

***CITY OF READING***

**FINANCIAL AND COMPLIANCE AUDIT REPORT**

**Year Ended December 31, 2012**

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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, Pennsylvania, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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. The Reading Area Water Authority represents 85 percent, 23 percent, and 99 percent, respectively, of the assets, net position, and revenues of the water fund. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Reading Area Water Authority and the Reading Redevelopment Authority is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and performed the audit to obtain a reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Basis for Qualified Opinion on Water Fund***

As of December 31, 2011, management was unable to provide records that reflect accounts receivable balance due by customer.

### **Qualified Opinion**

In our opinion, based on our audit and the report of the other auditors, except for the effects of the matter described in the "Basis for Qualified Opinion on Water Fund" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Fund of the City of Reading, Pennsylvania, as of December 31, 2012, and the related changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Unmodified Opinions**

In our opinion, based on our audit and the report 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, other than the Water Fund, and the aggregate remaining fund information of the City of Reading, Pennsylvania as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



#### Other Matters

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.

#### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule for the general fund information and the 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.

#### Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Reading, Pennsylvania's basic financial statements. The schedule of revenue and other financing sources - budgetary basis - general fund, schedule of expenditures and other financing uses - budgetary basis - general fund, and the combining nonmajor governmental funds and fiduciary funds financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a part of the basic financial statements.

The schedule of revenue and other financing sources - budgetary basis - general fund, schedule of expenditures and other financing uses - budgetary basis - general fund, the combining nonmajor governmental fund and fiduciary funds 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of revenue and other financing sources - budgetary basis - general fund, schedule of expenditures and other financing uses - budgetary basis - general fund, the combining nonmajor governmental funds and fiduciary funds financial 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.

#### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2013, on our consideration of the City of Reading, Pennsylvania'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* in considering the City of Reading, Pennsylvania's internal control over financial reporting and compliance.

*Herbein + Company, Inc.*

Reading, Pennsylvania  
September 16, 2013

## 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, 2012. 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 position increased as a result of this year's operations. On a government-wide basis including all governmental activities and business-type activities, but excluding discretely presented component units, the assets of the City exceeded its liabilities resulting in total net position at the close of the fiscal year of \$70.2 million. This represents an increase of 24% over last fiscal year's net Position of \$56.2 million (after restatement).
- During the year, the City made an additional payment of nearly \$4.5 million toward its 2010 unfunded debt loan, beyond the amounts budgeted for 2012. Management believes that this excess payment exemplifies a solid commitment toward improving the City's financial condition.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$19.2 million. Approximately 78% of this total amount, \$14.9 million, is available for spending at the government's discretion (unassigned fund balance).
- The general fund reported a substantial improvement in the collection of Act 511 taxes due to the City. The City collected \$22.2 million in Act 511 taxes in 2012 versus \$16.5 million in 2011.
- Revenues of the City's business-type activities increased by 8% (\$67.2 million in 2012 compared to \$61.9 million in 2011). At the same time, expenses decreased by 2% (\$43.8 million in 2012 compared with \$44.7 million in 2011).

### 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 Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Previously, this had been referred to as net assets. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The Statement of Net Position 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 position 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 Position and the Statement of Activities are prepared utilizing the accrual basis of accounting.

In the Statement of Net Position 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 Position – Fiduciary Funds and Changes in Net Position – 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 position was \$70.2 million as of December 31, 2012. Analyzing the net position of governmental and business-type activities separately, the governmental activities are -\$29.5 million and the business-type activities are \$99.7 million. The analysis focuses on the net position (Table 1) and changes in net position (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 Position**  
**(amounts expressed in thousands)**

	Governmental		% Change	Business - Type		% Change	Total		% Change
	Activities 2012	2011		Activities 2012	2011		2012	2011	
Current & Other Assets	89,527	104,913	-12%	118,312	117,099	1%	207,839	222,012	-6%
Capital Assets	52,834	53,999	-2%	123,655	111,273	11%	176,489	165,272	7%
Total Assets	142,361	158,912	-10%	241,967	228,372	6%	384,328	387,284	-1%
Deferred Outflows of Resources	6,116	7,568	-19%	0	300	-100%	6,116	7,868	-22
Current & Other Liabilities	13,998	18,987	-26%	10,009	8,228	22%	24,007	27,215	-12%
Long-Term Liabilities	163,981	171,335	-2%	132,290	133,794	0%	296,271	305,149	-1%
Total Liabilities	177,979	190,322	-4%	142,299	142,022	0%	320,278	332,364	-2%
Net Position:									
Invested in Capital Assets, net of related debts	0	0		27,546	31,350	-12%	27,546	31,350	-12%
Restricted	0	0		7,791	23,059	-66%	7,791	23,059	-66%
Unrestricted	-29,502	-23,842	24%	64,331	32,241	100%	34,829	8,399	315%
Total Net Position	-29,502	-23,842	24%	99,668	86,650	30%	70,166	62,808	12%

## 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 eight 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 Position**  
**(amounts expressed in thousands)**

	Governmental		%	Business - Type		%	Total		%
	Activities			Activities			Total		
	2012	2011	Change	2012	2011	Change	2012	2011	Change
<b>Revenues:</b>									
<b>Program Revenues:</b>									
Charges for services	15,337	20,800	-26%	64,335	63,702	0%	79,672	84,502	-6%
Operating Grants and Contributions	20,339	33,507	-39%	2,379	576	313%	22,718	34,083	-33%
<b>General Revenues:</b>									
Property Tax	19,125	19,741	-3%	0	0	0%	19,125	19,741	-3%
Income Tax	22,280	16,589	34%	0	0	0%	22,280	16,589	34%
Indirect Cost Allocation	2,303	2,278	1%	(2,303)	(2,278)	1%	0	0	0%
Other	898	6,421	-86%	2,801	(23)	1,222%	3,699	6,398	-42%
<b>Total Revenues:</b>	<b>80,282</b>	<b>99,336</b>	<b>-19%</b>	<b>67,212</b>	<b>61,977</b>	<b>8%</b>	<b>147,494</b>	<b>161,313</b>	<b>-9%</b>
<b>Expenses</b>									
General Government	7,492	6,896	9%	0	0	0%	7,492	6,896	9%
Public Safety	47,026	47,255	0%	0	0	0%	47,026	47,255	0%
Highway and Streets	2,185	2,938	-26%	0	0	0%	2,185	2,938	-26%
Public Works - Other	6,546	6,075	8%	0	0	0%	6,546	6,075	8%
Community Development	15,660	21,783	-28%	0	0	0%	15,660	21,783	-28%
Culture and Recreation	1,296	2,314	-44%	0	0	0%	1,296	2,314	-44%
Other	472	1,421	-67%	0	0	0%	473	1,421	-67%
Interest on Long Term Debt	8,984	7,919	13%	0	0	0%	8,984	7,919	13%
Sewer	0	0	0%	15,633	18,774	-17%	15,633	18,774	-17%
Water	0	0	0%	22,586	20,021	13%	22,586	20,021	13%
Trash and Recycling	0	0	0%	5,610	5,883	-5%	5,610	5,883	-5%
<b>Total Expenses</b>	<b>89,661</b>	<b>96,601</b>	<b>-7%</b>	<b>43,829</b>	<b>44,678</b>	<b>-2%</b>	<b>133,491</b>	<b>141,279</b>	<b>-6%</b>
<b>Excess (deficiency) of revenues over expenses before capital contributions and transfers</b>									
	(9,379)	2,735	442%	23,383	17,299	35%	14,003	20,034	-170%
<b>Transfers</b>									
Increase (decrease) in net position	7,620	7,262	5%	(7,620)	(7,262)	-5%	0	0	0%
	(1,759)	9,997	118%	15,763	10,037	57%	14,003	20,034	-30%
<b>Net Position-Beginning of</b>									
Year (restated)	(27,743)	(33,839)	-18%	83,905	76,613	10%	56,163	42,774	31%
<b>Net Position-End of Year</b>	<b>(29,502)</b>	<b>(23,842)</b>	<b>24%</b>	<b>99,668</b>	<b>86,650</b>	<b>15%</b>	<b>70,166</b>	<b>62,808</b>	<b>12%</b>

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

	Total Cost of Services		% Change	Net Cost of Services		% Change
	2012	2011		2012	2011	
<b>Expenses</b>						
General Government	7,492	6,896	9%	467	9,334	-95%
Public Safety	47,026	47,255	0%	(33,917)	(29,194)	16%
Highway and Streets	2,185	2,938	-26%	(549)	(1,411)	-6%
Public Works - Other	6,546	6,075	8%	(4,655)	(4,151)	12%
Community Development	15,660	21,783	-28%	(5,701)	(9,524)	-40%
Culture and Recreation	1,296	2,314	-44%	(129)	(1,154)	-88%
Other	472	1,421	-67%	1,785	758	135%
Debt Service	8,984	7,919	13%	(8,984)	(4,674)	92%
<b>Total Expenses</b>	<b>89,661</b>	<b>96,601</b>	<b>-7%</b>	<b>(51,683)</b>	<b>(40,016)</b>	<b>29%</b>

*Business-Type Activities.* Revenues of the City's business-type activities (see Table 2) increased by 8% (\$67.2 million in 2012 compared to \$61.9 million in 2011). At the same time, expenses decreased by 2% (\$43.8 million in 2012 compared with \$44.7 million in 2011).

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

	Total Cost of Services		% Change	Net Cost of Services		% Change
	2012	2011		2012	2011	
<b>Business Type Activities:</b>						
Sewer	15,633	18,774	-17%	19,778	14,621	35%
Water	22,586	20,021	13%	1,017	3,008	-66%
Trash and Recycling	5,610	5,883	-5%	(213)	(307)	-31%
<b>Total Expenses</b>	<b>43,829</b>	<b>44,678</b>	<b>-2%</b>	<b>20,582</b>	<b>14,284</b>	<b>44%</b>

## CAPITAL ASSET AND DEBT ADMINISTRATION

*Capital Assets.* The City's investment in capital assets as of December 31, 2012, amounted to \$176.4 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 \$24.7 million or a 16% 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		
	Activities		%	Activities		%			%
	2012	2011	Change	2012	2011	Change	2012	2011	Change
Land	281	281	0%	2,104	2,074	0%	2,385	2,355	0%
Buildings	17,064	13,221	29%	18,693	19,753	-6%	35,757	32,974	8%
Machinery and Equipment	5,248	6,305	-17%	9,544	9,384	2%	14,792	15,689	-6%
Improvements	26,268	18,497	42%	50,935	50,006	2%	77,203	68,503	13%
Infrastructure	1,615	1,923	-16%	0	0		1,615	1,923	-16%
Construction in Progress	2,358	13,772	-83%	42,379	30,056	41%	44,737	43,828	2%
<b>Total Net Capital Assets</b>	<b>52,834</b>	<b>53,999</b>	<b>30%</b>	<b>123,655</b>	<b>111,273</b>	<b>11%</b>	<b>176,489</b>	<b>165,272</b>	<b>16%</b>

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	\$ (4,518)	\$ (669,029)
Bond Discount, net of amortization	645,467	812,367
Bonds/Notes/Leases Payable	(156,136,323)	(139,066,736)
Unamortized interest on capital appreciation bonds	-	3,392,599
Other Post Employment Benefits	(11,188,456)	(495,788)
Compensated Absences	(745,512)	-
Deferred Loss on Bond Issuance	3,655,673	176,602
	<u>\$ (163,773,669)</u>	<u>\$ (135,849,985)</u>

*Bond Rating.* The City's debt rating was **Baa2** by Moody's as of December 31, 2012. 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 \$19.2 million, a decrease of \$3.8 million from the previous year. Approximately 78% of this total amount, \$14.9 million, is available for spending at the government's discretion (unassigned fund balance).

For the General Fund, the City has a deficit balance of \$4.3 million for the year ending December 31, 2012, inclusive of bond proceeds, bond refundings, as well as operating transfers .

At the close of the current fiscal year, the City's proprietary funds reported combined ending fund balances of \$99.6 million, an increase of \$16.0 million from the previous year. Specifically, the Water Fund had a year-end balance of \$14.5 million; the Sewer Fund had a year-end balance of \$85.0 million, and the Other (non-major) Fund year-end balance was \$82 thousand.

## **ACT 47 STATUS**

The City maintained its status within Act 47 for the fiscal year ending December 31, 2012. 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 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 POSITION**

**December 31, 2012**

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Reading Parking Authority	Reading Redevelopment Authority
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$ 17,981,716	\$ 52,174,062	\$ 70,155,778	\$ 5,080,555	\$ 18,025
Investments	4,554,231	114,916	4,669,147	-	1,319,952
Accounts receivable, net	3,011,442	8,273,929	11,285,371	259,687	4,000
Taxes receivable, net	2,921,959	-	2,921,959	-	-
Internal balances	134,037	(134,037)	-	-	-
Intergovernmental receivables	4,106,020	3,096,763	7,202,783	-	-
Inventory	-	107,799	107,799	-	160,688
Other current assets	111,006	58,644	169,650	140,128	-
Lease rental receivable	115,000	-	115,000	-	-
<b>Total current assets</b>	<b>32,935,411</b>	<b>63,692,076</b>	<b>96,627,487</b>	<b>5,480,370</b>	<b>1,502,665</b>
<b>Restricted assets</b>					
Cash and investments	-	53,423,153	53,423,153	5,650,858	9,715
<b>Other noncurrent assets</b>					
Lease rental receivable, noncurrent	2,920,000	-	2,920,000	-	-
Notes receivable, noncurrent	20,440,040	-	20,440,040	-	-
Net pension asset	33,232,276	-	33,232,276	-	-
Lease receivable - noncurrent portion	-	-	-	-	3,292,355
Leased land rights	-	1,020,000	1,020,000	-	-
<b>Capital assets</b>					
Land	280,960	2,103,659	2,384,619	2,614,070	-
Buildings, net of accumulated depreciation	17,064,404	18,692,621	35,757,025	39,215,348	-
Machinery and equipment, net of accumulated depreciation	5,247,681	9,544,461	14,792,142	580,901	-
Improvements, net of accumulated depreciation	26,267,996	50,935,399	77,203,395	61,294	-
Infrastructure, net of accumulated depreciation	1,614,883	-	1,614,883	-	-
Construction in progress	2,357,744	42,379,300	44,737,044	44,583	-
<b>Total other noncurrent assets</b>	<b>109,425,984</b>	<b>124,675,440</b>	<b>234,101,424</b>	<b>42,516,196</b>	<b>3,292,355</b>
<b>TOTAL ASSETS</b>	<b>142,361,395</b>	<b>241,790,669</b>	<b>384,152,064</b>	<b>53,647,424</b>	<b>4,804,735</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred outflow of resources - hedging derivative	2,459,967	-	2,459,967	-	-
Loss on bond refunding, net of amortization	3,655,673	176,602	3,832,275	2,698,522	-
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>6,115,640</b>	<b>176,602</b>	<b>6,292,242</b>	<b>2,698,522</b>	<b>-</b>
<b>TOTAL</b>	<b>\$ 148,477,035</b>	<b>\$ 241,967,271</b>	<b>\$ 390,444,306</b>	<b>\$ 56,345,946</b>	<b>\$ 4,804,735</b>

See accompanying notes.

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Reading Parking Authority	Reading Redevelopment Authority
<b>LIABILITIES AND NET POSITION</b>					
<b>LIABILITIES</b>					
Current liabilities					
Accounts payable	\$ 6,263,111	\$ 5,888,149	\$ 12,151,260	\$ 219,554	\$ 8,367
Accrued interest	939,694	324,800	1,264,494	65,422	10,875
Unearned revenue	536,648	-	536,648	7,455	-
Other current liabilities	349,924	60,290	410,214	45,995	-
Current portion lease payable	110,000	-	110,000	-	-
Current portion notes and bonds payable	5,798,369	3,735,146	9,533,515	2,868,297	110,000
Total current liabilities	13,997,746	10,008,385	24,006,131	3,206,723	129,242
Noncurrent liabilities					
Notes and bonds payable	147,027,954	135,331,590	282,359,544	36,060,452	3,200,000
Lease payable	3,200,000	-	3,200,000	-	-
Derivative instruments	2,459,967	-	2,459,967	-	-
Unamortized bond premium	4,518	669,029	673,547	-	-
Unamortized bond discount	(645,467)	(812,367)	(1,457,834)	-	-
Unamortized interest on capital appreciation bonds	-	(3,392,599)	(3,392,599)	(4,991,472)	-
Other	-	-	-	65,524	-
Other post employment benefits	11,188,456	495,788	11,684,244	-	-
Accrued compensated absences	745,512	-	745,512	-	-
Total noncurrent liabilities	163,980,940	132,291,441	296,272,381	31,134,504	3,200,000
<b>TOTAL LIABILITIES</b>	177,978,686	142,299,826	320,278,512	34,341,227	3,329,242
<b>NET POSITION</b>					
Net investment in capital assets	-	27,546,069	27,546,069	11,277,441	-
Restricted for:					
Debt service	-	4,099,908	4,099,908	-	-
Capital projects	-	3,690,632	3,690,632	-	-
Unrestricted	(29,501,651)	64,330,836	34,829,185	10,727,278	1,475,493
<b>TOTAL NET POSITION</b>	(29,501,651)	99,667,445	70,165,794	22,004,719	1,475,493
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 148,477,035</u>	<u>\$ 241,967,271</u>	<u>\$ 390,444,306</u>	<u>\$ 56,345,946</u>	<u>\$ 4,804,735</u>

**CITY OF READING**  
**STATEMENT OF ACTIVITIES**

Year Ended December 31, 2012

Functions/Programs	Expenses	Indirect Cost Allocation	Program Revenues		
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government					
Governmental activities:					
General government	\$ 7,492,131	\$ (2,492,813)	\$ 1,000,214	\$ 4,466,323	\$ -
Public safety:					
Police	30,170,043	-	1,218,713	2,601,416	-
Fire	12,947,515	-	3,488,866	-	-
EMS	3,907,570	-	5,219,877	579,944	-
Public works - highways and streets	2,185,368	-	155,155	1,481,067	-
Public works - other	6,546,459	-	1,872,485	18,635	-
Community development	15,660,373	190,000	1,921,109	8,227,936	-
Culture and recreation	1,295,992	-	461,040	706,041	-
Other	473,052	-	-	2,257,788	-
Debt service - interest	8,984,250	-	-	-	-
Total governmental activities	89,662,753	(2,302,813)	15,337,459	20,339,150	-
Business-type activities:					
Water	22,586,406	757,476	24,360,729	-	-
Sewer	15,633,420	1,161,432	34,280,291	2,292,471	-
Trash and recycling	5,609,860	383,905	5,693,995	87,132	-
Total business-type activities	43,829,686	2,302,813	64,335,015	2,379,603	-
Total primary government	\$ 133,492,439	\$ -	\$ 79,672,474	\$ 22,718,753	\$ -
Component Unit:					
Reading Parking Authority:					
Parking	\$ 7,299,277	\$ -	\$ 8,428,623	\$ -	\$ -
Reading Redevelopment Authority:					
Redevelopment	439,607	-	85,147	-	-

**General Revenues:**

Taxes:

Property taxes, levied for general purposes  
Earned income, franchise, and other taxes, levied for general purposes, net  
Investment earnings (loss)  
Miscellaneous income (expense)  
Change in accounting estimate for allowance for uncollectible accounts receivable  
Change in derivative instrument

**Transfers**

**Total General Revenues and Transfers**

**Change in Net Position**

**Net Position - Beginning - Restated**

**Net Position - Ending**

See accompanying notes.

Net (Expense) Revenue and  
Changes in Net Position

Governmental Activities	Business-Type Activities	Total	Component Unit (Reading Parking Authority)	Component Unit (Reading Redevelopment Authority)
\$ 467,219	\$ -	\$ 467,219	\$ -	\$ -
(26,349,914)	-	(26,349,914)	-	-
(9,458,649)	-	(9,458,649)	-	-
1,892,251	-	1,892,251	-	-
(549,146)	-	(549,146)	-	-
(4,655,339)	-	(4,655,339)	-	-
(5,701,328)	-	(5,701,328)	-	-
(128,911)	-	(128,911)	-	-
1,784,736	-	1,784,736	-	-
(8,984,250)	-	(8,984,250)	-	-
(51,683,331)	-	(51,683,331)	-	-
-	1,016,847	1,016,847	-	-
-	19,777,910	19,777,910	-	-
-	(212,638)	(212,638)	-	-
-	20,582,119	20,582,119	-	-
(51,683,331)	20,582,119	(31,101,212)	-	-
-	-	-	1,129,346	-
-	-	-	-	(354,460)
19,125,337	-	19,125,337	-	-
22,280,389	-	22,280,389	-	-
898,910	255,398	1,154,308	188,257	3,377
-	88,409	88,409	3,929	256,547
-	2,332,339	2,332,339	-	-
-	124,391	124,391	-	-
7,620,000	(7,620,000)	-	-	-
49,924,636	(4,819,463)	45,105,173	192,186	259,924
(1,758,695)	15,762,656	14,003,961	1,321,532	(94,536)
(27,742,956)	83,904,789	56,161,833	20,683,187	1,570,029
<u>\$ (29,501,651)</u>	<u>\$ 99,667,445</u>	<u>\$ 70,165,794</u>	<u>\$ 22,004,719</u>	<u>\$ 1,475,493</u>

**CITY OF READING**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**

December 31, 2012

	General	Community Development
<b>ASSETS</b>		
Cash and cash equivalents	\$ 9,337,306	\$ 2,191,219
Investments	1,083,325	-
Accounts receivable	3,005,975	-
Taxes receivable, net	2,032,193	-
Interfund receivable	3,542,989	368,849
Intergovernmental receivable	96,667	907,893
Other assets	111,006	-
Lease rental receivable	3,035,000	-
Notes receivable - noncurrent	916,631	24,404,261
	<b>TOTAL ASSETS</b>	<b>TOTAL ASSETS</b>
	<b>\$ 23,161,092</b>	<b>\$ 27,872,222</b>
<b>LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 1,987,037	\$ 610,484
Interfund payable	12,128	1,199,007
Unearned revenue	3,951,631	24,404,261
Other liabilities	349,924	-
	<b>TOTAL LIABILITIES</b>	<b>TOTAL LIABILITIES</b>
	<b>6,300,720</b>	<b>26,213,752</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable revenue - property taxes	1,955,881	-
<b>FUND BALANCES</b>		
Restricted for		
Community development	-	1,658,470
Agency	-	-
Capital projects	-	-
Shade tree	-	-
Debt service	-	-
Unassigned	14,904,491	-
	<b>TOTAL FUND BALANCES</b>	<b>TOTAL FUND BALANCES</b>
	<b>14,904,491</b>	<b>1,658,470</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES</b>	<b>\$ 23,161,092</b>	<b>\$ 27,872,222</b>

See accompanying notes.

Agency Fund	Nonmajor Funds	Total Governmental Funds
\$ 2,258,456	\$ 1,292,994	\$ 15,079,975
45,571	572	1,129,468
-	5,286	3,011,261
-	22,761	2,054,954
19,168	1,081,106	5,012,112
3,101,460	-	4,106,020
-	-	111,006
-	-	3,035,000
-	-	25,320,892
<u>\$ 5,424,655</u>	<u>\$ 2,402,719</u>	<u>\$ 58,860,688</u>
\$ 1,708,036	\$ 215,258	\$ 4,520,815
2,566,430	125,038	3,902,603
513,877	-	28,869,769
-	-	349,924
<u>4,788,343</u>	<u>340,296</u>	<u>37,643,111</u>
-	22,761	1,978,642
-	-	1,658,470
636,312	-	636,312
-	1,839,599	1,839,599
-	101,466	101,466
-	163,693	163,693
-	(65,096)	14,839,395
<u>636,312</u>	<u>2,039,662</u>	<u>19,238,935</u>
<u>\$ 5,424,655</u>	<u>\$ 2,402,719</u>	<u>\$ 58,860,688</u>

CITY OF READING

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

December 31, 2012

**TOTAL FUND BALANCES - GOVERNMENTAL FUNDS** \$ 19,238,935

**Amounts reported for governmental activities in the statement  
of net position 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 \$108,398,883 and the accumulated depreciation is \$55,565,215. 52,833,668

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. 3,136,541

Other long-term loans (receivables) and lease rental receivable are not available to pay current period expenditures and therefore, are deferred in the funds. 28,355,882

Establish allowance for doubtful accounts - property taxes receivable (\$313,654) and other long-term asset receivables (\$4,880,852). (5,194,506)

Net pension asset established upon long-term financing of unfunded pension obligation to be amortized over future periods when benefit is received. 33,232,276

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. 3,608,916

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	\$ 645,467	
Bond Premium, Net of Amortization	(4,518)	
Bonds/Notes/Leases Payable	(156,136,323)	
Accrued Interest on Bonds	(939,694)	
Other Post Employment Benefits	(11,188,456)	
Compensated Absences	(745,512)	
Deferred Loss on Bond Issuance	3,655,673	(164,713,363)

**NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ (29,501,651)

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

Year Ended December 31, 2012

	General	Community Development
<b>Revenues:</b>		
Real estate taxes	\$ 18,563,997	\$ -
Act 511 taxes	22,231,321	-
Licenses, permits and fines	5,375,032	-
Intergovernmental	5,000,031	5,096,171
Charges for services	7,329,916	3,248,995
Interest and rent	1,008,685	-
Other	6,174,520	-
	<b>TOTAL REVENUES</b>	<b>8,345,166</b>
<b>Expenditures:</b>		
Current:		
General government	6,490,579	-
Public safety		
Police	25,763,778	-
Fire	11,221,156	-
EMS	3,858,749	-
Public works - highways and streets	492,701	-
Public works - other	6,499,835	-
Community development	3,121,207	7,037,749
Culture and recreation	754,706	-
Other	2,160,746	-
Capital outlays	-	-
Debt service - principal	9,190,485	-
Debt service - interest	8,328,676	-
	<b>TOTAL EXPENDITURES</b>	<b>7,037,749</b>
	<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>1,307,417</b>
<b>OTHER FINANCING SOURCES (USES)</b>		
Bond proceeds	15,356,600	-
Bond discounts	(163,562)	-
Payment to escrow agent, refunding bond	(14,931,374)	-
Operating transfers in	7,620,000	-
	<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>
	<b>NET CHANGE IN FUND BALANCES</b>	<b>1,307,417</b>
<b>FUND BALANCES - BEGINNING</b>	<b>19,221,943</b>	<b>351,053</b>
	<b>FUND BALANCES - ENDING</b>	<b>\$ 1,658,470</b>

See accompanying notes.

Agency Fund	Nonmajor Funds	Total Governmental Funds
\$ -	\$ 249,065	\$ 18,813,062
-	-	22,231,321
-	-	5,375,032
5,778,638	1,426,955	17,301,795
-	-	10,578,911
-	225	1,008,910
115,197	4,025	6,293,742
5,893,835	1,680,270	81,602,773
-	-	6,490,579
524,554	-	26,288,332
116,409	-	11,337,565
-	-	3,858,749
-	1,686,376	2,179,077
-	151,624	6,651,459
5,054,245	-	15,213,201
316,003	-	1,070,709
-	-	2,160,746
-	434,031	434,031
-	-	9,190,485
-	-	8,328,676
6,011,211	2,272,031	93,203,609
(117,376)	(591,761)	(11,600,836)
-	-	15,356,600
-	-	(163,562)
-	-	(14,931,374)
-	-	7,620,000
-	-	7,881,664
(117,376)	(591,761)	(3,719,172)
753,688	2,631,423	22,958,107
<u>\$ 636,312</u>	<u>\$ 2,039,662</u>	<u>\$ 19,238,935</u>

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, 2012

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (3,719,172)

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	\$ 2,587,854	
Less: Depreciation Expense	<u>(3,753,161)</u>	(1,165,307)

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	312,276	
Notes Receivable	<u>(1,440,990)</u>	(1,128,714)

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	(15,356,600)	
Bond Discounts	168,174	
Bond Premiums	(4,612)	
Amortization of Bond Discount	(38,146)	
Amortization of Bond Premium	95	
Amortization of Deferred Gains/Losses on Bond Issuance	(487,077)	
Payment of Bond Principal	9,190,485	
Payment to Escrow Agent	14,931,374	
Payment of Lease Payable	105,000	8,508,693

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, 2012

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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. (130,445)

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. (117,349)

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. 1,002,454

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. (2,635,121)

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ (1,758,695)

**CITY OF READING**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**

Year Ended December 31, 2012

	Water Fund	Sewer Fund	Nonmajor Enterprise Fund (Recycling)	Total Enterprise Funds	Internal Service Funds
<b>ASSETS</b>					
Current assets					
Cash and cash equivalents	\$ 12,966,729	\$ 39,090,191	\$ 117,142	\$ 52,174,062	\$ 2,901,741
Investments	114,916	-	-	114,916	3,424,763
Accounts receivable, net of allowance of \$4,811,356	3,228,473	3,635,933	1,409,523	8,273,929	181
Interfund receivables	1,567,514	5,018,078	338,948	6,924,540	413,804
Intergovernmental receivables	-	3,096,763	-	3,096,763	-
Other receivables	14,432	-	-	14,432	-
Inventory	107,799	-	-	107,799	-
Prepaid expenses	44,212	-	-	44,212	-
Total current assets	<u>18,044,075</u>	<u>50,840,965</u>	<u>1,865,613</u>	<u>70,750,653</u>	<u>6,740,489</u>
Restricted assets					
Cash and investments	46,408,723	7,014,430	-	53,423,153	-
Other noncurrent assets					
Leased land rights	1,020,000	-	-	1,020,000	-
Land	2,059,359	44,300	-	2,103,659	-
Buildings	7,789,674	38,240,779	-	46,030,453	-
Improvements	64,340,546	29,336,498	-	93,677,044	-
Machinery and equipment	14,551,285	9,508,181	824,415	24,883,881	-
Construction in progress	13,515,757	28,863,543	-	42,379,300	-
Less: accumulated depreciation	<u>(44,359,237)</u>	<u>(40,472,091)</u>	<u>(587,569)</u>	<u>(85,418,897)</u>	<u>-</u>
Total other noncurrent assets	<u>58,917,384</u>	<u>65,521,210</u>	<u>236,846</u>	<u>124,675,440</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<b>123,370,182</b>	<b>123,376,605</b>	<b>2,102,459</b>	<b>248,849,246</b>	<b>6,740,489</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Loss on bond refunding, net of amortization	176,602	-	-	176,602	-
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b><u>\$ 123,546,784</u></b>	<b><u>\$ 123,376,605</u></b>	<b><u>\$ 2,102,459</u></b>	<b><u>\$ 249,025,848</u></b>	<b><u>\$ 6,740,489</u></b>

See accompanying notes.

	Water Fund	Sewer Fund	Nonmajor Enterprise Fund (Recycling)	Total Enterprise Funds	Internal Service Funds
<b>LIABILITIES AND NET POSITION</b>					
<b>LIABILITIES</b>					
Current liabilities					
Accounts payable	\$2,249,788	\$ 3,139,294	\$ 499,067	\$ 5,888,149	\$ 31,241
Interfund payables	4,841,170	729,375	1,488,032	7,058,577	1,367,608
Accrued interest	324,800	-	-	324,800	-
Accrued claims	-	-	-	-	1,732,724
Escrow deposits	60,290	-	-	60,290	-
Current portion notes and bonds payable	2,904,496	830,650	-	3,735,146	-
Total current liabilities	<u>10,380,544</u>	<u>4,699,319</u>	<u>1,987,099</u>	<u>17,066,962</u>	<u>3,131,573</u>
Noncurrent liabilities					
Other post employment benefits obligations	174,067	288,513	33,208	495,788	-
Unamortized bond premium	669,029	-	-	669,029	-
Unamortized bond discount	(282,696)	(529,671)	-	(812,367)	-
Unamortized interest on capital appreciation bonds	(3,392,599)	-	-	(3,392,599)	-
Notes and bonds payable	101,496,824	33,834,766	-	135,331,590	-
Total noncurrent liabilities	<u>98,664,625</u>	<u>33,593,608</u>	<u>33,208</u>	<u>132,291,441</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<b>109,045,169</b>	<b>38,292,927</b>	<b>2,020,307</b>	<b>149,358,403</b>	<b>3,131,573</b>
<b>NET POSITION</b>					
Net investment in capital assets	-	27,309,223	236,846	27,546,069	-
Restricted for debt service	4,099,908	-	-	4,099,908	-
Restricted for capital projects	-	3,690,632	-	3,690,632	-
Unrestricted net position	10,401,707	54,083,823	(154,694)	64,330,836	3,608,916
<b>TOTAL NET POSITION</b>	<b>14,501,615</b>	<b>85,083,678</b>	<b>82,152</b>	<b>99,667,445</b>	<b>3,608,916</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>\$ 123,546,784</u></b>	<b><u>\$ 123,376,605</u></b>	<b><u>\$ 2,102,459</u></b>	<b><u>\$ 249,025,848</u></b>	<b><u>\$ 6,740,489</u></b>

CITY OF READING

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -  
PROPRIETARY FUNDS

Year Ended December 31, 2012

	Water Fund	Sewer Fund	Nonmajor Enterprise Fund (Recycling)
<b>OPERATING REVENUES</b>			
Charges for services	\$24,159,140	\$ 34,280,291	\$ 5,657,970
Other	201,589	-	36,025
<b>TOTAL OPERATING REVENUES</b>	<b>24,360,729</b>	<b>34,280,291</b>	<b>5,693,995</b>
<b>OPERATING EXPENSES</b>			
Personnel	3,988,129	5,167,107	1,454,700
Depreciation	2,626,092	2,497,296	97,143
Risk management	868,635	905,000	-
Other	11,111,531	6,222,251	4,441,922
<b>TOTAL OPERATING EXPENSES</b>	<b>18,594,387</b>	<b>14,791,654</b>	<b>5,993,765</b>
<b>NET OPERATING INCOME (LOSS)</b>	<b>5,766,342</b>	<b>19,488,637</b>	<b>(299,770)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Grants	-	2,292,471	87,132
Interest income	231,529	23,869	-
Interest expense	(4,749,495)	(2,003,198)	-
Change in derivative instrument	124,391	-	-
Change in estimate for allowance for uncollectible accounts receivable	2,332,339	-	-
Other	(71,522)	152,455	7,476
<b>NET NONOPERATING REVENUES (EXPENSES)</b>	<b>(2,132,758)</b>	<b>465,597</b>	<b>94,608</b>
<b>INCOME (LOSS) BEFORE OPERATING TRANSFERS</b>	<b>3,633,584</b>	<b>19,954,234</b>	<b>(205,162)</b>
Operating transfers out	(4,240,000)	(3,180,000)	(200,000)
<b>NET INCOME (LOSS)</b>	<b>(606,416)</b>	<b>16,774,234</b>	<b>(405,162)</b>
<b>NET POSITION, BEGINNING OF YEAR - RESTATED</b>	<b>15,108,031</b>	<b>68,309,444</b>	<b>487,314</b>
<b>NET POSITION, END OF YEAR</b>	<b>\$ 14,501,615</b>	<b>\$ 85,083,678</b>	<b>\$ 82,152</b>

See accompanying notes.

Total Enterprise Funds	Internal Service Funds
\$ 64,097,401	\$ 3,461,328
237,614	545,152
64,335,015	4,006,480
10,609,936	64,440
5,220,531	-
1,773,635	-
21,775,704	2,942,690
39,379,806	3,007,130
24,955,209	999,350
2,379,603	-
255,398	3,104
(6,752,693)	-
124,391	-
2,332,339	-
88,409	-
(1,572,553)	3,104
23,382,656	1,002,454
(7,620,000)	-
15,762,656	1,002,454
83,904,789	2,606,462
<u>\$ 99,667,445</u>	<u>\$ 3,608,916</u>

CITY OF READING

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended December 31, 2012

	Water Fund	Sewer Fund	Nonmajor Enterprise Fund (Recycling)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 26,512,140	\$ 33,463,250	\$ 5,722,813
Cash received from users	-	-	-
Cash payments to employees for services	(3,988,129)	(5,123,509)	(1,442,828)
Cash payments to suppliers for goods and services	(9,522,470)	(6,565,140)	(4,094,344)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	13,001,541	21,774,601	185,641
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Nonoperating revenues/expenses, net	(71,522)	152,455	7,476
Grants	-	2,292,471	87,132
Operating transfers out	(4,240,000)	(3,180,000)	(200,000)
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	(4,311,522)	(735,074)	(105,392)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Proceeds from bonds payable, less discount and issuance costs	(23,357)	2,169,900	-
Proceeds from note payable	3,689,071	-	-
Advance to bond proceeds account	11,156,767	-	-
Acquisition of property and equipment	(7,337,508)	(10,264,171)	(1,000)
Interest paid	(3,981,897)	(2,003,198)	-
Payments of long-term debt	(5,381,052)	(3,275,340)	-
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	(1,877,976)	(13,372,809)	(1,000)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest earnings	231,529	23,869	-
Net purchase (redemption) of investments	2	(13,306)	-
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	231,531	10,563	-
<b>NET INCREASE (DECREASE) IN CASH</b>	7,043,574	7,677,281	79,249
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	5,923,155	31,412,910	37,893
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 12,966,729</u>	<u>\$ 39,090,191</u>	<u>\$ 117,142</u>

See accompanying notes.

Totals	Internal Service Fund
\$ 65,698,203	\$ 547,386
-	3,461,328
(10,554,466)	(64,440)
<u>(20,181,954)</u>	<u>(6,063,708)</u>
34,961,783	(2,119,434)
88,409	-
2,379,603	-
<u>(7,620,000)</u>	<u>-</u>
(5,151,988)	-
2,146,543	-
3,689,071	-
11,156,767	-
(17,602,679)	-
(5,985,095)	-
<u>(8,656,392)</u>	<u>-</u>
(15,251,785)	-
255,398	3,104
<u>(13,304)</u>	<u>(2,349)</u>
<u>242,094</u>	<u>755</u>
14,800,104	(2,118,679)
<u>37,373,958</u>	<u>5,020,420</u>
<u>\$ 52,174,062</u>	<u>\$ 2,901,741</u>

CITY OF READING

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - CONTINUED

Year Ended December 31, 2012

	Water Fund	Sewer Fund	Nonmajor Enterprise Fund (Recycling)
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ 5,766,342	\$ 19,488,637	\$ (299,770)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation expense	2,626,092	2,497,296	97,143
Amortization of bond (premium) discount costs	11,300	(17,777)	-
Amortization of deferred loss on bond issuance	60,548	-	-
Net (increase) decrease in assets:			
Accounts receivable	2,151,534	(817,042)	28,818
Other receivables	(124)	-	-
Prepaid expenses	76,434	-	-
Due from other funds	367,271	(734,315)	(60)
Due from other governments	-	701,899	-
Inventory	1,320,138	-	-
Net increase (decrease) in liabilities:			
Accounts payable	469,554	1,797,749	134,763
Due to other funds	152,452	(1,185,444)	212,875
Other liabilities	-	43,598	11,872
Accrued claims	-	-	-
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 13,001,541</b>	<b>\$ 21,774,601</b>	<b>\$ 185,641</b>

See accompanying notes.

Totals	Internal Service Fund
\$ 24,955,209	\$ 999,350
5,220,531	-
(6,477)	-
60,548	-
1,363,310	2,234
(124)	-
76,434	-
(367,104)	110,000
701,899	-
1,320,138	-
2,402,066	(89,062)
(820,117)	(2,695,240)
55,470	-
-	(446,716)
<u>\$ 34,961,783</u>	<u>\$ (2,119,434)</u>

CITY OF READING  
STATEMENT OF NET POSITION - FIDUCIARY FUNDS

December 31, 2012

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<b>ASSETS</b>	<u>Pension Trust Funds</u>
Cash and cash equivalents	\$ 11,789,822
Investments	<u>158,184,824</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 169,974,646</u></b>
 <b>LIABILITIES AND NET POSITION</b>	
<b>LIABILITIES</b>	
Accounts payable	\$ 215,035
Interfund payable	<u>21,668</u>
<b>TOTAL LIABILITIES</b>	<b>236,703</b>
 <b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS</b>	 <u>169,737,943</u>
<b>TOTAL NET POSITION AND LIABILITIES</b>	<b><u>\$ 169,974,646</u></b>

See accompanying notes.

**CITY OF READING**  
**STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS**  
**Year Ended December 31, 2012**

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	<u>Pension Trust Funds</u>
<b>ADDITIONS</b>	
Contributions	
Member, city and state contributions	\$ 8,786,474
Investment income	
Interest and dividends	4,373,861
Realized and unrealized gain (loss) on value of investments	<u>12,251,103</u>
<b>TOTAL ADDITIONS</b>	<b>25,411,438</b>
 <b>DEDUCTIONS</b>	
Benefits, including tax withheld	18,263,215
Administrative expenses	1,016,911
Refunds paid	<u>181,685</u>
<b>TOTAL DEDUCTIONS</b>	<b><u>19,461,811</u></b>
<b>CHANGE IN NET POSITION</b>	<b>5,949,627</b>
 <b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS, BEGINNING OF YEAR</b>	 <b><u>163,788,316</u></b>
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS, END OF YEAR</b>	 <b><u><u>\$ 169,737,943</u></u></b>

## CITY OF READING

### NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2012

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

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##### 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.

- 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.

**CITY OF READING**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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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. The Authority publishes a separate financial statement.

**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. The Authority publishes a separate financial statement.

**CITY OF READING**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**December 31, 2012**

**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.

**Reading Recreation Commission** - The Commission was established by ordinance along with the agreement of cooperation with the Reading School District. The Commission is administered by an eleven-member board, one of whom is appointed by the mayor and four by City Council.

The Commission is to maintain and operate the recreational and education programs for the residents of the City of Reading. The Commissions' primary focus of emphasis is offering affordable sports, recreation and learning opportunities for Reading youth. The City has no financial accountability over the Commissions' operations.

The Commission operates and reports on a fiscal year ending December 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.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

---

**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, 2012, were immaterial to the basic financial statements taken as a whole.

**B. Basis of Presentation - Government-Wide Financial Statements**

Government-wide financial statements (i.e., the statement of net position and the statement of activities) display information about the reporting entity, except for its fiduciary activities. All fiduciary activities are reported only in the fund financial statements. The government-wide 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.

Governmental activities are supported by taxes and intergovernmental revenues while business-type activities are supported by user charges and fees. The statement of activities demonstrates the level to which the direct expenses of a given function to the City are offset by the program revenues related to that function. Direct expenses are those that are directly related to and clearly identified with a function. Program revenues include charges to customers or others who purchase, use or directly benefit from services or goods provided by a given function or grants and contributions that are restricted to meet the operational or capital requirements of a function. Taxes and other items not includable in program revenues are reported as general revenues.

CITY OF READING  
NOTES TO BASIC FINANCIAL STATEMENTS  
December 31, 2012

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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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.

**C. Basis of Presentation - Fund Financial Statements**

The fund financial statements provide information about the government funds, including its fiduciary funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprises funds are reported as separate columns in the fund financial statements.

**The City Reports the Following Major Governmental Funds:**

**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:** This special revenue 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.

**Shade Tree Fund:** This special revenue fund is established for the purpose of recording a certain portion of the tax millage to be used for the maintenance and expansion of the City's horticulture.

CITY OF READING  
NOTES TO BASIC FINANCIAL STATEMENTS  
December 31, 2012

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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**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.

**The City has the following major enterprise funds:**

**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.

**Additionally, the City reports the following fund types:**

**Internal Service Funds:** Internal Service Funds (Self-Insurance) are used to account for the risk-management services (including claims for workers compensation, general liability, and property damage) provided by one department or agency to other departments or agencies of the City, or to other Governments on a cost-reimbursement basis.

**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).

During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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**D. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus*, and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The 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 collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary and pension funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

**CITY OF READING**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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**E. Assets, Liabilities, Deferred Inflows/Outflows of Resources and Net Position/Fund Balance**

**1. 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.

**2. 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.

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.

**3. 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."

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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**E. Assets, Liabilities, Deferred Inflows/Outflows of Resources and Net Position/Fund Balance - (continued)**

**4. Inventories and Prepaid Items**

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies and vehicle repair parts. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The costs of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

**5. 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.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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**E. Assets, Liabilities, Deferred Inflows/Outflows of Resources and Net Position/Fund Balance - (continued)**

**5. Capital Assets, Depreciation, and Amortization - continued:**

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

Interest costs incurred during the construction phase of capital assets 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.

**6. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualify for reporting in this category. One is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second is the hedging derivative reported in the government-wide statements. A deferred charge results from the difference in the carrying value (market value) and its acquisition price and is amortized over the life of the derivative and its related debt instrument.

**7. Net Position Flow Assumption**

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

**CITY OF READING**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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**E. Assets, Liabilities, Deferred Inflows/Outflows of Resources and Net Position/Fund Balance - (continued)**

**8. Fund Balance Flow Assumptions**

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**9. Fund Balance Policies**

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing council by resolution may assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or review a commitment.

**CITY OF READING**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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**F. Revenues and Expenditures/Expense**

**1. Program Revenues**

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operations or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

**2. 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.

**3. 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.

**4. Proprietary Funds Operating and Nonoperating Revenues and Expenses**

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water fund, sewer fund, and internal service funds are charges to customers for sales and services. The water and sewer funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF READING  
NOTES TO BASIC FINANCIAL STATEMENTS  
December 31, 2012

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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**G. Other 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.

**H. Subsequent Events**

In preparing these financial statements, the City has evaluated events and transactions for potential recognition and disclosure through September 16, 2013, the date the financial statements were available to be issued.

In May 2013, the City issued General Obligation Note (GON) Series 2013. The proceeds for GON Series 2013 totaled \$3,111,000 and were used to currently refund the General Obligation Note, Series of 2010.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

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**Budgetary Data**

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

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.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2012

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY- CONTINUED**

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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, 2012, expenditures exceeded appropriations in the general operating fund. The excess expenditures were satisfied by the collection of 511 taxes over budgeted collections and by the issuance of long-term debt.

**Net Asset Deficit and Liquidity**

As of December 31, 2012, the City, in its statement of net position, shows a total net deficit of \$29,501,651 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 \$17,519,161, 19.1 percent of its total expenditures, and the City used 42.7 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 2012, 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, 2012 was \$10,420,631. 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.

**CITY OF READING**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS**

The carrying amount of cash, restricted cash, and investments at December 31, 2012 consist of the following:

	<u>Primary Government</u>	<u>Blended Component Unit</u>	<u>Total</u>
Petty cash	\$ 10,200	\$ 380	\$ 10,580
Demand deposit accounts	69,366,775	12,628,534	81,995,309
Pooled cash and investments	7,401,808	-	7,401,808
Investments	162,466,594	46,348,433	<u>208,815,027</u>
			<u>\$ 298,222,724</u>

Classification per statement of net assets and trust statements:

Unrestricted current assets, cash	\$ 70,155,778
Investments	4,669,147
Restricted current assets	53,423,153
Trust and agency cash and cash equivalents	11,789,822
Trust and agency investments	<u>158,184,824</u>
	<u>\$ 298,222,724</u>

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, 2012, the carrying amount of the City's deposits was \$81,995,309 and the bank balance was \$83,205,750. Of the balance, \$2,207,697 was covered by federal depository insurance and \$80,998,053 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 \$7,401,808.

**CITY OF READING**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**December 31, 2012**

**NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED**

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, 2012, the City had the following nonpension investments:

Investment Type	Fair Market Value	Investment Maturities from December 31, 2012		
		0-5 Years	5-10 Years	> 10 Years
Federal Home Loan Mortgage Corporation	\$ 182,618	\$ 182,618	\$ -	\$ -
Federal Treasury Obligation Funds	42,566,833	42,566,833	-	-
Federal National Mortgage Association Notes	3,781,600	3,781,600	-	-
US Treasury Notes	475,750	475,750	-	-
US Treasury Bonds	33,805	33,805	-	-
	<u>47,040,606</u>	<u>\$ 47,040,606</u>	<u>\$ -</u>	<u>\$ -</u>
Money Market Funds	3,257,160			
Certificates of Deposits	<u>332,438</u>			
	<u>\$ 50,630,203</u>			

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.

**CITY OF READING**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED**

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Credit Risk

The City does have an investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2012, the City's investments were rated as:

Investments	Standard & Poor's (Moody's & Fitch)
Federal Home Loan Mtg Corp	AAA
US Treasury Notes	AAA
US Treasury Bonds	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, 2012, the City's investments consisted of 84 percent of Federal Treasury Obligation Funds and 7 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, 2012, the carrying amount of the City's nonpension investments was \$4,281,769 (includes restricted investments). Of the balance, \$600,572 was covered by federal depository insurance and \$ 3,681,197 was exposed to custodial credit risk.

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.

**CITY OF READING**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED**

As of December 31, 2012, the City had the following cash and investments in its pension trust funds:

<u>Police</u>		<u>Investment Maturities from December 31, 2012</u>			
<u>Cash or Investment Type</u>	<u>Fair Market Value</u>	<u>1 - 5 years</u>	<u>6 - 10 years</u>	<u>More than 10 years</u>	
Corporate Bonds	\$ 7,504,182	\$ 3,550,671	\$ 3,584,405	\$ 369,106	
Government Bonds	10,424,264	7,406,563	1,766,065	1,251,636	
Mortgage-Backed Securities	41,564	-	41,564	-	
Foreign Bonds	1,233,773	1,121,778	97,182	14,813	
Gov't Asset-Backed Securities	5,875,333	-	394,728	5,480,605	
<b>Total Debt Securities</b>	<b>25,079,116</b>	<b>\$ 12,079,012</b>	<b>\$ 5,883,944</b>	<b>\$ 7,116,160</b>	
Cash and Cash Equivalents	1,998,913				
Equity Mutual Funds	43,445,300				
<b>Total Cash and Investments</b>	<b>\$ 70,523,329</b>				
 <u>Paid Firemen</u>		 <u>Investment Maturities from December 31, 2012</u>			
<u>Cash or Investment Type</u>	<u>Fair Market Value</u>	<u>0 - 5 years</u>	<u>5 - 10 years</u>	<u>More than 10 years</u>	
Asset-Backed	\$ 3,513	\$ 3,513	\$ -	\$ -	
Corporate Bonds	4,758,288	1,822,495	2,620,060	315,733	
Private Placement	124,098	75,578	-	48,520	
Foreign Bonds and Notes	673,813	365,481	243,876	64,456	
Agency	249,121	233,752	-	15,369	
Mortgage-Backed	1,348,946	16,215	96,535	1,236,196	
Treasuries - Notes and Bonds	5,710,944	3,834,570	1,535,361	341,013	
<b>Total Debt Securities</b>	<b>12,868,723</b>	<b>\$ 6,351,604</b>	<b>\$ 4,495,832</b>	<b>\$ 2,021,287</b>	
Cash and Cash Equivalents	127,958				
Equity Mutual Funds	26,842,558				
Fixed Income Mutual Funds	1,145,374				
Short Term Investments	235,579				
Due to Brokers	(41,756)				
<b>Total Cash and Investments</b>	<b>\$ 41,178,436</b>				
 <u>Officers &amp; Employees</u>		 <u>Fair Market Value</u>			
Cash and Cash Equivalents	\$ 2				
Short Term Investments	28,550				
Fixed Funds	16,307,212				
Equity Funds	30,147,295				
<b>Total Cash and Investments</b>	<b>\$ 46,483,059</b>				

**CITY OF READING**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED**

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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, 2012, the pension trust funds' investment in corporate bonds ranged from AAA to BB.

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

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, 2012, \$250,000 was covered by federal depository insurance and \$157,934,824 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, 2012. 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, 2012:

Unrestricted	
Deposits	\$ 4,074,831
Investments	988,826
Petty cash	16,898
	\$ 5,080,555
	\$ 5,080,555
Restricted	
Deposits	\$ 1,878,287
Investments	3,772,571
	\$ 5,650,858
	\$ 5,650,858

**CITY OF READING**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED**

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, 2012, the carrying amount of the Authority's deposits was \$5,953,118 and the bank balance was \$6,128,907. As of December 31, 2012, \$516,517 was covered by federal depository insurance and the rest was exposed to custodial credit risk, but covered by collateralization requirements in accordance with Act 72.

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, 2012, the Authority had the following investments:

	<u>Maturities</u>	<u>Fair Value</u>
Bank Certificates of Deposit (7 < \$250,000)	6 months - 2 years	\$ 988,826
US Government Issues		
Resolution FDG Corp Fed 0% Cpn Strips	4 months - 8 years	1,178,018
U.S. Treasury Strips	8 years	<u>2,594,553</u>
		<u>\$ 4,761,397</u>

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, 2012, the Authority's investments were all rated as AAA by a nationally recognized rating organization.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2012

**NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS - CONTINUED**

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Concentration of Credit Risk

The Authority places no limit on the amount the Authority may invest in any one issuer. 20.8 percent of the Authority's investments are certificates of deposit, 54.5 percent of the Authority's investments are U.S. Treasury Strips and 24.7 percent are Resolution FDG Corp Fed 0% Cpn Strips for the year ended December 31, 2012.

**Component Unit (Reading Redevelopment Authority)**

The carrying amount of the Authority's cash and cash equivalents as of December 31, 2012 was \$27,740 and the bank balance was \$38,837.

The Authority has a total of \$1,319,952 in investments with two separate entities. The Authority has funds invested with the Commonwealth of Pennsylvania's INVEST Program with a market value of \$1,016,469. 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 \$303,482 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, 2012, \$250,000 was covered by federal depository insurance and \$81,222 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 UNEARNED REVENUE**

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*Government Fund Receivables, Uncollectible Accounts, and Unearned Revenue Accounts Receivable*

*Accounts Receivable*

	<u>General Fund</u>
Grants and Accounts Receivable	\$3,011,442
Less Allowance	-
Accounts Receivable	<u>\$3,011,442</u>

**CITY OF READING**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 4 - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND UNEARNED 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 2012 assessed value of real property totaled \$1,429,540,600. 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, 2012 were 91.9 percent of the tax levy.

For 2012, City real estate taxes were levied at 14.334 mills for general purposes.

Real estate taxes receivable as of December 31, 2012 are \$3,235,613 before allowing \$313,654 for uncollectible amounts. Unavailable revenue totaled \$1,955,881 at December 31, 2012 and real estate tax revenue recognized was \$966,078. A receivable for other taxes in the amount of \$931,500 has been recorded by the City in accounts receivable.

*Business-Type Activities Receivables, Uncollectible Accounts, and Unearned 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
	Accounts receivable, gross	\$ 4,647,525			\$ 5,176,697	\$ 3,261,063
Less: allowance uncollectible accounts	1,419,052	1,540,764	1,851,540	4,811,356	-	-
Net accounts receivable	<u>\$ 3,228,473</u>	<u>\$ 3,635,933</u>	<u>\$ 1,409,523</u>	<u>\$ 8,273,929</u>	<u>\$ 259,687</u>	<u>\$ 4,000</u>

**CITY OF READING**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**December 31, 2012**

**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, 2012:

	Primary Government			Component Units	
	City of Reading Sewer Fund	Reading Area Water Authority	Total	Reading Parking Authority	Reading Redevelopment Authority
Construction Account	\$ 7,014,430	\$ 33,724,232	\$ 40,738,662	\$ 1,095	\$ 8,953
Debt Service Account	-	5,097,732	5,097,732	-	1
Debt Service Reserve Account	-	7,461,141	7,461,141	5,649,742	-
Clearing Account	-	65,328	65,328	-	28
Other	-	60,290	60,290	21	733
<b>Total</b>	<u><u>\$ 7,014,430</u></u>	<u><u>\$ 46,408,723</u></u>	<u><u>\$ 53,423,153</u></u>	<u><u>\$ 5,650,858</u></u>	<u><u>\$ 9,715</u></u>

**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 \$278,000 of which \$110,000 was used to reduce the lease rentals receivable account and also to reduce the outstanding obligation on the 2010 term note. The remaining \$168,000 was used for interest payments on the 2010 term note.

**CITY OF READING**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 7 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2012 was as follows:

	Beginning Balance	Increase	(Reclass) Decrease	Ending Balance
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 280,960	\$ -	\$ -	\$ 280,960
Construction in progress	13,772,272	1,518,992	(12,933,520)	2,357,744
<b>TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED</b>	14,053,232	1,518,992	(12,933,520)	2,638,704
Capital assets being depreciated:				
Buildings	28,467,477	-	6,590,022	35,057,499
Machinery and equipment	33,145,711	859,696	222,300	34,227,707
Improvements	24,812,745	209,166	6,395,664	31,417,575
Infrastructure	5,213,268	-	(155,870)	5,057,398
Totals at historical cost	91,639,201	1,068,862	13,052,116	105,760,179
Less accumulated depreciation for:				
Buildings	15,246,874	850,343	1,895,878	17,993,095
Machinery and equipment	27,300,928	1,473,174	205,924	28,980,026
Improvements	5,855,524	1,268,614	(1,974,559)	5,149,579
Infrastructure	3,290,132	161,030	(8,647)	3,442,515
Total accumulated depreciation	51,693,458	3,753,161	118,596	55,565,215
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET</b>	39,945,743	(2,684,299)	12,933,520	50,194,964
<b>GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET</b>	<u>\$ 53,998,975</u>	<u>\$ (1,165,307)</u>	<u>\$ -</u>	<u>\$ 52,833,668</u>

**CITY OF READING**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**December 31, 2012**

**NOTE 7 - CAPITAL ASSETS - CONTINUED**

<b>Business-Type Activities</b>	<u>Beginning Balance</u>	<u>Increase</u>	<u>(Reclass) Decrease</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 2,074,359	\$ -	\$ 29,300	\$ 2,103,659
Construction in progress	30,055,898	14,709,106	(2,385,704)	42,379,300
<b>TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED</b>	32,130,257	14,709,106	(2,356,404)	44,482,959
Capital assets being depreciated:				
Buildings	46,030,453	-	-	46,030,453
Machinery and equipment	23,289,571	1,594,309	-	24,883,880
Improvements	90,021,377	1,299,263	2,356,404	93,677,044
Totals at historical cost	159,341,401	2,893,572	2,356,404	164,591,377
Less accumulated depreciation for:				
Buildings	26,277,237	1,060,595	-	27,337,832
Machinery and equipment	13,905,307	1,434,112	-	15,339,419
Improvements	40,015,821	2,725,824	-	42,741,645
Total accumulated depreciation	80,198,365	5,220,531	-	85,418,896
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET</b>	79,143,036	(2,326,959)	2,356,404	79,172,481
 <b>BUSINESS-TYPE ACTIVITIES, CAPITAL ASSETS, NET</b>	 <u>\$ 111,273,293</u>	 <u>\$ 12,382,147</u>	 <u>\$ -</u>	 <u>\$ 123,655,440</u>

**CITY OF READING**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 7 - CAPITAL ASSETS - CONTINUED**

	Beginning Balance	Increase	Decrease	Ending Balance
<b>Component Unit - Reading Parking Authority</b>				
Capital assets not being depreciated:				
Land	\$ 2,614,070	\$ -	\$ -	\$ 2,614,070
Construction in Progress	-	44,583	-	44,583
Capital assets being depreciated:				
Buildings	61,116,594	228,872	-	61,345,466
Machinery and equipment	1,891,146	86,963	-	1,978,109
Improvements	144,620	-	-	144,620
Totals at historical cost	<u>63,152,360</u>	<u>315,835</u>	-	<u>63,468,195</u>
Less accumulated depreciation for:				
Buildings	20,653,140	1,476,978	-	22,130,118
Machinery and equipment	1,292,746	104,462	-	1,397,208
Improvements	80,578	2,748	-	83,326
Total accumulated depreciation	<u>22,026,464</u>	<u>1,584,188</u>	-	<u>23,610,652</u>
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET</b>	<u>41,125,896</u>	<u>(1,268,353)</u>	-	<u>39,857,543</u>
<b>COMPONENT UNIT, CAPITAL ASSETS, NET</b>	<u>\$ 43,739,966</u>	<u>\$ (1,223,770)</u>	<u>\$ -</u>	<u>\$ 42,516,196</u>

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

<u>Governmental Activities</u>		<u>Business-type Activities</u>	
General government	\$ 1,219,546	Water system	\$ 2,626,092
Public safety:		Sewer system	2,497,296
Police	632,698	Recycling	<u>97,143</u>
Fire	459,525		
Public works - highway/streets	172,762		<u>\$ 5,220,531</u>
Community development	680,278		
Culture and recreation	<u>588,352</u>		
	<u>\$ 3,753,161</u>		

**CITY OF READING**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS**

The City had interfund receivables and payables balances for the following accounts at December 31, 2012:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental Activities		
Major Funds		
General	\$ 3,542,989	\$ 12,128
Community Development	368,849	1,199,007
Agency Fund	19,168	2,566,430
Nonmajor Governmental Funds	1,081,106	125,038
Business-Type Activities		
Major Funds		
Water	1,567,514	4,841,170
Sewer	5,018,078	729,375
Nonmajor Proprietary Funds	<u>338,948</u>	<u>1,488,032</u>
	11,936,652	10,961,180
Internal Service	413,804	1,367,608
Fiduciary and Agency Funds	<u>-</u>	<u>21,668</u>
	<u>\$ 12,350,456</u>	<u>\$ 12,350,456</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 BASIC FINANCIAL STATEMENTS  
December 31, 2012

**NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS - CONTINUED**

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The City had operating transfers in and out for the following amounts at December 31, 2012:

	Operating Transfers In	Operating Transfers Out
Governmental Activities		
Major Funds:		
General	\$ 7,620,000	\$ -
Business-Type Activities		
Water	-	4,240,000
Sewer	-	3,180,000
Nonmajor	-	200,000
	\$ 7,620,000	\$ 7,620,000

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

**CITY OF READING**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 9 - LIABILITIES**

Governmental Activities Bonds Payable and Other Long-Term Liabilities	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due Within One Year
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 currently refunded in 2012.	\$ 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.	12,609,597	-	328,560	12,281,037	342,350
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. The note was currently refunded in 2012.	3,875,000	-	3,875,000	-	-
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. Series E was currently refunded in 2012.	38,567,118	-	9,853,000	28,714,118	24,400
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	24,995,000	-	5,000	24,990,000	5,000
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.	16,150,000	-	6,140,000	10,010,000	1,075,000

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2012

NOTE 9 - LIABILITIES - CONTINUED

Governmental Activities Bonds Payable and Other Long-Term Liabilities - <u>continued:</u>	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due Within One Year
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.	20,845,000	-	100,000	20,745,000	2,535,000
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.	315,000	-	5,000	310,000	310,000
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.	3,145,000	-	110,000	3,035,000	115,000
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.	5,523,693	-	231,525	5,292,168	247,019
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.	3,415,000	-	105,000	3,310,000	110,000
On February 28, 2012, General Obligation Bond Series of 2012, with 2.00% - 2.25% interest payable through 2018. Proceeds were used to currently refund the General Obligation Bonds Series A of 2008 and pay bond issuance costs. The net cash savings from the refunding was \$237,770.	-	4,030,000	360,000	3,670,000	580,000
On April 13, 2012, General Obligation Bond Series A of 2012, with 3.50% - 3.75% interest payable through 2016. Proceeds were used to currently refund the General Obligation Bonds Series of 2005 and pay bond issuance costs. The net cash savings from the refunding was \$104,797.	-	2,647,000	35,000	2,612,000	397,000
On July 25, 2012, General Obligation bond Series C of 2012, with 1.50% - 5.13% interest payable through 2031. Proceeds were used to currently refund the Federally Taxable General Obligation Bonds, Series E of 2008 and pay bond issuance costs. The net cash savings from the refunding was \$654,622.	-	8,679,600	417,600	8,262,000	57,600
Compensated absences	628,163	130,896	13,547	745,512	-
Total Governmental Activities	<u>\$ 165,543,571</u>	<u>\$ 15,487,496</u>	<u>\$ 24,149,232</u>	<u>\$ 156,881,835</u>	<u>\$ 5,798,369</u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2012

NOTE 9 - LIABILITIES - CONTINUED

Business-Type Activities Bonds and Notes Payable	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due Within One Year
Note payable to Pennsylvania Infrastructure Investment Authority with interest at 1% payable through 2012.	\$ 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.	29,930,401	-	781,440	29,148,961	812,650
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. Series E was refunded in 2012.	9,182,500	-	3,717,000	5,465,500	5,600
General Obligation Bonds, Series of C of 2012, variable interest payable through 2031. Proceeds were used to currently refund Federally Taxable General Obligation Bonds Series E of 2008 and pay bond issuance costs. The net cash savings from the refunding was \$163,656.	-	3,375,400	162,400	3,213,000	22,400
Note payable to Pennsylvania Infrastructure Investment Authority, 3.2% - 4% interest payable through 2018 was currently refunded in 2012.	1,176,513	-	1,176,513	-	-
Guaranteed Water Revenue Bonds, Series of 2002, 1.4% - 4.4% interest payable through 2017 was currently refunded in 2012.	1,450,000	-	1,450,000	-	-
Guaranteed Water Revenue Bonds, Series of 2003 (Capital Appreciation Bonds), 3.60% - 4.62% interest payable through 2020.	20,470,000	-	1,935,000	18,535,000	2,030,000
Guaranteed Water Revenue Bonds, Series of 2007, 4.25% - 5% interest payable through 2027.	24,875,000	-	135,000	24,740,000	135,000

**CITY OF READING**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**December 31, 2012**

**NOTE 9 - LIABILITIES - CONTINUED**

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due Within One Year
<b>Business-Type Activities</b>					
<u>Bonds and Notes Payable - continued</u>					
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.	4,681,660	909,615	-	5,591,275	272,496
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, 2012 was 5.10%.	50,000,000	-	-	50,000,000	-
Water Revenue Note, Series of 2012, initial issue \$2,459,000, interest at 2.100%, maturing in amounts ranging from \$86,000 to \$249,000 through 2017	-	2,373,000	-	2,373,000	457,000
<b>TOTAL</b>	<u>\$ 141,864,160</u>	<u>\$ 6,658,015</u>	<u>\$ 9,455,439</u>	<u>\$ 139,066,736</u>	<u>\$ 3,735,146</u>

**CITY OF READING**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 9 - LIABILITIES - CONTINUED**

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due Within One Year
<b>Component Unit - Reading Parking Authority:</b>					
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.	\$ 24,815,000	\$ -	\$ 2,760,000	\$ 22,055,000	\$ 2,755,000
 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. The note was refunded in 2012.	9,570,000	-	9,570,000	-	-
 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 BASIC FINANCIAL STATEMENTS

December 31, 2012

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					
<u>Bonds Payable and Other Long-Term Liabilities - continued:</u>					
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	-
On January 12, 2012, the Series of 2012 Parking Revenue note was issued by a local bank for \$9,570,000. The note was issued to refinance the Series of 2004 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 the issue through November 15, 2012, and thereafter at an interest rate equal to 65% of the bank's prime rate, but in no event less than the 2.85% or more than 6.00% per annum. The Authority estimates a present value savings of \$361,678 on the fixed rate amount.	-	9,570,000	95,000	9,475,000	105,000
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.	266,674	-	7,925	258,749	8,297
	41,791,674	9,570,000	12,432,925	38,928,749	2,868,297
Less: unamortized interest on Capital Appreciation Bonds	(6,144,308)	-	(1,152,836)	(4,991,472)	-
Total Long-term Liabilities	<u>\$ 35,647,366</u>	<u>\$ 9,570,000</u>	<u>\$ 11,280,089</u>	<u>\$ 33,937,277</u>	<u>\$ 2,868,297</u>

Component unit - Reading Redevelopment Authority has debt outstanding of \$3,310,000 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 BASIC FINANCIAL STATEMENTS**

**December 31, 2012**

**NOTE 9 - LIABILITIES - CONTINUED**

The annual requirements to pay principal and interest on all long-term debt outstanding at December 31, 2012 are as follows:

	Component Units					
	Governmental Activities		Business-Type Activities		Reading Parking Authority	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 5,798,369	\$ 6,988,791	\$ 3,735,146	\$ 6,066,130	\$ 2,880,000	\$ 525,262
2014	6,118,741	6,762,193	3,782,781	6,078,017	2,885,000	521,955
2015	6,365,852	6,566,426	4,155,698	6,084,784	2,885,000	518,177
2016	6,627,422	6,401,765	4,202,212	6,146,313	3,020,000	514,396
2017	6,753,079	6,196,328	4,262,415	6,161,960	3,020,000	506,206
2018 - 2022	34,618,182	26,361,406	23,182,005	31,560,455	15,125,000	2,380,354
2023 - 2027	35,691,272	18,299,900	28,633,544	21,948,018	9,155,000	615,901
2028 - 2032	43,115,856	8,578,766	38,910,487	13,761,421	93,333	-
2033	11,047,550	469,356	28,202,448	3,629,058	-	-
Less unamortized interest	-	-	-	-	(4,991,472)	-
Less capital lease interest	-	-	(3,392,599)	-	(134,584)	-
	<u>\$ 156,136,323</u>	<u>\$ 86,624,931</u>	<u>\$ 135,674,137</u>	<u>\$ 101,436,156</u>	<u>\$ 33,937,277</u>	<u>\$ 5,582,251</u>

The Reading Area Water Authority has an unused letter of credit of \$800,000 as of December 31, 2012.

\* 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 BASIC FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 9 - LIABILITIES - CONTINUED**

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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. In May 2012, the outstanding defeased general obligation bonds (capital appreciation) of the District were fully paid with amounts held in escrow funds.

As of December 31, 2012, outstanding general obligation bonds of the City in the amount of \$10,305,000 were considered defeased with a related \$10,611,099 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**

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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 \$2,459,967.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2012

NOTE 10 - INVESTMENT DERIVATIVE INSTRUMENTS

Terms and Fair Value

The terms as of December 31, 2012, are as follows:

<u>Counter-party</u>	<u>Credit Rating by Moody's/S&amp;P/Fitch</u>	<u>Issuer receives/ Issuer Pays</u>	<u>Initial Notional</u>	<u>Effective Date/ Maturity Date</u>	<u>Market Value</u>
Wells Fargo	Aa3 / AA- / AA-	USD/Floating - 30 day LIBOR USD/Fixed 4.053%	37,940,000	5/1/2009 11/1/2014	(2,459,967)

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.

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.

**CITY OF READING**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 10 - INVESTMENT DERIVATIVE INSTRUMENTS - CONTINUED**

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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.

**NOTE 11 - CITY OF READING RETIREMENT PLANS**

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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).

**Plan Descriptions and Contribution Information**

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

	<u>PPP</u>	<u>PFPP</u>	<u>NEPP</u>
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	<u>121</u>	<u>107</u>	<u>298</u>
Number of participating	<u><u>402</u></u>	<u><u>235</u></u>	<u><u>620</u></u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2012

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

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***City of Reading Police Pension Plan (PPP)***

*Plan Description:* The PPP is a contributory plan available to all full-time City police officers hired before January 1, 2012. 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 (1/40<sup>th</sup>) 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 and were hired before January 1, 2012 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. Members who elect to participate in the DROP after November 15, 2012, 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.

***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 (1/40<sup>th</sup>) 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.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2012

**NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED**

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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 (1/40<sup>th</sup>) 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.

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.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2012

**NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED**

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*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.

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).

**CITY OF READING**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**December 31, 2012**

**NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED**

**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, Paid Firemen and Nonuniformed Employees' Pension Plans:

	PPP	PFPP	NEPP
Annual required contribution	\$ 5,885,447	\$ 1,976,423	\$ 1,376,733
Interest on net pension obligation	(1,264,903)	-	(65,306)
Adjustment to annual required contribution	1,848,090	-	85,001
Annual pension cost	6,468,634	1,976,423	1,396,428
Contributions made - City	3,663,428	1,903,873	1,510,837
Increase (decrease) in net pension obligation	2,805,206	72,550	(114,409)
Net pension obligation (asset) beginning of year	(16,865,376)	(16,020)	(824,030)
Net pension obligation (asset) at end of year	<u>\$ (14,060,170)</u>	<u>\$ (88,570)</u>	<u>\$ (938,439)</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 BASIC FINANCIAL STATEMENTS**

**December 31, 2012**

**NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED**

<u>Fiscal Year</u>	<u>Annual Pension Cost</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation (Asset)</u>
<b>POLICE PENSION FUND</b>				
2012	\$ 6,468,634	\$ 3,663,428	56.6%	\$ (14,060,170)
2011	6,026,394	3,932,111	65.2%	(16,865,376)
2010	5,909,324	2,607,362	44.1%	(18,959,659)
<b>FIREMEN'S PENSION FUND</b>				
2012	\$ 1,976,423	\$ 1,903,873	100+%	
2011	1,976,423	1,984,463	100+%	
2010	1,380,603	1,611,489	100+%	
<b>OFFICERS' AND EMPLOYEES' PENSION FUND</b>				
2012	\$ 1,396,428	\$ 1,510,837	92.4%	
2011	1,376,733	1,404,139	100+%	
2010	800,416	1,670,803	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:

	<u>Actuarial Value of Assets (a)</u>	<u>Entry Age Actuarial Accrued Liability (AAL)(b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a/c)</u>
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 BASIC FINANCIAL STATEMENTS

December 31, 2012

#### NOTE 12 - POST EMPLOYMENT BENEFITS

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##### 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, 2012, the City contributed \$4,000,000 to the plan related to retirees.

**CITY OF READING**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**December 31, 2012**

**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:

	2012
Annual required contribution	\$ 6,864,808
Interest on net OPEB obligation	314,778
Adjustment to annual required contribution	(488,997)
Annual OPEB Cost	6,690,589
Contributions made	(4,000,000)
Increase in net OPEB obligation	2,690,589
Net OPEB obligation - beginning of year	8,993,655
Net OPEB obligation - end of year	\$ 11,684,244

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, 2012 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2012	\$ 6,690,589	59.8%	\$ 11,684,244
12/31/2011	5,493,466	40.2%	8,993,655
12/31/2010	5,493,466	40.2%	5,710,189

Funded Status and Funding Progress:

As of December 31, 2012, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$90,248,474, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$90,248,474. 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 BASIC FINANCIAL STATEMENTS**

**December 31, 2012**

**NOTE 12 - POST EMPLOYMENT BENEFITS - CONTINUED**

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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, 2012, actuarial valuation, the Projected Unit Credit Cost Method was used. The actuarial assumptions included a 3.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend based on the Society of Actuaries-Getzen Model version 12.2 utilizing the baseline assumptions included in the model, except for a real GDP growth assumption of 1.8 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**

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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 four 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 was renewed in 2011 and is effective through December 31, 2016. The Reading Lodge #9 Fraternal Order of Police's labor agreement was amended in arbitration in 2012 and is effective through December 31, 2016. The labor agreement with the International Association of Fire Fighters, Local 1803 was amended in 2011 and is effective through December 31, 2015.

**CITY OF READING**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**December 31, 2012**

**NOTE 13 - COMMITMENTS AND CONTINGENCIES - CONTINUED**

The City has entered into contracts for capital improvements related to the wastewater treatment plant, information improvement, 42" force main break and other miscellaneous projects. At December 31, 2012, the balance of open contracts was \$2,783,029, \$243,915, \$9,193,274 and \$111,093, respectively.

Intermunicipal Agreements

On December 24, 2012, the City entered into several interest free promissory notes with the County of Berks, Pennsylvania, for public safety system hardware and accessory hardware. Annual aggregate payments of \$197,145 will be made beginning June 1, 2013 through 2019. The notes and minimum future payments are summarized as follows for the year ended December 31:

	2013	2014	2015	2016	2017	2018 - 2019	Total
EMS	\$ 7,114	\$ 7,114	\$ 7,114	\$ 7,114	\$ 7,114	\$ 14,228	\$ 49,798
Fire	52,456	52,456	52,456	52,456	52,456	104,912	367,192
Police	93,278	93,278	93,278	93,278	93,278	186,556	652,946
General Code Enforcement	1,075	1,075	1,075	1,075	1,075	2,150	7,525
Downtown Improvement	1,717	1,717	1,717	1,717	1,717	3,434	12,018
District	4,114	4,114	4,114	4,114	4,114	8,228	28,798
Public Works	30,465	30,465	30,465	30,465	30,465	60,930	213,256
Water Authority	4,132	4,132	4,132	4,132	4,132	8,264	28,923
Reading Recreation Commission	2,794	2,794	2,794	2,794	2,794	5,588	19,558
<b>Total</b>	<b>\$ 197,145</b>	<b>\$ 394,289</b>	<b>\$ 1,380,014</b>				

During the year ended December 31, 2012, the City approved a Pennvest loan with the Commonwealth of Pennsylvania. The loan provides up to \$10,013,950 to be applied toward the replacement of the City's sewer force main project. Repayment of the loan commences once the project is complete and will last 240 months. Interest is fixed for the first 60 months at 1.007 percent with an increase to 2.013 percent thereafter. The loan is guaranteed through sewer revenues. There were no outstanding draw downs on the note at December 31, 2012.

Subsequent to year-end, the City entered into a capital lease with a financing institution for two Ford E-450 ambulances. The total commitment for this lease is \$280,542, which is to be paid in five annual payments of \$60,349 commencing June 15, 2013 through maturity at June 15, 2017.

**CITY OF READING**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 13 - COMMITMENTS AND CONTINGENCIES - CONTINUED**

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The Reading Water Authority has entered into the following agreements:

Management Agreement

The Authority entered into an agreement with Miller Environmental, Inc. for the services of a water filter plant manager, who is responsible for the management of all operational and maintenance activities of the water filter plant. The agreement is automatically renewable annually unless one of the parties gives written notice of their intent to terminate the agreement. Total expense under agreement for the year ended December 31, 2012 was \$214,849.

Water Reading Services Agreement

The Authority has entered into an agreement with Miller Environmental, Inc. to perform water reading services in the Authority's service area. The agreement was amended in February 2012. Under the terms of the amended agreement, the Authority pays a monthly operating fee of \$44,957 beginning March 1, 2012 plus additional hourly charges for services performed outside the scope of the agreement. The monthly fee and hourly rates are subject to a five percent increase per year, effective March 1 of each year. The amended agreement expires February 28, 2015 and is automatically renewable for three year terms unless one of the parties gives written notice of their intent to terminate the agreement. Total expense under the agreement for the year ended December 31, 2012 was \$538,294.

Capital Improvements

The Reading Area Water Authority has entered into several contracts for capital improvements. At December 31, 2012, the balance of open contracts was \$6,167,000.

The Reading Area Water Authority has an unused letter of credit of \$800,000 at December 31, 2012.

**CITY OF READING**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**December 31, 2012**

**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, 2012:

	<u>Carrier</u>	<u>Limit</u>	<u>Deductible</u>
Property Liability	St. Paul Travelers	\$ 198,124,552	\$ 100,000
Crime	St. Paul Travelers	1,000,000	150,000
Auto Liability	St. Paul Travelers	1,000,000	10,000
Auto Property Damage	St. Paul Travelers	1,000,000	150,000
		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	600,000
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 Longshoremens Act claims that exceed \$750,000 and all other claims that exceed \$600,000. 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 \$1,732,724.

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.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2012

NOTE 14 - RISK MANAGEMENT AND SELF-INSURANCE

---

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, 2012. An analysis of claims activity is presented below:

	<u>Beginning of Year Liabilities</u>	<u>Estimated Current Year Claims</u>	<u>Actual Claim Payments</u>	<u>Balance at Fiscal Year-End</u>
2012	<u>\$ 2,179,440</u>	<u>\$ 3,461,328</u>	<u>\$ 3,908,044</u>	<u>\$ 1,732,724</u>

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, 2012 was \$10,676,032.

NOTE 15 - FUND EQUITY AND CHANGE IN FUND BALANCES

---

**Primary Government**

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, 2012 was as follows:

**General Fund:** The general fund has an unassigned fund balance of \$14,904,491.

**Community Development Fund:** The community development fund has restricted funds of \$1,658,470, consisting primarily of unspent federal and state grant funds restricted by federal or state law.

**Agency Fund:** The agency fund has restricted funds of \$636,612, 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 \$1,839,599, consisting primarily of bond proceeds related to be used for future capital purchases.

**Shade Tree Fund:** The special revenue fund has restricted funds of \$101,466, consisting of receipts received from sources to be used for specific purposes.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2012

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

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**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 an unassigned fund balance of (\$65,096). The deficiency in fund balance will be paid through future liquid fuels revenue.

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 BASIC FINANCIAL STATEMENTS

December 31, 2012

**NOTE 16 - NEW ACCOUNTING PRONOUNCEMENTS/RESTATEMENT OF BEGINNING OF NET POSITION**

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Effective January 1, 2012, the City adopted Governmental Accounting Standards Board Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*, to be in conformity with generally accepted accounting principles.

Statement No. 63 establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The statement provides a framework that specifies where deferred outflows of resources and deferred inflows of resources, as well as assets and liabilities, should be displayed. The statement also discusses how net position, no longer net assets, should be displayed.

Statement No. 65 establishes guidance 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. The adoption of this standard resulted in the City restating beginning net position as of January 1, 2012, for the elimination of net bond issuance costs which no longer qualifies as an asset in:

Governmental Activities			<u>\$3,900,382</u>
Proprietary Funds			
	Sewer Fund	\$1,095,910	
	Water Fund	<u>1,649,001</u>	
Total Proprietary Funds			<u>\$2,744,911</u>

**NOTE 17 - CHANGE IN ACCOUNTING ESTIMATE**

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Management changed the methodology of the calculation of the allowance for uncollectible accounts receivable for the water fund during 2012. The change resulted in a reduction of the allowance for uncollectible accounts receivable of \$2,332,339.

**CITY OF READING**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 18 - NEW ACCOUNTING STANDARDS**

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The Government Accounting Standards Board (GASB) has issued the following standards which have not yet been implemented:

- Statement No 61, The Financial Reporting Entity - Omnibus which is required to be implemented by the year ending December 31, 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. 67, Financial Reporting for Pension Plans, which is required to be implemented by the year ending December 31, 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 ending December 31, 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 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, 2012

	General Fund			
	Original Budget	Final Budget	Actual	Variance
<b>Revenues:</b>				
Real estate taxes	\$ 19,051,332	\$ 19,051,332	\$ 18,563,997	\$ (487,335)
Act 511 taxes	17,925,565	17,925,565	22,231,321	4,305,756
Licenses, permits, and fines	6,298,604	6,298,604	5,375,032	(923,572)
Intergovernmental	4,501,742	4,501,742	5,000,031	498,289
Charges for services	7,352,437	7,352,437	7,329,916	(22,521)
Interest and rent	3,234,408	3,234,408	1,008,685	(2,225,723)
Other	5,514,036	5,514,036	6,174,520	660,484
<b>TOTAL REVENUES</b>	<b>63,878,124</b>	<b>63,878,124</b>	<b>65,683,502</b>	<b>1,805,378</b>
<b>Expenditures:</b>				
Current:				
General government	6,306,244	6,821,959	6,490,579	331,380
Public safety				
Police	25,365,255	24,312,358	25,763,778	(1,451,420)
Fire	10,674,416	10,469,965	11,221,156	(751,191)
EMS	3,757,956	3,649,952	3,858,749	(208,797)
Public works: highways and streets	416,349	412,349	492,701	(80,352)
Public works: other	5,662,407	5,619,607	6,499,835	(880,228)
Community development	3,396,488	3,299,215	3,121,207	178,008
Culture and recreation	742,442	742,442	754,706	(12,264)
Other	2,085,868	3,079,578	2,160,746	918,832
Debt service - principal	5,351,537	5,351,537	9,190,485	(3,838,948)
Debt service - interest	7,741,662	7,741,662	8,328,676	(587,014)
<b>TOTAL EXPENDITURES</b>	<b>71,500,624</b>	<b>71,500,624</b>	<b>77,882,618</b>	<b>(6,381,994)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(7,622,500)</b>	<b>(7,622,500)</b>	<b>(12,199,116)</b>	<b>(4,576,616)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond proceeds	-	-	15,356,600	15,356,600
Bond discounts	-	-	(163,562)	(163,562)
Payment to escrow agent, refunding bond	-	-	(14,931,374)	(14,931,374)
Operating transfers in	7,622,500	7,622,500	7,620,000	(2,500)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>7,622,500</b>	<b>7,622,500</b>	<b>7,881,664</b>	<b>259,164</b>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(4,317,452)</b>	<b>\$ (4,317,452)</b>
<b>FUND BALANCE, BEGINNING OF YEAR</b>			<b>19,221,943</b>	
<b>FUND BALANCE, END OF YEAR</b>			<b>\$ 14,904,491</b>	

See note to required supplementary information.

CITY OF READING

SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS - RETIREMENT PLANS

UNAUDITED

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)
<b>POLICE PENSION FUND</b>						
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%
<b>PAID FIREMEN'S PENSION FUND</b>						
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%
<b>OFFICERS' AND EMPLOYEES' PENSION FUND</b>						
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)
<b>POLICE PENSION FUND</b>				
2012	\$ 5,885,447	62%	\$ 3,663,428	\$ (14,060,170)
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)
<b>FIREMEN'S PENSION FUND</b>				
2012	\$ 1,976,423	100+%	\$ 1,903,873	
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	
<b>OFFICERS' AND EMPLOYEES' PENSION FUND</b>				
2012	\$ 1,376,733	110%	\$ 1,510,837	
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**

**UNAUDITED**

**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
12/31/2012	\$ -	\$ 90,248,474	\$ 90,248,474	0.00%	N/A	N/A
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
12/31/2012	\$ 6,690,589	\$ 4,000,000	59.80%	\$ 11,684,244
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, 2012**

**NOTE 1 - BUDGETARY COMPARISON SCHEDULE**

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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 \$6,381,994.

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, 2012

	Original Budget	Final Budget	Actual	Variance
<b>REAL ESTATE TAXES</b>	\$ 19,051,332	\$ 19,051,332	\$ 18,563,997	\$ (487,335)
<b>ACT 511 Taxes</b>				
Per capita tax	80,000	80,000	56,460	(23,540)
Per capita tax - prior years	20,000	20,000	14,583	(5,417)
Real estate transfer tax	2,000,000	2,000,000	1,972,840	(27,160)
Earned income tax	13,069,120	13,069,120	16,824,024	3,754,904
Occupation tax	780,195	780,195	1,131,921	351,726
Occupation tax - prior years	341,250	341,250	183,111	(158,139)
Business privilege tax	1,350,000	1,350,000	1,598,766	248,766
Business privilege tax - prior years	285,000	285,000	449,616	164,616
Total Act 511 Taxes	17,925,565	17,925,565	22,231,321	4,305,756
<b>LICENSES, PERMITS, AND FINES</b>				
Food permits	173,000	173,000	163,263	(9,737)
Building and electrical	1,001,500	1,001,500	703,531	(297,969)
Trades licenses	120,000	120,000	139,073	19,073
Business privilege	275,000	275,000	359,096	84,096
Street and pavement	56,000	56,000	155,155	99,155
Zoning and land development	202,000	202,000	197,090	(4,910)
Housing	2,100,254	2,100,254	1,406,542	(693,712)
Tax administration licenses	12,750	12,750	9,160	(3,590)
Franchise fees	705,000	705,000	720,254	15,254
No parking signs	600	600	960	360
Traffic fines	315,000	315,000	343,502	28,502
Penalties and interest	108,000	108,000	109,792	1,792
District court	800,000	800,000	868,031	68,031
Trash truck license fee	-	-	1,315	1,315
Other	429,500	429,500	198,268	(231,232)
Total Licenses, Permits, and Fines	6,298,604	6,298,604	5,375,032	(923,572)
<b>INTERGOVERNMENTAL</b>				
Payments in lieu of taxes	150,000	150,000	137,213	(12,787)
Malt and liquor tax	40,000	40,000	29,380	(10,620)
Public utility tax	45,000	45,000	49,068	4,068
Snow and ice control	50,000	50,000	54,112	4,112
Reading Public Library	742,442	742,442	706,041	(36,401)
School guard	255,000	255,000	228,987	(26,013)
Pension - state aid	2,600,000	2,600,000	2,701,960	101,960
Police training	130,000	130,000	109,881	(20,119)
Grant reimbursement - police	489,300	489,300	983,389	494,089
Total Intergovernmental	4,501,742	4,501,742	5,000,031	498,289

CITY OF READING

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

Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance
<b>CHARGES FOR SERVICES</b>				
Swimming pool	-	-	110	110
Pagoda and tower	-	-	1,255	1,255
School district tax collection	42,763	42,763	63,121	20,358
Tax certifications	-	-	54	54
Admissions fee/tax	504,000	504,000	459,675	(44,325)
Police services	1,297,874	1,297,874	1,218,713	(79,161)
Fire services	394,300	394,300	575,682	181,382
Ambulance services	2,971,000	2,971,000	2,913,184	(57,816)
Housing Authority	265,000	265,000	177,949	(87,051)
Public works	59,000	59,000	18,635	(40,365)
Meter surcharge	1,700,000	1,700,000	1,699,992	(8)
Other	118,500	118,500	201,546	83,046
Total Charges for Service	7,352,437	7,352,437	7,329,916	(22,521)
<b>INTEREST AND RENT</b>				
Interest on investments	-	-	2,267	2,267
CD bond interest	200,000	200,000	-	(200,000)
Stadium rental	22,000	22,000	22,000	-
Building rental	75,000	75,000	68,747	(6,253)
Parking Authority	590,000	590,000	590,004	4
Greater Berks	2,347,408	2,347,408	325,667	(2,021,741)
Total Interest and Rent	3,234,408	3,234,408	1,008,685	(2,225,723)
<b>OTHER</b>				
Sale of city property	40,000	40,000	7,093	(32,907)
Donation from parking authority	810,000	810,000	810,000	-
Refund of prior year expenses	700	700	27,783	27,083
Recovery of damages	25,000	25,000	6,767	(18,233)
Indirect cost reimbursement:				
Community development	190,000	190,000	190,000	-
Recycling	134,340	134,340	383,905	249,565
Sewer	1,033,000	1,033,000	1,161,432	128,432
Water	678,040	678,040	757,476	79,436
Direct cost reimbursement				
Code services	475,000	475,000	527,298	52,298
Civic Service	25,000	25,000	-	(25,000)
Community development	33,000	33,000	3,104	(29,896)
Pension	38,000	38,000	38,000	-
Sewer	-	-	172,493	172,493
Grants and gifts	156,456	156,456	152,149	(4,307)
Other shared revenues	39,000	39,000	37,500	(1,500)
Miscellaneous	1,836,500	1,836,500	1,899,520	63,020
Total Other	5,514,036	5,514,036	6,174,520	660,484
<b>TOTAL REVENUES</b>	63,878,124	63,878,124	65,683,502	1,805,378

CITY OF READING

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

Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance
<b>OTHER FINANCING SOURCES</b>				
Bond proceeds	-	-	15,356,600	15,356,600
Bond discount	-	-	(163,562)	(163,562)
Operating transfers in:				
Capital Reserve City	2,500	2,500	-	(2,500)
Water Fund	4,420,000	4,420,000	4,420,000	-
Sewer Fund	3,200,000	3,200,000	3,200,000	-
Total Other Financing Sources	<u>7,622,500</u>	<u>7,622,500</u>	<u>22,813,038</u>	<u>15,190,538</u>
 <b>TOTAL REVENUES AND OTHER FINANCING SOURCES</b>	 <u>\$ 71,500,624</u>	 <u>\$ 71,500,624</u>	 <u>\$ 88,496,540</u>	 <u>\$ 16,995,916</u>

CITY OF READING

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

Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance
<b>GENERAL GOVERNMENT</b>				
Office of the Mayor				
Personal services	\$ 335,970	\$ 348,198	\$ 301,866	\$ 46,332
Other operating expenditures	15,750	142,922	130,860	12,062
City Council				
Personal services	230,951	241,551	218,514	23,037
Other operating expenditures	74,300	89,300	69,149	20,151
City Auditor				
Personal services	145,511	145,511	125,580	19,931
Other operating expenditures	-	-	467	(467)
Office of the Managing Director				
Personal services	349,138	348,495	351,131	(2,636)
Other operating expenditures	5,150	5,793	3,105	2,688
Department of Finance:				
Office of the Director				
Personal services	354,427	309,036	310,696	(1,660)
Other operating expenditures	4,650	10,456	7,704	2,752
Purchasing				
Personal services	99,231	94,231	87,152	7,079
Other operating expenditures	342,750	422,750	395,045	27,705
Accounting				
Personal services	465,742	460,742	448,487	12,255
Other operating expenditures	52,650	49,650	142,057	(92,407)
Mailroom				
Personal services	67,851	7,011	24,120	(17,109)
Other operating expenditures	60,000	2,699	5,667	(2,968)
Information Technology				
Personal services	697,242	697,242	633,148	64,094
Other operating expenditures	1,119,300	1,134,600	944,884	189,716
Department of Human Resources				
Personal services	259,753	259,753	248,064	11,689
Other operating expenditures	148,125	148,125	89,053	59,072
Citizens Service Center				
Personal services	726,064	786,904	708,680	78,224
Other operating expenditures	25,200	90,501	96,122	(5,621)
Department of Law				
Personal services	444,189	444,189	418,877	25,312
Other operating expenditures	282,300	582,300	730,151	(147,851)
<b>TOTAL GENERAL GOVERNMENT</b>	<b>6,306,244</b>	<b>6,821,959</b>	<b>6,490,579</b>	<b>331,380</b>

CITY OF READING

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

Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance
<b>PUBLIC SAFETY</b>				
Police - Criminal Investigation				
Personal services	3,658,402	3,491,479	3,791,583	(300,104)
Other operating expenditures	127,240	127,240	60,877	66,363
Police - Special Services				
Personal services	2,650,857	2,618,756	2,471,300	147,456
Other operating expenditures	652,412	652,412	321,685	330,727
Police - Patrol				
Personal services	17,218,285	16,383,672	18,141,134	(1,757,462)
Other operating expenditures	478,215	478,215	481,821	(3,606)
Police - Administration				
Personal services	514,964	495,704	452,214	43,490
Other operating expenditures	64,880	64,880	43,164	21,716
Fire Administration				
Personal services	839,582	806,870	911,117	(104,247)
Other operating expenditures	96,442	121,442	120,235	1,207
Fire Special Services				
Personal services	445,300	436,203	585,138	(148,935)
Other operating expenditures	21,700	24,200	19,004	5,196
Fire Suppression				
Personal services	8,914,547	8,731,405	9,285,994	(554,589)
Other operating expenditures	356,845	349,845	299,668	50,177
Fire EMS				
Personal services	3,261,116	3,190,612	3,457,778	(267,166)
Other operating expenditures	496,840	459,340	400,971	58,369
<b>TOTAL PUBLIC SAFETY</b>	<b>39,797,627</b>	<b>38,432,275</b>	<b>40,843,683</b>	<b>(2,411,408)</b>
<b>PUBLIC WORKS</b>				
Department of Public Works:				
Fleet Management				
Personal services	525,762	525,762	497,975	27,787
Other operating expenditures	850,400	845,400	1,213,071	(367,671)
Traffic Engineering				
Personal services	27,508	27,508	47,934	(20,426)
Other operating expenditures	413,348	413,348	614,032	(200,684)
Public Works Administration				
Personal services	166,032	166,032	172,322	(6,290)
Other operating expenditures	279,200	279,200	454,422	(175,222)
Engineering				
Personal services	94,231	94,231	113,823	(19,592)
Other operating expenditures	9,000	9,000	356	8,644
Streets				
Personal services	367,849	367,849	449,747	(81,898)
Other operating expenditures	48,500	44,500	42,954	1,546
Parks				
Personal services	787,810	787,810	820,822	(33,012)
Other operating expenditures	88,345	82,845	77,129	5,716
Recreation				
Personal services	-	-	78,540	(78,540)
Other operating expenditures	488,000	488,000	491,613	(3,613)
Public Property				
Personal services	536,326	536,326	514,829	21,497
Other operating expenditures	1,396,445	1,364,145	1,402,967	(38,822)
<b>TOTAL PUBLIC WORKS</b>	<b>6,078,756</b>	<b>6,031,956</b>	<b>6,992,536</b>	<b>(960,580)</b>

CITY OF READING

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

Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance
<b>COMMUNITY DEVELOPMENT</b>				
Planning				
Personal services	78,206	78,206	79,576	(1,370)
Other operating expenditures	1,700	1,700	870	830
Administration				
Personal services	10,389	10,389	14,711	(4,322)
Other operating expenditures	10,060	10,060	37	10,023
Zoning				
Personal services	37,440	36,043	38,919	(2,876)
Other operating expenditures	27,000	27,000	25,433	1,567
Trades				
Personal services	510,541	506,883	502,723	4,160
Other operating expenditures	(124,573)	(120,915)	9,034	(129,949)
Codes				
Personal services	2,659,025	2,522,270	2,198,063	324,207
Other operating expenditures	186,700	227,579	251,841	(24,262)
<b>TOTAL COMMUNITY DEVELOPMENT</b>	<b>3,396,488</b>	<b>3,299,215</b>	<b>3,121,207</b>	<b>178,008</b>
<b>CULTURE AND RECREATION</b>				
Library				
Personal services	742,442	742,442	754,432	(11,990)
Other operating expenditures	-	-	274	(274)
<b>TOTAL CULTURE AND RECREATION</b>	<b>742,442</b>	<b>742,442</b>	<b>754,706</b>	<b>(12,264)</b>
<b>NONDEPARTMENTAL</b>				
Payroll and benefits	842,767	1,836,477	252,294	1,584,183
Risk management	1,687,693	1,687,693	1,687,693	-
Other	(444,592)	(444,592)	220,759	(665,351)
<b>TOTAL NONDEPARTMENTAL</b>	<b>2,085,868</b>	<b>3,079,578</b>	<b>2,160,746</b>	<b>918,832</b>
<b>DEBT SERVICE</b>				
Principal	5,351,537	5,351,537	9,190,485	(3,838,948)
Interest	7,741,662	7,741,662	8,328,676	(587,014)
<b>TOTAL DEBT SERVICE</b>	<b>13,093,199</b>	<b>13,093,199</b>	<b>17,519,161</b>	<b>(4,425,962)</b>
<b>TOTAL EXPENDITURES</b>	<b>71,500,624</b>	<b>71,500,624</b>	<b>77,882,618</b>	<b>(6,381,994)</b>
<b>OTHER FINANCING USES</b>				
Payment to escrow agent, refunding bond	-	-	14,931,374	(14,931,374)
<b>TOTAL EXPENDITURES AND OTHER FINANCING USES</b>	<b>\$ 71,500,624</b>	<b>\$ 71,500,624</b>	<b>\$ 92,813,992</b>	<b>\$ (21,313,368)</b>

CITY OF READING

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

December 31, 2012

	Debt Service	Shade Tree	Capital Projects	Liquid Fuels Fund	Totals
<b>ASSETS</b>					
Cash and cash equivalents	\$ 4,463	\$ 130,004	\$ 1,150,377	\$ 8,150	\$ 1,292,994
Investments	572	-	-	-	572
Accounts receivable	-	5,286	-	-	5,286
Taxes receivable	-	22,761	-	-	22,761
Interfund receivables	158,658	-	922,448	-	1,081,106
<b>TOTAL ASSETS</b>	<b>\$ 163,693</b>	<b>\$ 158,051</b>	<b>\$ 2,072,825</b>	<b>\$ 8,150</b>	<b>\$ 2,402,719</b>
<b>LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ -	\$ 33,824	\$ 181,434	\$ -	\$ 215,258
Interfund payables	-	-	51,792	73,246	125,038
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>33,824</b>	<b>233,226</b>	<b>73,246</b>	<b>340,296</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue - property taxes	-	22,761	-	-	22,761
<b>FUND BALANCES</b>					
Restricted for capital projects	-	-	1,839,599	-	1,839,599
Restricted for shade tree	-	101,466	-	-	101,466
Restricted for debt service	163,693	-	-	-	163,693
Unassigned	-	-	-	(65,096)	(65,096)
<b>TOTAL FUND BALANCES</b>	<b>163,693</b>	<b>101,466</b>	<b>1,839,599</b>	<b>(65,096)</b>	<b>2,039,662</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES</b>	<b>\$ 163,693</b>	<b>\$ 158,051</b>	<b>\$ 2,072,825</b>	<b>\$ 8,150</b>	<b>\$ 2,402,719</b>

**CITY OF READING**

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

Year Ended December 31, 2012

	Debt Service	Shade Tree	Capital Projects Fund	Liquid Fuels Fund	Totals
<b>REVENUES</b>					
Real estate taxes	\$ -	\$ 249,065	\$ -	\$ -	\$ 249,065
Intergovernmental	-	-	-	1,426,955	1,426,955
Interest and rent	-	-	214	11	225
Other	-	4,025	-	-	4,025
<b>TOTAL REVENUES</b>	-	253,090	214	1,426,966	1,680,270
<b>EXPENDITURES</b>					
Public works - highways and streets	-	-	-	1,686,376	1,686,376
Public works - other	-	151,624	-	-	151,624
Capital outlay	-	-	434,031	-	434,031
<b>TOTAL EXPENDITURES</b>	-	151,624	434,031	1,686,376	2,272,031
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	-	101,466	(433,817)	(259,410)	(591,761)
<b>FUND BALANCES, BEGINNING OF YEAR</b>	163,693	-	2,273,416	194,314	2,631,423
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 163,693</u>	<u>\$ 101,466</u>	<u>\$ 1,839,599</u>	<u>\$ (65,096)</u>	<u>\$ 2,039,662</u>

CITY OF READING

COMBINING STATEMENT OF NET POSITION - FIDUCIARY FUNDS

December 31, 2012

	Police Pension Fund	Paid Firemen's Pension Fund	Officers' and Employees' Pension Fund	Total Pension Trust Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 5,037,575	\$ 3,940,136	\$ 2,812,111	\$ 11,789,822
Investments	70,523,329	41,178,436	46,483,059	158,184,824
<b>TOTAL ASSETS</b>	75,560,904	45,118,572	49,295,170	169,974,646
<b>LIABILITIES AND NET POSITION</b>				
<b>LIABILITIES</b>				
Accounts payable	102,934	37,729	74,372	215,035
Interfund payable	-	10,834	10,834	21,668
<b>TOTAL LIABILITIES</b>	102,934	48,563	85,206	236,703
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS</b>	<u>\$ 75,457,970</u>	<u>\$ 45,070,009</u>	<u>\$ 49,209,964</u>	<u>\$ 169,737,943</u>

CITY OF READING

COMBINING STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS

Year Ended December 31, 2012

	Police Pension Fund	Paid Firemen's Pension Fund	Officers' and Employees' Pension Fund	Total Pension Trust Funds
<b>ADDITIONS</b>				
Contributions				
Member, city, and state contributions	\$ 4,443,030	\$ 2,339,642	\$ 2,003,802	\$ 8,786,474
Investment income				
Interest and dividends	3,572,290	801,145	426	4,373,861
Realized and unrealized gain on value of investments	3,110,207	3,663,094	5,477,802	12,251,103
<b>TOTAL ADDITIONS</b>	11,125,527	6,803,881	7,482,030	25,411,438
<b>DEDUCTIONS</b>				
Benefits, including tax withheld	10,016,250	3,479,639	4,767,326	18,263,215
Administrative expenses	453,859	194,420	368,632	1,016,911
Refunds paid	17,994	1,337	162,354	181,685
<b>TOTAL DEDUCTIONS</b>	10,488,103	3,675,396	5,298,312	19,461,811
<b>CHANGE IN NET POSITION</b>	637,424	3,128,485	2,183,718	5,949,627
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS, BEGINNING OF YEAR</b>	74,820,546	41,941,524	47,026,246	163,788,316
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS, END OF YEAR</b>	<u>\$ 75,457,970</u>	<u>\$ 45,070,009</u>	<u>\$ 49,209,964</u>	<u>\$ 169,737,943</u>

## CITY OF READING

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2012

Federal Grantor/Pass Through Grantor/Program Title	Source Code	Federal CFDA Number	Grant Period
<b>U.S. DEPARTMENT OF HOUSING</b>			
Community Development Block Grant/Entitlement Grant	D	14.218	01/01/11-12/31/11
Community Development Block Grant/Entitlement Grant	D	14.218	01/01/12-12/31/12
Community Development Block Grant/Entitlement Grant (ARRA)	D	14.253	06/04/09-09/30/12
Entitlement Grant Cluster Subtotal			
Emergency Solutions Grant	D	14.231	
Emergency Solutions Grant	D	14.231	
Emergency Solutions Grant	D	14.231	
Subtotal			
Homelessness Prevention and Rapid Re-Housing Program (ARRA)	D	14.257	
HOME Investment Partnership Program	D	14.239	
HOME Investment Partnership Program	D	14.239	
HOME Investment Partnership Program	D	14.239	
HOME Investment Partnership Program	D	14.239	
Subtotal			
Neighborhood Stabilization Program 2 (ARRA)	D	14.256	02/11/10-02/11/13
Fair Housing	D	14.401	10/01/08-09/30/09
Fair Housing	D	14.401	10/01/09-09/30/10
Subtotal			
<b>TOTAL U.S. DEPARTMENT OF HOUSING</b>			
<b>U.S. DEPARTMENT OF JUSTICE</b>			
Edward Byrne Memorial Justice Assistance Program	D	16.738	10/01/08-09/30/12
Edward Byrne Memorial Justice Assistance Program	D	16.738	10/01/09-09/30/13
Edward Byrne Memorial Justice Assistance Program	D	16.738	10/01/10-09/30/14
Edward Byrne Memorial Justice Assistance Program	D	16.738	10/01/11-09/30/15
FY 2009 Recovery Act Justice Assistance Grant Program (ARRA)	D	16.804	03/01/09-02/28/13
<b>PCCD Pass Through (ARRA)</b>			
Reading Weed and Seed Daytime Curfew Project Federal Award #2009-JG-01-22087	I	16.738	01/01/11-12/31/11
Edward Byrne Memorial Justice Assistance Program Cluster Subtotal			
Bulletproof Vest Partnership	D	16.607	01/01/11-12/31/11
Bulletproof Vest Partnership	D	16.607	01/01/12-12/31/12
Subtotal			
COPS	D	16.710	12/26/07-12/25/10
COPS	D	16.710	12/26/07-12/25/10
COPS Hiring Recovery Program (ARRA)	D	16.710	07/01/09-06/30/12
Subtotal			
<b>TOTAL U.S. DEPARTMENT OF JUSTICE</b>			

Grant Contract	Total Award	Accrued (Deferred) 12/31/11	Amount Received	Revenue/ Expenditures	Accrued (Deferred) 12/31/12
B-11-MC-42-0013	\$ 2,804,510	\$ 604,314	\$ 2,434,595	\$ 1,830,281	\$ -
B-12-MC-42-0013	2,335,462	-	133,553	589,461	455,908
B-09-MY-42-0013	828,217	11,991	249,723	237,732	-
		616,305	2,817,871	2,657,474	455,908
S-10-MC-42-0006	135,899	3,911	3,911	-	-
E-11-MC-42-0006	212,738	23,089	95,161	72,072	-
E-12-MC-42-0006	242,863	-	70,358	106,950	36,592
		27,000	169,430	179,022	36,592
S-09-MY-42-0006	1,267,021	43,102	378,588	335,486	-
M-09-MC-42-0204	1,071,352	143,294	143,294	-	-
M-10-MC-42-0204	967,214 &&	237,337	829,700	635,845	43,482
M-11-MC-42-0204	943,508	127,483	258,120	280,970	150,333
M-12-MC-42-0204	698,011	-	-	-	-
		508,114	1,231,114	916,815	193,815
B-09-CNPA-0014	5,000,000	91,629	969,142	904,492	26,979
FF-203-K-11-3012	93,994 **	-	-	50,937	50,937
FF-203-K-12-3012	56,980	-	-	-	-
		-	-	50,937	50,937
		1,286,150	5,566,145	5,044,226	764,231
2009-DJ-BX-1229	134,365	10,167	13,566	3,399	-
2010-DJ-BX-0863	121,998	-	88,372	96,076	7,704
2011-DJ-BX-2349	93,069	-	15,333	26,757	11,424
2012-DJ-BX-0092	77,314	-	-	-	-
2009-SB-B9-2498	640,806	62,751	186,381	165,422	41,792
2009-JG-01-22087	50,000	23,034	23,034	-	-
		95,952	326,686	291,654	60,920
2011	8,156	8,156	8,156	-	-
2012	17,170	-	-	17,170	17,170
		8,156	8,156	17,170	17,170
2008-CK-WX-0171	1,169,125	14,634	30,563	259,860	243,931
2008-CK-WX-0255	607,945	-	172,208	172,208	-
2009RKWX0716	1,000,100	84,176	350,849	350,564	83,891
		98,810	553,620	782,632	327,822
		202,918	888,462	1,091,456	405,912

CITY OF READING

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2012

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Grant Period</u>
Federal Grantor/Pass Through Grantor/Program Title	Source Code	Federal CFDA Number	Grant Period
<b>U.S. DEPARTMENT OF ENERGY</b>			
Energy Efficiency and Conservation Block Grant (ARRA)	D	81.128	08/04/09-08/03/12
<b>TOTAL U.S. DEPARTMENT OF ENERGY</b>			
<b>U.S. DEPARTMENT OF THE INTERIOR</b>			
<b>Passed through the PA Historical and Museum Commission</b>			
Historic Preservation Fund Grants-in-Aid	I	15.904	08/01/11-07/31/12
Historic Preservation Fund Grants-in-Aid	I	15.904	08/01/12-07/31/13
<b>TOTAL U.S. DEPARTMENT OF THE INTERIOR</b>			
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>			
<b>Passed through the Pennsylvania Department of Transportation</b>			
Federal-Aid Highway Program	I	20.205	
<b>TOTAL U.S. DEPARTMENT OF TRANSPORTATION</b>			
<b>U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION</b>			
Equal Employment Opportunity Commission	D	30.001	10/01/10-09/30/13
<b>TOTAL U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION</b>			
<b>TOTAL FEDERAL AWARDS</b>			

\*\* The original \$43,994 2011 Fair Housing award was amended twice: #1 amendment for \$37,522. #2 amendment for \$12,478.40.

^^ Grant award was modified because of changes in the number of charge resolutions and intake services provided.

&& Beginning accounts receivable was adjusted in include \$102,849 from a prior year

Source Codes - I = Indirect; D = Direct

<u>Grant Contract</u>	<u>Total Award</u>	<u>Accrued (Deferred) 12/31/11</u>	<u>Amount Received</u>	<u>Revenue/ Expenditures</u>	<u>Accrued (Deferred) 12/31/12</u>
DE-SC0001250	791,000	99,174	310,109	210,935	-
		99,174	310,109	210,935	-
42-11-31945	15,000	1,630	710	13,370	14,290
42-12-41945	15,000	-	-	-	-
		1,630	710	13,370	14,290
	479,596	-	351,135	408,933	57,798
		-	351,135	408,933	57,798
EECCN110067	23,250 <sup>^^</sup>	355	18,016	17,661	-
		355	18,016	17,661	-
		<u>\$ 1,590,227</u>	<u>\$ 7,134,577</u>	<u>\$ 6,786,581</u>	<u>\$ 1,242,231</u>

CITY OF READING

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2012

NOTE 1 - BASIS OF ACCOUNTING

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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

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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	\$ 272,929
Emergency Solutions Grant (ESG)	14.231	145,056
HOME Program	14.239	729,539
Homeless Prevention and Rapid Re-Housing Program	14.257	279,924



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Independent Auditor's 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 in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, 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, 2012, and the related notes to the financial statements, which collectively comprise the City of Reading's basic financial statements, and have issued our report thereon dated September 16, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Reading's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Reading's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Reading's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned cost, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 described in the accompanying schedule of findings and questioned costs to be material weaknesses, 2012-001 through 2012-003 and 2012-005 through 2012-013.



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 described in the accompanying schedule of findings and questioned costs to be a significant deficiency, 2012-004.

### **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 2012-003, 2012-004, 2012-006, and 2012-007.

We noted certain other matters that we reported to management of the City of Reading in a separate letter dated September 16, 2013.

### **City of Reading's Response to Findings**

The City of Reading's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Reading's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Herbein + Company, Inc.*

Reading, Pennsylvania  
September 16, 2013



**HERBEIN+COMPANY, INC.**

CERTIFIED PUBLIC ACCOUNTANTS

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American Institute of Certified Public Accountants Private Companies Practice Section  
www.herbein.com

Independent Auditor's Report on Compliance For Each Major Program and on  
Internal Control Over Compliance Required by OMB Circular A-133

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

**Report on Compliance for Each Major Federal Program**

We have audited the City of Reading, Pennsylvania'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, Pennsylvania's major federal programs for the year ended December 31, 2012. City of Reading, Pennsylvania's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with requirements of laws, regulations, contracts and grants applicable to its federal programs.

**Auditor Responsibility**

Our responsibility is to express an opinion on compliance for each of the City of Reading, Pennsylvania's major federal programs based on our audit of the types of compliance requirements referred to above. 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, Pennsylvania'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Reading's compliance.

**Basis for Qualified Opinion on Entitlement Grant Cluster, Home Investment Partnership, Homelessness Prevention and Rapid Re-Housing, Neighborhood Stabilization, Program 2, Federal Highway Aid**

As described in the accompanying schedule of findings and questioned costs, City of Reading, Pennsylvania did not comply with requirements regarding:

Finding #	CFDA #	Program (Cluster) Name	Compliance Requirement
2012-010	14.218, 14.253	Entitlement Grant Cluster	Reporting
2012-010	14.239	Home Investment Partnership Program	Reporting
2012-010	14.257	Homelessness Prevention and Rapid Re-Housing Program	Reporting
2012-010	14.256	Neighborhood Stabilization Program 2	Reporting
2012-011	14.218, 14.253	Entitlement Grant Cluster	Cash Management
2012-011	20.205	Federal Highway Aid	Cash Management
2012-012	14.218, 14.253	Entitlement Grant Cluster	Program Income
2012-012	14.239	Home Investment Partnership Program	Program Income
2012-012	14.256	Neighborhood Stabilization Program 2	Program Income
2012-013	14.218, 14.253	Entitlement Grant Cluster	Reporting
2012-013	14.239	Home Investment Partnership Program	Reporting

Compliance with such requirements is necessary, in our opinion, for the City of Reading, Pennsylvania to comply with requirements applicable to that program.



**Qualified Opinion on Entitlement Grant Cluster, Home Investment Partnership, Homelessness Prevention and Rapid Re-Housing, Neighborhood Stabilization Program 2, Federal Highway Aid**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, City of Reading, Pennsylvania, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on: *Community Development Block Grant Cluster, Home Investment Partnership, Homelessness Prevention and Rapid Re-Housing, Neighborhood Stabilization Program 2, Federal Highway Aid* for the year ended December 31, 2012.

**Unmodified Opinion on Each of the Other Major Federal Programs**

In our opinion, City of Reading, Pennsylvania complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2012.

**Other Matters**

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questions costs as items 2012-001, 2012-002, 2012-007, and 2012-008. Our opinion on each major federal program is not modified with respect to these matters.

The City of Reading, Pennsylvania's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Reading, Pennsylvania's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Report on Internal Control Over Compliance**

Management of City of Reading, Pennsylvania is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Reading, Pennsylvania's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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, Pennsylvania'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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

*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 will 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 2012-001, 2012-002, 2012-007, 2012-008, 2012-010 through 2012-013 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.

City of Reading, Pennsylvania's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Reading, Pennsylvania's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Herlein + Company, Inc.*

Reading, Pennsylvania  
September 16, 2013

**CITY OF READING**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**December 31, 2012**

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**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued:	<u>Modified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>  X  </u> Yes <u>      </u> no
Significant deficiency(s) identified not considered to be material weaknesses?	<u>  X  </u> Yes <u>      </u> none reported
Noncompliance material to financial statements noted?	<u>  X  </u> Yes <u>      </u> no

**Federal Awards**

Internal Control over major programs:	
Material weakness(es) identified?	<u>  X  </u> Yes <u>      </u> no
Significant deficiency(s) identified not considered to be material weaknesses?	<u>  X  </u> Yes <u>      </u> none reported
Type of auditor's report issued on compliance for major programs:	<u>Modified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	<u>  X  </u> Yes <u>      </u> 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
14.257	Homelessness Prevention and Rapid Re-Housing Program (ARRA)
14.239	Home Investment Partnerships Program
14.256	Neighborhood Stabilization Program 2 (ARRA)
16.710	Public Safety Partnership and Community Policing Grants
20.205	Federal-Aid Highway Program

Dollar threshold used to distinguish between Type A and Type B programs:	<u>  \$300,000  </u>
Auditee qualified as low-risk auditee?	<u>      </u> yes <u>  X  </u> no

CITY OF READING  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
December 31, 2012

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**Section II - Financial Statement Findings**

**2012-001 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. The accounting department only records accounts receivable at year-end for governmental funds. In addition, significant adjustments are posted at year-end to bring numerous other funds and accounts into compliance with reporting under U.S. generally accepted accounting standards.

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 and deadlines are setup for timely completion. Reconciliations should then have the appropriate review for potential misstatements that may exist.

Benefit

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

CITY OF READING  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
December 31, 2012

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**2012-002      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 must also approve the voucher when a specific dollar threshold is met.

Condition/Cause

The assistant to the finance director has been given the responsibility to sign on behalf of numerous other individuals, thus eliminating critical steps in the control process.

Effect

The City no longer has 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

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. We recommend the City continue to develop policies and procedures to broaden the use of electronic purchase orders and also communicate the importance of each approval by the authorized individual in the cash disbursement process.

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.

**2012-003      PENSION REPORTING**

Criteria

The City has a fiduciary responsibility to ensure that all employees contribute the appropriate contractually obligated contribution to the pension plan. If the appropriate amount is not contributed in a timely manner the investments returns could be jeopardized and cause the City to not be in compliance with their fiduciary responsibility.

Condition/Cause

The City switched payroll software in the middle of the year, leading to data input or software set-up errors which prevented proper amounts from being withheld or reported. No dual calculations were performed to ensure that the switch was performed correctly.

**CITY OF READING**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**December 31, 2012**

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**2012-003      PENSION REPORTING - CONTINUED**

Effect

During our procedures, we noted several instances where the proper pension eligible pay was miscalculated for employees who had leave without pay. In addition, 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. 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 able to uphold its fiduciary responsibility to its employees. The City will also be more capable of substantiating the AG-385 during state audits if appropriate supporting documentation is maintained, which therefore will likely decrease the opportunity for excess funds received from the state.

Management Response

See corrective action plan included in this report package.

**2012-004      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, 2012

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**2012-004 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 taking steps to control one of the largest expenditures of the City. The City will also be in compliance with governing documents related to pension.

Management Response

See corrective action plan included in this report package.

**2012-005 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 to also implement a gatekeeper type policy for electronic time reporting and controlling of overtime.

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.

**CITY OF READING**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**December 31, 2012**

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**2012-006      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 to properly monitor the grant. 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, 2012

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**2012-007      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 a preliminary SEFA and information relating to the federal programs including agreements and other supporting documentation; however, portions of the SEFA for major programs were not updated from the prior year.

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, 2012**

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**2012-008      PREPARATION OF BANK RECONCILIATIONS**

Criteria

Cash is a material account for the City with a large amount of activity. Performing timely and accurate bank reconciliations is a key control in detecting misappropriation of assets.

Condition/Cause

The City is unable to reconcile the main operating accounting through which most receipts and disbursements flow. Accurate reconciliations are not being performed timely, and there is no review by management of the process.

Effect

Without accurate bank reconciliations, the City cannot be sure that all activity is being captured in the proper period. This also increases the risk for misappropriation of assets to go undetected.

Recommendation

We recommend that the City dedicate an individual within the finance department to address the delinquent reconciliations. The reconciliation is a complex document with many different factors. It is imperative that the finance department gain a complete understanding of the transactions that affect this account and then timely and accurately reconcile the activity to the general ledger monthly. Once the reconciliations are performed on a monthly basis, a member of management should carefully review the reconciliation for accuracy and any unusual items.

Benefit

The City will be able to better identify available cash and revenue and expenses. The City will also have better control over cash management.

Management Response

See corrective action plan included in this report package.

CITY OF READING  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
December 31, 2012

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**2012-009      FILING OF REQUIRED FORMS**

Criteria

Federal regulations require that Form 941 be filed quarterly, within one month of each quarter's end. Employee W-2 forms must be distributed by January 31<sup>st</sup> of each year.

Condition/Cause

Due to the change in payroll software, the City's third quarter 941 payroll tax return was not filed timely. The report was due October 31, 2012 and was not submitted until April of 2013. In addition, several revisions were made to employees' W-2 forms for the 2012 tax year.

Effect

The City was not in compliance with payroll tax regulations during 2012 and accurate wages were not reported timely to employees or the IRS. It was also noted that several state grants and subsidies were delayed as a result of the delinquent filing.

Recommendation

In order to be sure filing deadlines are met, we recommend that the City establish a timeline for forms to be prepared, reviewed, and submitted. The City should work closely with their payroll provider to timely reconcile any differences that are causing a delay in the filing of forms.

Benefit

The City will be in compliance with payroll regulations.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2012

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**Section III - Federal Award Findings and Questioned Costs**

- 2012-001 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 B11MC420013, and B12MC420013: CDBG-R 14.253 Contract B09MY420013: Home Investment Partnership Program 14.239 - Contracts M09MC420204, M10MC420204, M11MC420204, and M12MC420204: Homeless Prevention and Rapid Re-Housing Program - ARRA 14.257 - Contract S09MY420006: Neighborhood Stabilization Program 2 14.256.
- 2012-002 Cash Disbursements - Segregation of Duties is also a Federal Award Finding which relates to Community Development Block Grant 14.218 - Contracts B11MC420013, and B12MC420013: CDBG-R 14.253 Contract B09MY420013: Home Investment Partnership Program 14.239 - Contracts M09MC420204, M10MC420204, M11MC420204, and M12MC420204: Homeless Prevention and Rapid Re-Housing Program - ARRA 14.257 - Contract S09MY420006: Neighborhood Stabilization Program 2 14.256.
- 2012-007 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 B11MC420013, and B12MC420013: CDBG-R 14.253 Contract B09MY420013: Home Investment Partnership Program 14.239 - Contracts M09MC420204, M10MC420204, M11MC420204, and M12MC420204: Homeless Prevention and Rapid Re-Housing Program - ARRA 14.257 - Contract S09MY420006: Neighborhood Stabilization Program 2 14.256: COPS Grant - 16.710 - Contracts 2008-CK-WX-0171, 2008-CK-WX-0255: COPS Grant ARRA - 16.710 - Contract 2009-RK-WX-0716: Federal-Aid Highway Program - 20.205.
- 2012-008 Preparation of Bank Reconciliations is also a Federal Award Finding which relates to Community Development Block Grant 14.218 - Contracts B11MC420013, and B12MC420013: CDBG-R 14.253 Contract B09MY420013: Home Investment Partnership Program 14.239 - Contracts M09MC420204, M10MC420204, M11MC420204, and M12MC420204: Homeless Prevention and Rapid Re-Housing Program - ARRA 14.257 - Contract S09MY420006: Neighborhood Stabilization Program 2 14.256.

## CITY OF READING

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2012

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#### 2012-010 GRANT RECONCILIATIONS

##### Federal Program:

Community Development Block Grant 14.218 - Contracts B11MC420013, and B12MC420013: CDBG R 14.253 Contract B09MY420013: Home Investment Partnership Program 14.239 - Contracts M09MC420204, M10MC420204, M11MC420204, and M12MC420204: Homeless Prevention and Rapid Re-Housing Program - ARRA 14.257 - Contract S09MY420006: Neighborhood Stabilization Program 2 14.256.

##### Criteria

The City receives direct funding from the Department of Housing and Urban Development (HUD) for the Community Block Grant, HOME Investment Partnership, Homeless Prevention and Rapid Re-Housing and Neighborhood Stabilization Program 2 programs. The City uses a separate fund for tracking and reporting purposes. The HUD IDIS system is used to communicate information to HUD as well as to draw down appropriate funds to reimburse the City for monies spent and report program income.

##### Condition

The City is continuing to use bank accounts for federal programs purposes that were never appropriately approved and were to be discontinued and closed. The City is also not properly recording the activity included within these accounts with other grant related activity to ensure that draw downs only occur after the appropriate disbursements take place and that the ledger, cash accounts, and activity in the Integrated Disbursement & Information System (IDIS) all are reconciled.

##### Context

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 and are still not included at December 31, 2012. During the 2012 year, a wire was sent directly from Neighborhood Stabilization Program expenses from one of these "off-ledger" accounts to a vendor in the amount of \$700,665. Since the disbursement did not go through the normal approval cycle it was not properly reported in the general ledger community development fund as an expense nor was it approved by the City Auditor's office before being disbursed. Our procedures also noted an accrual from the prior year in the amount of \$14,737 that was not drawn down during the 2012 fiscal year. When noted that the amount was still outstanding, no additional entitlement funds were available for that grant, therefore the funds could not be drawn down.

##### Questioned Costs

None Noted

##### Cause

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.

**CITY OF READING**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**December 31, 2012**

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**2012-010 GRANT RECONCILIATIONS - CONTINUED**

Effect

The City's general ledger does not accurately reflect the activity taking place in the grants noted throughout the year. The City is also not drawing down funds accurately and completely to fund expenses incurred.

Recommendation

It is imperative that the City close the off balance sheet accounts to eliminate any further inconsistencies. The finance and community development departments need to better 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. We have seen improvement in the identification of voucher numbers on the AP forms in the latter half of 2012, but there were still numerous expenses classified under the wrong grant in the general ledger system. The City also needs to implement policies and procedures to allow for better oversight and accountability for program compliance.

Management Response

See corrective action plan included in this report package.

**2012-011 GRANT CASH MANAGEMENT**

Federal Program:

Community Development Block Grant 14.218 - Contracts B11MC420013, and B12MC420013: CDBG R 14.253 Contract B09MY420013, and Federal Highway Aid 20.205.

Criteria

Cash management is addressed under 2 CFR section 215.22. When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government. When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. Although there is no explicit regulation for cash advances, the general standard is that the subrecipient must disburse the funds to pay for Community Development Block Grant program costs within 3 business days of the receipt of those funds from the grantee. The Federal Highway Aid agreement states that payments should be made to vendors within 10 days of receiving funds.

Condition

Federal programs are decentralized throughout the City. There is no consistent oversight and accountability for ensuring that all programs are in compliance with requirements and that individuals responsible for programs understand the requirements in place.

CITY OF READING  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
December 31, 2012

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**2012-011 GRANT CASH MANAGEMENT - CONTINUED**

Context

The Code Enforcement activity within the Community Development Block Grant contains a monthly draw down to cover property maintenance and trade inspections within the grant approved area in the City. Of the twenty-four timesheets noted for reimbursement, two were not properly drawn down from the grant. These two months totaled \$50,247 and were January and February of 2012. The missing drawn down was not noted until June of 2013 through our audit procedures. The community policing activity within the Community Development Block Grant contains nine draw downs for the current year. It was noted through our procedures that three of the draw downs from December of 2012 were not timely transferred to reimburse the proper fund for the incurred cost. Total reimbursement received was \$53,548 drawn in December and not transferred to the general fund until June 2013. The City was also a subrecipient of a grant passed through Pennsylvania Department of Transportation. Currently the City has received three payments which are then to be forwarded to the vendor within 10 days. The third payment was for the accrual at December 31, 2012 and was received by the City on January 10, 2013. Payment was not remitted to the vendor until March 15, 2013.

Questioned Costs

None noted.

Cause

A monthly reconciliation from the program expenses to the related draw downs was not completed accurately and timely throughout the year, therefore no control was in place to prevent expenses being incurred without the proper draw down taking place timely. There was also no procedure in place that appointed a specific individual to be responsible for the cash management requirement of the Federal Highway Aid grant.

Effect

The City general fund was not timely reimbursed for expenses that were paid for the two activities noted above related to the Community Development Block Grant funding. The City also failed to comply with the 10 day window for remittances of funds received under the Federal highway Aid program. This deviation allows the grantee the ability unilaterally change the payment structure to a reimbursement basis which would negatively affect the City's cash management.

Recommendation

We recommend that the City develop a policy of identifying a point person for each individual grant to allow the proper oversight and accountability for program compliance. We also recommend that the fiscal officer timely reconcile expenses and draw downs to ensure the completeness of the draw downs to expenses incurred and also quarterly examine entitlement funds allocated to an activity against the actual costs incurred to identify some possible areas of concern. It is also important that the accounting staff should be made aware of a complete listing of grants so that they can communicate with the appropriate personnel when funds are received.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2012

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**2012-012 ACCOUNTING FOR PROGRAM INCOME**

Federal Program:

Community Development Block Grant 14.218 - Contracts B11MC420013, and B12MC420013: CDBG R 14.253 Contract B09MY420013: Home Investment Partnership Program 14.239 - Contracts M09MC420204, M10MC420204, M11MC420204, and M12MC420204: Neighborhood Stabilization Program 2 14.256.

Criteria

Program income is defined under 24 CFR 570.500(a). This section of the code defines the sources of program income and how it is to be reported and utilized. Program income is gross income received that is directly generated by the federally funded project during the grant period. It is subject to the same restrictions as the entitlement funds for a project.

Condition

In evaluating the accounting for program income generated through the City of Reading's programs, we noted that the City was not updating the PIDC loan accounting system for the receipt of loan payments during the year. These payments are program income under the federal code noted. It was also noted in our testing that program income generated through the sale of properties rehabilitated with Neighborhood Stabilization Program 2 (NSP 2) funds was not being accurately accounted for in the Disaster Recovery Grant Reporting system (DRGR).

Context

The City of Reading receives program income to be used in the Community Development Block Grant and Home Investment Partnership programs. The majority of the program income for these programs is generated through payments received from past loan recipients. The City utilizes a software package to account for these loans. This program was not updated throughout 2012.

Program income for the NSP 2 program is generated through the sale of properties rehabilitated through program funding. Currently program income is received by another consortium member and accounted for on a spreadsheet. Monthly the information is sent to the City with documentation for items noted. The City is responsible for entering information into the DRGR system. Through turnover in the City program manager for NSP 2 and other events, a variance exists between the City's records, DRGR and the consortium member responsible for program income. The City currently does not reflect program income activity within the general ledger.

Questioned Costs

None noted.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2012

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**2012-012 ACCOUNTING FOR PROGRAM INCOME - CONTINUED**

Cause

Turnover in the fiscal officer and other positions with the community development office lead to a delay in the input of loan payment information into the system for Community Block Development Grant and Home Investment Partnership program income and an understanding and reconciliation of program income reported into the DRGR system to the consortium records for NSP 2.

Effect

The City is not properly and accurately, tracking and reconciling the program income that is being generated by federal funds properly in the software system provided.

Recommendation

We recommend that the fiscal officer timely enter payments received for loans outstanding related to program income into the PIDC loan accounting software. We commend the City in recognizing the reconciliation problems with the NSP2 program income and taking steps to engage a consultant through the Department of Housing and Urban Development to rectify the situation. We do encourage the City in the future to evaluate the individuals that are being sent to trainings for specific programs to allow the City to stay in the best position possible for understanding and complying with the grant requirements and procedures. Trainings should also be attended by individual responsible for the oversight and accountability for program compliance.

Management Response

See corrective action plan included in this report package.

**2012-013 FEDERAL FUNDING ACCOUNTABILITY AND TRANSPARENCY ACT**

Federal Program:

Community Development Block Grant 14.218 - Contracts B11MC420013, and B12MC420013: Home Investment Partnership Program 14.239 - Contracts M09MC420204, M10MC420204, M11MC420204, and M12MC420204

Criteria

The Federal Funding Accountability and Transparency Act, under 2 CFR part 170, require recipients of direct, non ARRA federal funds to report first-tier subawards that result in an obligation of \$25,000 or more of federal funds.

Condition

The City is a direct recipient of Community Development Block Grant and Home Investment Partnership Program funding from the federal government. Both programs have individual subawards of \$25,000 or greater.

CITY OF READING  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
December 31, 2012

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**2012-013      FEDERAL FUNDING ACCOUNTABILITY AND TRANSPARENCY ACT - CONTINUED**

Context

As the direct recipient of federal funds awarded after October 1, 2010, the City is required to report first-tier subawards that obligate \$25,000 or more of federal funds. This requirement would apply to both the Community Development Block Grant and Home Investment Partnership Program awards for the year ended December 31, 2012. No such reporting was performed.

Questioned Costs

None noted.

Cause

Due to turnover and lack of internal control and oversight procedures within the City's community development office, proper notification and training on this new requirement was not received.

Effect

The City was not in compliance with the Federal Funding Accountability and Transparency Act and could lose future federal funding.

Recommendation

The City is currently taking steps to become compliant with this requirement. We suggest the City obtain the proper documentation and training to report the first-tier subawards timely and accurately. We also encourage the City community development office to review trainings available for any additional upcoming regulations that may affect the City to allow them to establish oversight and accountability for program requirements.

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, 2012

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**11-1** 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: Homeless Prevention and Rapid Re-Housing Program – ARRA 14.257 – Contract S09MY420006: Neighborhood Stabilization Program 2 14.256

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

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

Current Status of Corrective Action Plan

See corrective action plan included in this report package related to finding 2012-001.

CITY OF READING

STATUS OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

December 31, 2012

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**11-5** Account Reconciliations/Material Adjustments Posted as a Result of the 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

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. 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.

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 than reactive at the time of audit.

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.

Current Status of Corrective Action Plan

See corrective action plan included in this report package related to finding 2012-001.

CITY OF READING

STATUS OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

December 31, 2012

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**11-8 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

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

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.

Current Status of Corrective Action Plan

This finding was rectified in the current year.

CITY OF READING

STATUS OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

December 31, 2012

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**11-12 PREPARATION OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** 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

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.

CITY OF READING

STATUS OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

December 31, 2012

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

Management Response

The Grants Accountant will prepare the SEFA schedules as required.

Current Status of Corrective Action Plan

See corrective action plan included in this report package related to finding 2012-007.

**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.

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

CITY OF READING

STATUS OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

December 31, 2012

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**11-13 GRANT RECEIPTS - CONTINUED**

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

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

Current Status of Corrective Action Plan

See corrective action plan included in this report package related to finding 2012-011.



# CITY OF READING, PENNSYLVANIA

ADMINISTRATIVE SERVICES DEPARTMENT  
ROOM 2-48  
815 WASHINGTON STREET  
READING, PA 19601-3690  
(610) 655-6227

**MATTHEW BEMBENICK**  
**ADMINISTRATIVE SERVICES**  
**DIRECTOR**

## CORRECTIVE ACTION PLAN

December 31, 2012

U.S. Department of Housing and Urban Development:

The City of Reading respectfully submits the following corrective action plan for the year ended December 31, 2012.

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

Audit period: December 31, 2012

The findings from the December 31, 2012 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

### **Section II - Financial Statement Findings**

#### **2012-001 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. The accounting department only records accounts receivable at year-end for governmental funds. In addition, significant adjustments are posted at year-end to bring numerous other funds and accounts into compliance with reporting under U.S. generally accepted accounting standards.

##### 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 and deadlines are setup for timely completion. Reconciliations should then have the appropriate review for potential misstatements that may exist.

##### Management Response

Management is developing a process to assign responsibility by fund to maintain reconciliations on a monthly basis and to schedule monthly closings of accounting records.



FAX: (610) 655-6427 TDD: (610) 655-6227

**2012-002 CASH DISBURSEMENTS - SEGREGATION OF DUTIES**

Condition/Cause

The assistant to the finance director has been given the responsibility to sign on behalf of numerous other individuals, thus eliminating critical steps in the control process.

Recommendation

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. We recommend the City continue to develop policies and procedures to broaden the use of electronic purchase orders and also communicate the importance of each approval by the authorized individual in the cash disbursement process.

Management Response

Management is requiring all authorized signers to be responsible for reviewing payments. Dollar thresholds for the review process are being reviewed for improved efficiency.

**2012-003 PENSION REPORTING**

Condition/Cause

The City switched payroll software in the middle of the year, leading to data input or software set-up errors which prevented proper amounts from being withheld or reported. No dual calculations were performed to ensure that the switch was performed correctly.

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. Additionally, we recommend a member of management review the completed AG-385 with the supporting documentation for unusual items and accuracy.

Management Response

Management will schedule reviews of payroll records to ensure proper withholdings are being made for employees. Management will assign a person to review the AG 385 for accuracy.

**2012-004 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 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.

Management Response

The pension compliance issue will be reviewed as part of the ongoing and future labor contract negotiations with Act 47 guidelines.

## **2012-005      TIME CARD APPROVAL**

### 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.

### 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 to also implement a gatekeeper type policy for electronic time reporting and controlling of overtime.

### Management Response

Management is currently working through a transition process onto an electronic time capture platform whereby employees will clock in and out of work using a paperless process. Time data will be approved electronically by supervisory personnel.

## **2012-006      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 subrecipients without the proper documentation for expenses and other reports being received to properly monitor the grant. 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.

### 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.

### Management Response

Management has assigned responsibility and scheduled timing of the preparation of the schedule of grants with the appropriate accounting personnel and has developed a process to review the report for completeness and accuracy and to reconcile the detailed report to the general ledger.

## **2012-007      PREPARATION OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)**

### Condition/Cause

The City does not prepare a SEFA containing all required information. The City provided a preliminary SEFA and information relating to the federal programs including agreements and other supporting documentation; however, portions of the SEFA for major programs were not updated from the prior year.

**2012-007      PREPARATION OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(SEFA) – CONTINUED**

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

Management has assigned responsibility to prepare the report with the assistance of accounting personnel to review the report for completeness and accuracy.

**2012-008      PREPARATION OF BANK RECONCILIATIONS**

Condition/Cause

The City is unable to reconcile the main operating accounting through which most receipts and disbursements flow. Accurate reconciliations are not being performed timely, and there is no review by management of the process.

Recommendation

We recommend that the City dedicate an individual within the finance department to address the delinquent reconciliations. The reconciliation is a complex document with many different factors. It is imperative that the finance department gain a complete understanding of the transactions that affect this account and then timely and accurately reconcile the activity to the general ledger monthly. Once the reconciliations are performed on a monthly basis, a member of management should carefully review the reconciliation for accuracy and any unusual items.

Management Response

Management has assigned responsibility to personnel to prepare the bank reconciliations and agree to the associated trial balance accounts.

**2012-009      FILING OF REQUIRED FORMS**

Condition/Cause

Due to the change in payroll software, the City's third quarter 941 payroll tax return was not filed timely. The report was due October 31, 2012 and was not submitted until April of 2013. In addition, several revisions were made to employees' W-2 forms for the 2012 tax year.

Recommendation

In order to be sure filing deadlines are met, we recommend that the City establish a timeline for forms to be prepared, reviewed, and submitted. The City should work closely with their payroll provider to timely reconcile any differences that are causing a delay in the filing of forms.

Management Response

Management will review quarterly & yearend payroll filings which are now being prepared by a payroll company to verify accuracy and ensure timeliness.

### Section III - Federal Award Findings and Questioned Costs

2012-001 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 B11MC420013, and B12MC420013: CDBG-R 14.253 Contract B09MY420013: Home Investment Partnership Program 14.239 - Contracts M09MC420204, M10MC420204, M11MC420204, and M12MC420204: Homeless Prevention and Rapid Re-Housing Program - ARRA 14.257 - Contract S09MY420006: Neighborhood Stabilization Program 2 14.256.

See management's response to 2012-001 above.

2012-002 Cash Disbursements - Segregation of Duties is also a Federal Award Finding which relates to Community Development Block Grant 14.218 - Contracts B11MC420013, and B12MC420013: CDBG-R 14.253 Contract B09MY420013: Home Investment Partnership Program 14.239 - Contracts M09MC420204, M10MC420204, M11MC420204, and M12MC420204: Homeless Prevention and Rapid Re-Housing Program - ARRA 14.257 - Contract S09MY420006: Neighborhood Stabilization Program 2 14.256.

See management's response to 2012-002 above.

2012-007 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 B11MC420013, and B12MC420013: CDBG-R 14.253 Contract B09MY420013: Home Investment Partnership Program 14.239 - Contracts M09MC420204, M10MC420204, M11MC420204, and M12MC420204: Homeless Prevention and Rapid Re-Housing Program - ARRA 14.257 - Contract S09MY420006: Neighborhood Stabilization Program 2 14.256: COPS Grant - 16.710 - Contracts 2008-CK-WX-0171, 2008-CK-WX-0255: COPS Grant ARRA - 16.710 - Contract 2009-RK-WX-0716: Federal-Aid Highway Program - 20.205.

See management's response to 2012-007 above.

2012-008 Preparation of Bank Reconciliations is also a Federal Award Finding which relates to Community Development Block Grant 14.218 - Contracts B11MC420013, and B12MC420013: CDBG-R 14.253 Contract B09MY420013: Home Investment Partnership Program 14.239 - Contracts M09MC420204, M10MC420204, M11MC420204, and M12MC420204: Homeless Prevention and Rapid Re-Housing Program - ARRA 14.257 - Contract S09MY420006: Neighborhood Stabilization Program 2 14.256.

See management's response to 2012-008 above.

#### 2012-010 GRANT RECONCILIATIONS

##### Federal Program:

Community Development Block Grant 14.218 - Contracts B11MC420013, and B12MC420013: CDBG R 14.253 Contract B09MY420013: Home Investment Partnership Program 14.239 - Contracts M09MC420204, M10MC420204, M11MC420204, and M12MC420204: Homeless Prevention and Rapid Re-Housing Program - ARRA 14.257 - Contract S09MY420006: Neighborhood Stabilization Program 2 14.256.

**2012-010 GRANT RECONCILIATIONS - CONTINUED**

Condition

The City is continuing to use bank accounts for federal programs purposes that were never appropriately approved and were to be discontinued and closed. The City is also not properly recording the activity included within these accounts with other grant related activity to ensure that draw downs only occur after the appropriate disbursements take place and that the ledger, cash accounts, and activity in the Integrated Disbursement & Information System (IDIS) all are reconciled.

Context

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 and are still not included at December 31, 2012. During the 2012 year, a wire was sent directly from Neighborhood Stabilization Program expenses from one of these "off-ledger" accounts to a vendor in the amount of \$700,665. Since the disbursement did not go through the normal approval cycle it was not properly reported in the general ledger community development fund as an expense nor was it approved by the City Auditor's office before being disbursed. Our procedures also noted an accrual from the prior year in the amount of \$14,737 that was not drawn down during the 2012 fiscal year. When noted that the amount was still outstanding, no additional entitlement funds were available for that grant, therefore the funds could not be drawn down.

Cause

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.

Recommendation

It is imperative that the City close the off balance sheet accounts to eliminate any further inconsistencies. The finance and community development departments need to better 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. We have seen improvement in the identification of voucher numbers on the AP forms in the latter half of 2012, but there were still numerous expenses classified under the wrong grant in the general ledger system. The City also needs to implement policies and procedures to allow for better oversight and accountability for program compliance.

Management Response

Community development personnel and HUD representatives have worked together to reroute fund revenue & expenditures into bank accounts which are recorded on the general ledger and all accounts not recorded will be closed.

**2012-011 GRANT CASH MANAGEMENT**

Federal Program:

Community Development Block Grant 14.218 - Contracts B11MC420013, and B12MC420013; CDBG R 14.253 Contract B09MY420013, and Federal Highway Aid 20.205.

Condition

Federal programs are decentralized throughout the City. There is no consistent oversight and accountability for ensuring that all programs are in compliance with requirements and that individuals responsible for programs understand the requirements in place.

## 2012-011 GRANT CASH MANAGEMENT - CONTINUED

### Context

The Code Enforcement activity within the Community Development Block Grant contains a monthly draw down to cover property maintenance and trade inspections within the grant approved area in the City. Of the twenty-four timesheets noted for reimbursement, two were not properly drawn down from the grant. These two months totaled \$50,247 and were January and February of 2012. The missing drawn down was not noted until June of 2013 through our audit procedures. The community policing activity within the Community Development Block Grant contains nine draw downs for the current year. It was noted through our procedures that three of the draw downs from December of 2012 were not timely transferred to reimburse the proper fund for the incurred cost. Total reimbursement received was \$53,548 drawn in December and not transferred to the general fund until June 2013. The City was also a subrecipient of a grant passed through Pennsylvania Department of Transportation. Currently the City has received three payments which are then to be forwarded to the vendor within 10 days. The third payment was for the accrual at December 31, 2012 and was received by the City on January 10, 2013. Payment was not remitted to the vendor until March 15, 2013.

### Cause

A monthly reconciliation from the program expenses to the related draw downs was not completed accurately and timely throughout the year, therefore no control was in place to prevent expenses being incurred without the proper draw down taking place timely. There was also no procedure in place that appointed a specific individual to be responsible for the cash management requirement of the Federal Highway Aid grant.

### Recommendation

We recommend that the City develop a policy of identifying a point person for each individual grant to allow the proper oversight and accountability for program compliance. We also recommend that the fiscal officer timely reconcile expenses and draw downs to ensure the completeness of the draw downs to expenses incurred and also quarterly examine entitlement funds allocated to an activity against the actual costs incurred to identify some possible areas of concern. It is also important that the accounting staff should be made aware of a complete listing of grants so that they can communicate with the appropriate personnel when funds are received.

### Management Response

Community development and accounting personnel have developed a system by which information will be shared so that a proper accounting of the revenues & expenditures can be monitored on a monthly basis and related cash advances and payments can be made and recorded timely.

## 2012-012 ACCOUNTING FOR PROGRAM INCOME

### Federal Program:

Community Development Block Grant 14.218 - Contracts B11MC420013, and B12MC420013: CDBG R 14.253 Contract B09MY420013: Home Investment Partnership Program 14.239 - Contracts M09MC420204, M10MC420204, M11MC420204, and M12MC420204: Neighborhood Stabilization Program 2 14.256.

## 2012-012      ACCOUNTING FOR PROGRAM INCOME - CONTINUED

### Condition

In evaluating the accounting for program income generated through the City of Reading's programs, we noted that the City was not updating the PIDC loan accounting system for the receipt of loan payments during the year. These payments are program income under the federal code noted. It was also noted in our testing that program income generated through the sale of properties rehabilitated with Neighborhood Stabilization Program 2 (NSP 2) funds was not being accurately accounted for in the Disaster Recovery Grant Reporting system (DRGR).

### Context

The City of Reading receives program income to be used in the Community Development Block Grant and Home Investment Partnership programs. The majority of the program income for these programs is generated through payments received from past loan recipients. The City utilizes a software package to account for these loans. This program was not updated throughout 2012.

Program income for the NSP 2 program is generated through the sale of properties rehabilitated through program funding. Currently program income is received by another consortium member and accounted for on a spreadsheet. Monthly the information is sent to the City with documentation for items noted. The City is responsible for entering information into the DRGR system. Through turnover in the City program manager for NSP 2 and other events, a variance exists between the City's records, DRGR and the consortium member responsible for program income. The City currently does not reflect program income activity within the general ledger.

### Cause

Turnover in the fiscal officer and other positions with the community development office lead to a delay in the input of loan payment information into the system for Community Block Development Grant and Home Investment Partnership program income and an understanding and reconciliation of program income reported into the DRGR system to the consortium records for NSP 2.

### Recommendation

We recommend that the fiscal officer timely enter payments received for loans outstanding related to program income into the PIDC loan accounting software. We commend the City in recognizing the reconciliation problems with the NSP2 program income and taking steps to engage a consultant through the Department of Housing and Urban Development to rectify the situation. We do encourage the City in the future to evaluate the individuals that are being sent to trainings for specific programs to allow the City to stay in the best position possible for understanding and complying with the grant requirements and procedures. Trainings should also be attended by individual responsible for the oversight and accountability for program compliance.

### Management Response

Community development personnel and HUD representatives with an appointed Technical Assistance Consultant have developed a system to resolve issues with the DRGR program and reconcile differences between the system, the City of Reading and its consortium members. Monthly reviews and reconciliations will be scheduled to insure that cash receipts of program revenues are recorded timely and that loan payments received will be recorded monthly into the PIDC loan software to ensure timeliness.

**2012-013 FEDERAL FUNDING ACCOUNTABILITY AND TRANSPARENCY ACT**

Federal Program:

Community Development Block Grant 14.218 - Contracts B11MC420013, and B12MC420013; Home Investment Partnership Program 14.239 - Contracts M09MC420204, M10MC420204, M11MC420204, and M12MC420204

Condition

The City is a direct recipient of Community Development Block Grant and Home Investment Partnership Program funding from the federal government. Both programs have individual subawards of \$25,000 or greater.

Context

As the direct recipient of federal funds awarded after October 1, 2010, the City is required to report first-tier subawards that obligate \$25,000 or more of federal funds. This requirement would apply to both the Community Development Block Grant and Home Investment Partnership Program awards for the year ended December 31, 2012. No such reporting was performed.

Cause

Due to turnover and lack of internal control and oversight procedures within the City's community development office, proper notification and training on this new requirement was not received.

Recommendation

The City is currently taking steps to become compliant with this requirement. We suggest the City obtain the proper documentation and training to report the first-tier subawards timely and accurately. We also encourage the City community development office to review trainings available for any additional upcoming regulations that may affect the City to allow them to establish oversight and accountability for program requirements.

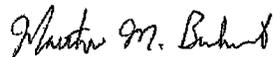
Management Response

Community development personnel are working in conjunction with HUD and CPD representatives to schedule training and provide support in order to comply with current standards.

I would like to thank the efforts of the Controller, Accounting and Treasury Manager and the Accounting Division, whose efforts enabled the City's external 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