expenses incurred, and receivables due at year-end. Third parties were contracted to provide oversight on passed-through grants, but oversight and monitoring by the City were missing. In addition, any department that receives a grant should work closely with the accounting department in order to ensure that proper recording of the award and draw down steps are followed. In addition, management should implement internal control procedures to minimize the time elapsing between receipt of grant funds and the related disbursements.

Recommendation

In order to be aware of all compliance requirements from the A-133 Compliance Supplement and prepare a complete and accurate SEFA, management should have an awareness of CFDA numbers and clusters.

Benefit

The City will be able to better identify all federal awards and related compliance requirements plus improve cash management practices.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2011

Section III - Federal Award Findings and Questioned Costs

- 11-1 Modified Accrual/Full Accrual Finding is also a Federal Award Finding which relates to Community Development Block Grant 14.218 - Contracts BO8MC420013, BO9MC420013, and B10MC420013: CDBG-R 14.253 Contract B09MY420013: Home Investment Partnership Program 14.239 - Contracts M05MC420204, M06MC420204, M07MC420204, M08MC420204, and M09MC420204: Homeless Prevention and Rapid Re-Housing Program - ARRA 14.257 - Contract S09MY420006: Neighborhood Stabilization Program 2 14.256
- 11-5 Account Reconciliations/Material Adjustments Posted as a Result of Audit is also a Federal Award Finding which relates to Community Development Block Grant 14.218 - Contracts BO8MC420013, BO9MC420013, and B10MC420013: CDBG-R 14.253 Contract B09MY420013: Home Investment Partnership Program 14.239 - Contracts M05MC420204, M06MC420204, M07MC420204, M08MC420204, and M09MC420204: Homeless Prevention and Rapid Re-Housing Program - ARRA 14.257 - Contract S09MY420006: Neighborhood Stabilization Program 2 14.256
- 11-8 Purchasing Card Procedures Finding is also a Federal Award Finding which relates to Community Development Block Grant 14.218 - Contracts BO8MC420013, BO9MC420013, and B10MC420013
- 11-12 Preparation of Schedule of Expenditures of Federal Awards (SEFA) is also a Federal Award Finding which relates to Community Development Block Grant 14.218 - Contracts BO8MC420013, BO9MC420013, and B10MC420013: CDBG Brownsfields Economic Development Initiative - 14.246 - Contract B-06-BD-42-0013, B-05-BD-42-0013: CDBG Section 108 Loan Guarantees - 14.248 - Contract B05-MC-42-0013: CDBG-R 14.253 Contract B09MY420013: Home Investment Partnership Program 14.239 - Contracts M05MC420204, M06MC420204, M07MC420204, M08MC420204, and M09MC420204: Homeless Prevention and Rapid Re-Housing Program - ARRA 14.257 - Contract S09MY420006: Neighborhood Stabilization Program 2 14.256: Edward Byrne Memorial Justice Assistance Program 16.738 - Contracts 2008-DJ-BX-0396, 2009-DJ-BX-1229, and 2010-DJ-BX-0863: Edward Byrne Memorial Justice Assistance Program ARRA - 16.804 - Contract 2009-SB-B92-498: Reading Weed and Seed - 16.803 - Contracts 2007-JG-01-21612, 2009-JG-01-22087: Reading Weed and Seed ARRA - 16.803 - Contract 2009-AJ-03-21581: COPS Grant - 16.710 - Contracts 2008-CK-WX-0171, 2008-CK-WX-0255: COPS Grant ARRA - 16.710 - Contract 2009-RK-WX-0716: Energy Efficiency and Conservation Block Grant ARRA - 81.128 - Contract DE-SC0001250

11-13 GRANT RECEIPTS

Federal Program:

Community Development Block Grant 14.218 - Contracts BO9MC420013, B10MC420013, and B11MC420013; Community Development Block Grant - ARRA 14.253 Contract B09MY420013: Home Investment Partnership Program 14.239 Contracts M07MC420204, M08MC420204, M09MC420204, and M10MC420204: Homeless Prevention and Rapid Re-Housing Program - ARRA Contract S09MY420006: Neighborhood Stabilization Program 2 14.256.

CITY OF READING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2011

11-13 GRANT RECEIPTS - CONTINUED

Criteria

The City receives funding from the Department of Housing and Urban Development (HUD) and uses a separate fund for tracking and reporting purposes. The IDIS system is used to communicate information to HUD as well as to draw down appropriate funds and report program income.

Condition/Cause

At the beginning of the 2011 fiscal year, the City opened new bank accounts that were used for community development funds expenditures and receipts. These accounts were not included on the City's general ledger accounting system. The disbursements in these bank accounts ceased in June 2011 and entries were made to record the activity through the first half of the year onto the City's general ledger accounting system. The community development director resigned in October 2011. During our procedures, we observed that no reconciliation of actual expenses paid on the general ledger to the IDIS draw downs was being accurately and completely performed. This resulted in certain draw downs not being timely completed as well as the double payment of an invoice.

Effect

Without the proper reconciliation of funds, the City cannot be certain that all expenses have been reimbursed from the appropriate program timely and that all draw downs made have accurately reflected expenses in the proper program.

Questioned Costs

None

Recommendation

The CD fiscal officer is responsible for the timely draw down of grant funds. It is imperative that the finance and community development departments communicate to make sure draw downs related to expenditures being processed are drawn down in a timely fashion and that all expenditures are correctly accounted for in the project accounting portion of the general ledger to allow for completeness of the draw downs related to expenses incurred. We did see some improvement in this area after the outside bank activity ceased in the second half of the year. It is imperative that the fiscal officer be able to account for all draw downs that have been made to the correlating expense incurred and that all draw downs noted on the PR07 reports are related to an expenditure on the general ledger and accounted for properly in the project accounting system.

Benefit

The City will enhance cash flow by more quickly drawing down reimbursement funds from HUD while gaining confidence in the completeness of the expenses incurred and draw downs received.

Management Response

See corrective action plan included in this report package.

CITY OF READING

STATUS OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

December 31, 2011

10-1 Modified Accrual/Full Accrual Basis Of Accounting is also a Federal Award Finding which relates to Community Development Block Grant 14.218 - Contracts BO8MC420013, BO9MC420013, and B10MC420013: CDBG-R 14.253 Contract B09MY420013: Home Investment Partnership Program 14.239 - Contracts M05MC420204, M06MC420204, M07MC420204, M08MC420204, and M09MC420204.

Criteria

Reporting in accordance with generally accepted accounting principles requires financial information for governmental funds to be reported on the modified accrual basis of accounting and for proprietary funds to be reported on the full accrual basis of accounting.

Condition/Cause

The accounting department records accounts payable throughout the fiscal year, but accounts receivable are only reconciled at year-end. In addition, significant adjustments are posted at year-end to bring numerous other accounts into compliance with U.S. generally accepted accounting principles.

Effect

Revenues are not being recognized consistently with expenditures and material adjustments are necessary at year-end resulting in inconsistent reporting.

Recommendation

All accounts should be reconciled on a timely basis consistent with reporting as required by U.S. generally accepted accounting principles. Policies and procedures should be adopted setting up deadlines for reconciliation and review and oversight responsibilities.

Benefit

Matching revenues to expenditures and reconciling balance sheet accounts for all funds on a routine basis provides for more consistent reporting to provide a more accurate assessment of financial needs.

Management Response

In 2009, there was a turnover in staff within the community development department and finance department. During the summer of 2009, our IDIS system was updated and, there was a problem getting these individuals set up in the IDIS system, thus causing a two month delay in drawing down HUD funds. The policy and procedures put in place are following by the CD fiscal officer. The CD fiscal officer does bi-monthly reconciliations between the IDIS system and the City's general ledger. Without any further problems with the IDIS system and no changes in staff, we do not anticipate this to be a finding in the future.

Current Status of Corrective Action Plan

See corrective action plan included in this report package related to finding 11-1.

CITY OF READING

STATUS OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

December 31, 2011

10-5 ACCOUNT RECONCILIATIONS/MATERIAL ADJUSTMENTS POSTED AS A RESULT OF THE AUDIT

Criteria

Statement of Auditing Standards (SAS) No. 115 indicates that the "Identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity's internal control" should be regarded as a material weakness in internal controls.

Condition/Cause

Material audit adjustments were proposed during the audit, and recorded to properly reflect material accounts on the financial statement. Due to a turnover in key financial management positions, many of the reconciliation procedures for key balance sheet accounts were not being performed timely and accurately.

Effect

As a result of the reconciliations and other monitoring activities not being performed, the financial statements were materially misstated at year end.

Recommendation

The accounting department should review its policies and procedures for key transaction classes to ensure that the appropriate individual is assigned the proper task. We also recommend reviewing the job description and responsibility of positions within the finance department to allow for the most efficient flow of information to be obtained.

Benefit

Management and council are able to have confidence in the support they are using during the decision making process.

Management Response

The finance department is currently updating the policy and procedures for approving payment of invoices to allow for better controls in processing payments in a timelier manner. Furthermore, all documents are reviewed by our internal auditor and his assistant however their signature is absent from the form.

Current Status of Corrective Action Plan

See corrective action plan included in this report package related to finding 11-5

CITY OF READING

STATUS OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

December 31, 2011

10-9 PURCHASING CARD PROCEDURES is also a Federal Award Finding which relates to Community Development Block Grant 14.218 - Contracts BO8MC420013, BO9MC420013, and B10MC420013

Criteria

Proper segregation of duties should be maintained for key areas to ensure the proper review and approval of transactions is occurring.

Condition/Cause

During our procedures, we noted that the purchasing cards that are in possession of certain department directors were only being approved by the same director before payment. No monitoring review was being performed at the upper management level to ensure only allowable costs were being charged. Due to turnover in key management positions, this monitoring activity was not taking place.

Effect

Without the proper segregation of duties and independent approval, misappropriation of assets may occur without being detected.

Recommendation

We recommend the director of finance review the purchasing card transactions monthly for unusual items or excessive use.

Benefit

By implementing a stronger internal control process over the purchasing card transactions, the City will be able to mitigate the opportunity for misappropriation to occur..

Management Response

See corrective action plan included in this report package related to finding 11-7

10-14 GRANT RECEIPTS

Federal Program:

Community Development Block Grant 14.218 - Contracts BO8MC420013, BO9MC420013, and B10MC420013; CDBG-R 14.253 Contract B09MY420013: Home Investment Partnership Program 14.2.39 Contracts M05MC420204, M06MC420204, M07MC420204, M08MC420204, and M09MC420204.

Criteria

The City receives funding from the Department of Housing and Urban Development (HUD) and uses a separate fund for tracking and reporting purposes. The IDIS system is used to communicate information to HUD as well as to draw down appropriate funds and report program income.

CITY OF READING

STATUS OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

December 31, 2011

10-14 GRANT RECEIPTS - CONTINUED

Condition/Cause

There continues to be a need for improvement in communication between the community development and finance departments to enhance the timeliness of IDIS reporting to be more consistent with the general ledger activity. During our procedures, we observed that no reconciliation of actual expenses paid on the general ledger to the IDIS draw downs was performed. This resulted in delayed time for draw downs to be completed.

Effect

The City is not drawing down grant funds as expenditures are incurred and therefore, current resources are not being utilized as effectively as they could be.

Questioned Costs

None

Recommendation

The CD fiscal officer is responsible for the timely draw down of grant funds. It is imperative that the finance and community development departments communicate to make sure draw downs related to expenditures being processed are drawn down in a timely fashion and that all expenditures are correctly accounted for in the project accounting portion of the general ledger to allow for completeness of the draw downs related to expenses incurred. We suggest additional training on the general ledger software for the CD fiscal officer to allow him to become more comfortable with the system to run the reports necessary to monitor the general ledger accounts. We also suggest that no less than quarterly, the fiscal officer performs a reconciliation to the project accounting reports to ensure that all expenses are properly reflected and drawn down.

Benefit

The City will enhance cash flow by more quickly drawing down reimbursement funds from HUD.

Management Response

See corrective action plan included in this report package related to finding 11-12

CITY OF READING

STATUS OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

December 31, 2011

10-15 ALLOWABLE COSTS - INADEQUATE DOCUMENTATION FOR ADMINISTRATIVE EXPENSES

Federal Program - Community Development Block Grant 14.218 - Contracts BO8MC420013, BO9MC420013, and B10MC420013

Criteria

The OMB Circular A87 attachment B and Title 24 C.F.R. Subpart C establishes a listing of eligible administrative costs that are allowed to be charged to the federal program.

Condition/Cause

In our procedures performed on the administrative expenses charged to the above program, we noted several instances with inadequate documentation to confirm the expense was necessary and reasonable to the administration of the program. We also noted instances where administrative expenses charged to the program were unallowable such as donations and entertainment. All of the above charges were done through purchasing card transactions.

Questioned Cost - \$15,257

Recommendation

We recommend that the City establishes effective internal controls to monitor this area plus have appropriate personnel maintain a listing of allowable costs under the federal regulations noted above and review all administrative costs charged to the program against these listings. This will mitigate the opportunity for unallowable costs to be charged to the program. Additionally, training on unallowable costs should be held.

Benefit

The City would limit its exposure of being noncompliant with program requirements.

Management Response

The managing director and director of administrative services will review and approve all program and administrative costs for propriety.

Current Status of Corrective Action Plan

This finding is no longer valid for the federal programs tested in the current year.

10-16 REPORTING - QUARTERLY PERFORMANCE REPORTS NOT FILED TIMELY

Federal Program - Neighborhood Stabilization Program 2

Criteria

Under the program guidance for the Neighborhood Stabilization Program 2, quarterly performance reports are to be filed within 30 days of the quarter-end.

CITY OF READING

STATUS OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

December 31, 2011

10-16 REPORTING - QUARTERLY PERFORMANCE REPORTS NOT FILED TIMELY - CONTINUED

Condition/Cause

It was noted that the quarterly reports for the first, second, and third quarter were submitted late. It was noted that the system for the reports was not operating properly, which caused some delays. Each of the reports for the above quarters were reviewed and approved by the applicable federal agency.

Effect - The City could be in noncompliance with the terms of the Neighborhood Stabilization Program 2 requirements.

Questioned Costs

None

Recommendation

We recommend the director of community development review the quarterly reports before they are submitted to ensure they are accurate and performed timely.

Benefit

The City would be in compliance with program requirements.

Management Response

The director of community development will review the quarterly reports to ensure accuracy and timeliness

Current Status of Corrective Action Plan

This finding is no longer valid for the federal programs tested in the current year.



MEMORANDUM

CORRECTIVE ACTION PLAN

December 31, 2011

U.S. Department of Housing:

The City of Reading respectfully submits the following corrective action plan for the year ended December 31, 2011.

Name and address of independent public accounting firm: Herbein + Company, Inc.,
2763 Century Boulevard, Reading, PA 19610

Audit period: December 31, 2011

The findings from the December 31, 2011 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS - FINANCIAL STATEMENT AUDIT

11-1 MODIFIED ACCRUAL/FULL ACCRUAL BASIS OF ACCOUNTING

Condition/Cause

The Accounting Department records accounts payable throughout the fiscal year, but accounts receivable are only reconciled at year-end. In addition, significant adjustments are posted at year-end to bring numerous funds into compliance with US generally accepted accounting principles including the accounts receivable.

Recommendation

All accounts should be reconciled on a timely basis consistent with reporting as required by U.S. generally accepted accounting principles.

Management Response

The Controller has developed a monthly schedule of all accounts that will be reconciled as well as who is responsible for the reconciliation.

11-2 CASH DISBURSEMENTS-SEGREGATION OF DUTIES

Condition/Cause

The process for the City to disburse funds includes an accounts payable request form that is required to be approved by the initiating department and the finance department. The Managing Director also approves the voucher if a specific dollars

threshold is met. The disbursement process is no longer being followed due to turnover in management positions and the need to timely disburse funds. The assistant to the finance director has been given the responsibility to sign on behalf of numerous individuals, thus eliminating critical steps in the control process.

Recommendation

We recommend that the policies and procedures be reviewed and streamlined to allow for the proper approval of purchases and related invoices as well as their timely payment.

Management Response

A new procedure has been put into place where the Controller and Purchasing Coordinator signs off on all Accounts Payables and Purchase Orders. The Director of Administrative Services signs off on Accounts Payables and Purchase Orders over \$4,000 and the Managing Director signs off on Accounts Payables and Purchase Orders over \$10,000 respectively. Each Department Director must sign off on all of their Accounts Payables and Purchase Orders.

11-3 PENSION REPORTING

Condition/Cause

There has been turnover in the Pension Administrator position as well as within the Finance Department. This turnover has not allowed any individual to gain comfort with the requirements of the Form AG-385 plus there is no supervision or review of the reporting process.

Recommendation

The pension office, payroll and human resources must work together to ensure that new employees entering a position are having the proper withholdings taken each pay in accordance with the collective bargaining agreements. We also recommend that any instance in which payroll deviates from the normal pay (issuing checks for longevity) the pension office is notified to make any adjustments deemed necessary for reporting purposes. Additionally, we recommend a member of management review the completed Form AG-385 with the supporting documentation for unusual items and accuracy.

Management Response

The preparation of the AG385 for 2011 involved the Pension Coordinator, City Auditor, Controller, and Accounting Manager. Staff expects the 2011 filing to be error free.

11-4 PENSION COMPLIANCE

Condition/Cause

Numerous benefits have been granted to union employees that were not within the parameters of the established codes:

Recommendation

State code and the City Charter should be evaluated during negotiations to ensure pension compliance prior to settlement of all union contracts. The City should also monitor requirements for remitting funding obligations to each fund.

Management Response

The Act 47 Recovery Plan is taking an active role in all negotiations which results in negotiating new labor contracts that comply with all applicable state and local laws.

11-5 ACCOUNT RECONCILIATIONS/MATERIAL ADJUSTMENTS POSTED AS A RESULT OF THE AUDIT

Condition/Cause

Material audit adjustments were proposed during the audit, and recorded to properly reflect material accounts on the financial statement. Many of the material adjustments were related to material balance sheet accounts in the proprietary funds related to accounts receivable and community development funds related to grants receivable.

Recommendation

The accounting department should review its policies and procedures for key transaction classes to ensure that the appropriate individual is assigned the proper task. We also recommend that a further understanding of the reports needed and the analysis of said reports be obtained by the appropriate personnel in order to identify possible under/overstatements in material accounts and investigate the possible cause.

Management Response

The Controller has developed a monthly schedule of all accounts that will be reconciled as well as who is responsible for the reconciliation.

11-6 REAL ESTATE TAX REVENUE

Condition/Cause

During our procedures, we noted that no reconciliation of the taxes levied to the taxes collected was being performed to monitor the collection activity.

Recommendation

We recommend that the City request the monthly tax collector reports required to be filed by the collector to the government agency by DCED. A member of the accounting department should then reconcile the assessed taxed with the collections to monitor the outstanding balances.

Management Response

The Controller, Accounting Manager and Revenue Accountant has met with the County and obtained an understanding as well as the reports needed to perform a monthly reconciliation. The Revenue Accountant now performs a monthly reconciliation.

11-7 TIMECARD APPROVAL

Condition/Cause

During our testing of payroll, we found several instances of unsigned and unapproved timecards. It was determined that the hours were properly allocated based on the timecards; however, a lack of supervisory approval was noted.

Recommendation

We recommend that all timecards at the City to be signed by the employee, and approved by the department head as stated in the City's payroll policy.

Management Response

As of September 1, 2012, the City will no longer host payroll software. The processing of payroll will be conducted by ADP. One of the changes includes electronic time capture. As part of the process, an employee will "clock" in and out for the day using a biometric machine. This will become the employee's electronic approval. Also, all time will need to be electronically approved by a supervisor or manager before being sent to payroll.

11-8 PURCHASING CARD PROCEDURES

Condition/Cause

During our procedures, we noted that the purchasing cards that are in possession of certain department directors were only being approved by the same director before payment. No monitoring review was being performed at the upper management level to ensure only allowable costs were being charged. Due to turnover in key management positions, this monitoring activity was not taking place for a good portion of the year.

Recommendation

We commend the City for making the appropriate change in policies and procedures and encourage enforcement of the new policy which includes a monthly review of transactions and mandates receipts for all purchases.

Management Response

In addition to the new policy that requires the Director of Admin Services to sign off on all charges, another policy is being developed which will define what is considered to be an acceptable charge.

11-9 BILLING-REVENUE/ACCOUNTS RECEIVABLE FOR WATER AND SEWER

Condition/Cause

Our audit procedures disclosed inadequate support of the accounts receivable for water and sewer operations as of the balance sheet date. The report that was generated by management did not appear to accurately reflect the outstanding balances at year end. In addition, there was no evidence that anyone was monitoring or analyzing the report information throughout the year as evidenced by the unadjusted balances in the trial balance received.

Recommendation

The accounts receivable aging should be analyzed monthly for trends in aging or unusual items that could be an indicator of a bad meter reading or other problem.

Management Response

As of 6/1/12, the billing function for water and sewer has been moved to the Reading Area Water Authority (RAWA). The Controller and Director of Administrative Services are working closely with RAWA through the transition process.

11-10 MICRO LOAN PROGRAM APPROVAL

Condition/Cause

In October 2010, a transfer from the E-Z Fred account of \$550,000 was made to a bank account in the name of a third party to fund this program. There is no signed contract for services that the third party is providing to the City nor was there any note of approval by City Council of the creation of the program or the related transfer of the funds.

Recommendation

We recommend that the City re-evaluate the policies in place for employees of the City to contract with a third party in the name of the City without council approval. We also recommend that a signed agreement be obtained regarding the program and the third party consultant.

Management Response

All City contracts will be reviewed by the City Solicitor and properly executed. The City has an existing process in place that all departments are expected to follow. Steps will be taken to make sure specific tenets of the policy will be enforced.

11-11 MONITORING-STATE GRANTS

Condition/Cause

It was noted in our procedures that certain grant funds were received by the City and passed through to the sub recipients without the proper documentation for expenses and other reports being received. In addition, the actual award and its related expenditures were not recorded on the City's general ledger. The City is also not maintaining an accurate listing of all state awards that have been applied for and the status of these awards.

Recommendation

We recommend that the City re-evaluate its procedures for handling state grants to allow for proper documentation of the award and related expenditures. We also recommend that a listing of awards applied for and received be maintained to allow the City to monitor grant status.

Management Response

The Grants Accountant will work closely with the Grants Coordinator to ensure that proper documentation is retained. Staff will prepare and maintain a comprehensive listing of awards. Coordination between Reading Redevelopment Authority and grants staff will be improved.

11-12 PREPERATION OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)

Condition/Cause

The City does not prepare a SEFA containing all required information. The City provided information related to the federal programs including agreements and other supporting documentation; however, the SEFA was prepared by the auditor. In addition, certain federal awards were not identified at all.

Recommendation

In order to be aware of all compliance requirements from the A-133 Compliance Supplement and prepare a complete and accurate SEFA, management should have an awareness of CFDA numbers and clusters.

Management Response

The Grants Accountant will prepare the SEFA schedules as required.

Federal Award Findings and Questioned Costs

11-1 Modified Accrual/Full Accrual Finding is also a Federal Award Finding which relates to Community Development Block Grant 14.219- Contracts BO8MC420013, BO9MC420013 and B10MC420013: CDBG-R 14.253 Contract B09MY420013: Home Investment Partnership Program 14.239-Contracts M05MC420204, M06MC420204, M07MC420204, M08MC420204, and M09MC420204.

See management's response to 11-2.

11-5 Account Reconciliations/Material Adjustments Posted as a Result of Audit is also a Federal Award Finding which relates to Community Development Block Grant 14.218-Contracts BO8MC420013, BO9MC420013 and B10MC420012: Contracts M05MC420204, M06MC420204, M07MC420204, M08MC420204, and M09MC420204.

See management's response to 11-5

11-8 Purchasing Card Procedures Finding is also a Federal Award Finding which related to Community Development Block Grant 14.218-Contracts B08MC420013, B09MC420013 and B10MC420013.

See management's response to 11-8

11-12 Preparation of Schedule of Expenditures of Federal Awards (SEFA) is also a Federal Award Finding which related to Community Development Block Grant 14.218-Contracts B08MC420013, B09MC420013 and B10MC420013: CDBG-R 14.253 Contract B09MY420013: Home Investment Partnership Program 14.239-Contracts M05MC420204, M06MC420204, M07MC420204, M08MC420204, and M09MC420204: Neighborhood Stabilization Program 214.256

See management's response to 11-12

11-13 GRANT RECEIPTS

Condition/Cause

The accounting department records accounts payable throughout the fiscal year, but accounts receivable only at year end. In addition, significant adjustments are posted at year-end to bring numerous other accounts into compliance with US generally accepted accounting principles.

Recommendation

All accounts should be reconciled on a timely basis consistent with reporting as required by the US generally accepted accounting principles. Policies and procedures should be adopted setting up deadlines for reconciliation and review and oversight responsibilities.

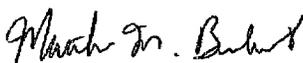
Management Response

Please refer to response to 11-1.

I would like to thank the efforts of the Controller, Accounting Manager and the Accounting Division who came together to try and get these tasks completed in a timely fashion in order for the Auditors to complete the Audit in the timeline according to the City Charter.

If you have any questions regarding this plan, please feel free to contact me. Thank you.

Sincerely,



Matthew Bembenick
Director of Administrative Services

COMMUNICATION LETTERS



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September 24, 2012

To the City Council and Managing Director
City of Reading

In planning and performing our audit of the financial statements of the City of Reading (the "City") for the year ended December 31, 2011, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

During our audit, we became aware of several matters that are opportunities for strengthening internal controls and improving operating efficiency. This letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated September 24, 2012 on the financial statements of the City of Reading.

Fund Activity Review and Analysis

It was noted during our procedures that the City has a large focus on the cash receipts and disbursements pertaining to the general fund. While we understand the importance of these transactions to the City, we suggest that management also review the balance sheet accounts in the general fund as well as perform monthly analysis of the other governmental and proprietary funds. Several material adjustments were needed during the audit to reconcile accounts in these other funds which are material overall to the City's financial statement and operations. In order to make accurate and informed decisions related to the overall financial status of the City, we suggest these other funds should also be presented in the financial reports to management and council on a monthly basis.

Bank Reconciliation Practices

The GDA account and the payroll account include the majority of the City's financial operating activity. Neither account had been reconciled accurately or timely throughout 2011. Subsequent to year-end, these reconciliations were completed so the audit could be completed. During our audit procedures we also noted several outstanding items that we feel should be addressed in 2012. We suggest the City develops a policy for outstanding checks noting that checks over a certain nominal dollar threshold and outstanding for over twelve months be voided under the grounds of a fee for time and effort to track the items. Amounts larger than this threshold will then need to be sent to the state under Escheat Laws. We also suggest the City personnel continue to understand the reconciling items that are associated with these two accounts to ensure proper accounting for transactions occurring.

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Outsourcing of Proprietary Fund Billing and Collections

Commencing in July 2012, the City outsourced the billing and collections for the sewer fund to a third party. There are also discussions at the present time to consider outsourcing the billing and collections for other proprietary funds. With this change, it is imperative that the City maintain a monitoring role in the process in order to properly record the activity into the general ledger. The City should receive from the third party monthly reports that summarize bills sent, collections received, and aged outstanding receivables. The collections reports should show enough detail to reconcile the billing amounts less collections received to the outstanding revenue items. Having these reports will allow the City to accurately analyzed collection trends, project future revenues, and be proactive in addressing collection delinquencies.

Payroll Procedures

It was noted during our procedures that the City is in the process of implementing a new third party payroll service provider. By outsourcing this function, a change in the internal control structure for payroll will need to be implemented. We suggest that all parties that are involved in the payroll process, including those in a monitoring role, develop new procedures to allow for the adequate review of payroll. We suggest that the City Auditor's office be involved in those discussions and made aware of what reports will be received from the third party service provider and what reports are available to ensure that proper oversight is still in place.

Section 108 Loan Monitoring

The City of Reading received a section 108 HUD loan in the amount of \$1,500,000 during the year ended December 31, 2011. The loan proceeds were then loaned to Reading Hospitality Group, LLC to be used for working capital in the construction of the Reading hotel and convention center. It was noted that as of the report date, no construction has taken place in regards to the hotel. In order to properly monitor the expenses related to the proceeds from the section 108 loan, we recommend that the City continue to receive updates as to the use of the funds received to ensure they are in compliance with the program requirements.

Capitalization Policy/Construction in Process

During our procedures we noted that the City does not have a capitalization policy in place related to fixed assets. We suggest that the City create a policy with a threshold defining what is considered to be a capital asset and the difference between a purchase of a singular piece of equipment and a project. We suggest the threshold for a City your size be at least \$2,500.

The procedures performed during the audit also noted that construction in process was not updated throughout the year for ongoing projects. We suggest that this information is updated at a minimum quarterly to allow for proper understanding of project status and total cost progression of the projects.

Accounting Manual and Cross-Training of Key Positions

The City has or will be outsourcing several key areas as well as had turn over in several key positions with new staff coming on board. As a result, there are a limited number of trained individuals who could handle the key fiscal needs of the City. To help solve this process, we recommend the following:

First, we suggest the establishment of an accounting manual that will inform all employees of desired operating procedures and policies. The manual should be drafted so that it can also serve as a training tool. An effective manual will serve as an aid in training and cross-training staff, monitoring the performance of existing employees, and improving internal communications and documentation. At a minimum, the manual should include:

- Job descriptions, outlining duties and responsibilities.
- Descriptions of methods, procedures, and accounting principles to be followed including explanations and examples.
- A chart of accounts with detailed explanation of the items to be included therein.
- Any other items you believe will help in the standardization and internal control process.

Second, we suggest you continue to monitor who has learned key areas and make sure the City continues to ensure at least two individuals know how to perform the key positions and related duties of the fiscal department. This will allow for the City to continue normal operations when someone is on vacation, sick, or leave unexpectedly.

Implementation of Anti-Fraud Policies

Statement of Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*, is an auditing standard that establishes standards and provides guidance on the auditor's responsibility to consider the risks of material misstatement of the financial statements due to fraud. Misstatements of financial statements usually consist of, but are not limited to, misstatements resulting from fraudulent financial reporting and/or misstatements resulting from misappropriation of assets. The standard notes that management is responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

In light of this standard, and the recent accounting scandals involving businesses on both the national and local levels, we recommend that management develop a mechanism to communicate to employees the importance of ethical behavior and appropriate business practices. We would be happy to provide examples of anti-fraud policies.



Conflict of Interest Policies

During our audit testing, we noted that the City does not have a formal policy regarding conflicts of interest for its management and employees. In recent years, issues of conflict have become more prevalent and most entities have elected to develop or formalize policies. Having and monitoring a conflict of interest policy is a requirement of federal and state grants. A well-structured conflict-of-interest policy contains the following information:

- A statement that board, management and employees should avoid conflicts of interest, including the appearance of conflicts, and that there is a duty to disclose conflicts when they become apparent to the individual.
- Definitions of what constitutes a conflict of interest.
- Disclosure requirements.
- Methods of resolving conflicts.
- Penalties for violations of the policy.

The institution of a formal policy covering potential conflict of interests will provide the City with a significantly enhanced system for prevention of future fraud and abuse. The related costs and efforts to put these policies and procedures in place will seem insignificant to the security and benefits they will provide.

Internal Control Documentation

The City is required to document in writing what internal controls are in place over significant areas of the City, i.e., governmental-type revenues/accounts receivable, purchases and cash disbursements, payroll, utility, trash and recycling billings, and financial reporting. These controls should also address the compliance requirements covering all federal programs. The City does have key processes documented but it appears the policies and procedures have not been updated for several years and many of the practices are obsolete and not being followed. We recommend the City review and update all accounting policies and procedures especially those that relate to internal control. By documenting the internal controls in place, management will be better able to assess what controls are effective in design and what controls are being properly followed. This will enable management to mitigate risks that may arise.

Internal Audit Function

The City is fortunate to have a two-person internal audit department. It would be in the best interest for the City to maximize the utilization of the internal audit department staff. The department currently monitors transaction detail for cash receipts, cash disbursements and payroll. The department should also perform audit procedures which would strengthen the City's system of internal controls. Some areas that the department should focus on include reviewing journal entries for appropriateness, monitoring timelines of general ledger account reconciliations, fixed asset records, utility department billings, and grant and program income accounting and reporting. The department should also be proactive in assessing other risk areas within the City to conduct internal audits as needed.



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We would like to thank all City personnel for their assistance during the audit.

We will review the status of the suggestions made above during our next audit engagement. We would be pleased to discuss these areas further at your convenience or to assist you in implementing the recommendations.

Sincerely,

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September 24, 2012

To the City Council
City of Reading

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 Reading, for the year ended December 31, 2011, and have issued our report thereon dated September 24, 2012. 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 January 10, 2012, 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 U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we will consider City of Reading'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 will also consider 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 City of Reading's financial statements are free of material misstatement, we will perform 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 is not an objective of our audit. Also in accordance with OMB Circular A-133, we will examine, on a test basis, evidence about City of Reading'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 City of Reading's compliance with those requirements. While our audit will provide a reasonable basis for our opinion, it will not provide a legal determination on City of Reading's compliance with those requirements.

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Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting. We will generally communicate our significant findings at the conclusion of the audit. However, some matters could be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion. We will communicate our significant findings at the conclusion of the audit.

We expect to begin our audit on approximately April 2, 2012 and issue our report as soon as all appropriate information has been received and audit procedures performed.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Reading are described in Note 1 to the financial statements. As described in Note 14 to the financial statements, the City of Reading changed accounting policies related to changes in fund balance by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in 2011. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds. We noted no transactions entered into by the governmental unit 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 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:

- Other post employment benefits liability
- Funding status of the City of Reading retirement plans
- Allowance for Doubtful accounts and Loans Receivable
- Capital asset lives and related depreciation
- The value of derivative financial instruments



We evaluated the key factors and assumptions used to develop the other post employment benefits liability, the outstanding liability of the City of Reading's retirement plans, the collectability of accounts and loans receivable and the lives and depreciation methods currently in use in determining that they were reasonable in relation to the financial statements taken as a whole.

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

The disclosure of stewardship, compliance and accountability in Note 2, the disclosure of Cash and Investments in Note 3 to the financial statements, Long-Term Liabilities in Note 8, Derivative Financial Instruments in Note 9, City of Reading's Retirement plans in Note 10 and Other Post Employment Benefits in Note 11.

Difficulties Encountered in Performing the Audit

The completion of our audit was delayed because various items including information from component units was not available in a manner that would allow completion of our audit in accordance with terms specified in the City's home rule charter. The missing item was noted and brought to the attention of management at various meetings and communications.

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 to communicate them to the appropriate level of management. The attached schedule summarizes all adjustments that were identified during the audit process and corrected by management. Some of these adjustments were identified internally by management and provided to us. The remaining adjustments were detected as a result of our audit procedures.

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 September 24, 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 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.



Other Audit Findings or Issues

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 governmental unit'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 Information in Documents Containing Audited Financial Statements

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.

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

Very truly yours,

Herbein + Company, Inc.

Herbein + Company, Inc.