



CITY OF READING, OHIO

Basic Financial Statements

Year ended December 31, 2011

With Independent Auditors' Report



Dave Yost • Auditor of State

Members of Council
City of Reading
1000 Market Street
Reading, Ohio 45215

We have reviewed the *Independent Auditors' Report* of the City of Reading, Hamilton County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2011 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Reading is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "Y" and "O".

Dave Yost
Auditor of State

October 31, 2012

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INDEPENDENT AUDITORS' REPORT

To City Council
City of Reading, Ohio:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Reading, Ohio (the City), as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Reading, Ohio as of December 31, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 15, during the year ended December 31, 2011, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 11, 2012, on our consideration of the City'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 50 through 54, 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.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
July 11, 2012

City of Reading, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2011
(Unaudited)

The City of Reading's discussion and analysis of the annual financial reports provides a review of the financial performance for the fiscal year ending December 31, 2011. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's performance.

Financial Highlights

- The City's total net assets increased \$798,037. Net assets of governmental activities increased \$870,811, net assets of business-type activities decreased by \$72,774.
- The General Fund reported a net change in fund balance of \$260,666 .
- Business-type operations reflected operating loss of (\$83,381).

Overview of the Financial Statements

This annual report consists of a series of financial statements. These statements are presented so that the reader can understand the City's financial situation as a whole and also give a detailed view of the City's fiscal condition.

The Statement of Net Assets and Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as the amount of funds available for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

Government-wide Financial Statements

The analysis of the City as a whole begins with the Government-wide Financial Statements. These reports provide information that will help the reader to determine if the City of Reading is financially better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All current year revenues and expenses are taken into account regardless of when cash is received or paid.

City of Reading, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2011
(Unaudited)

These two statements report the City's net assets and changes to those assets. This change informs the reader whether the City's financial position, as a whole, has improved or diminished. In evaluating the overall financial health, the reader of these financial statements needs to take into account non-financial factors that also impact the City's financial well being. Some of these factors include the City's tax base and the condition of capital assets.

In the Government-wide Financial Statements, the City is divided into two kinds of activities.

- **Governmental Activities** - Most of the City's services are reported here including police, fire, street maintenance, parks and recreation, and general administration. Income taxes, property taxes, intergovernmental revenue, charges for services, and interest finance most of these activities.
- **Business-Type Activities** - These services include water. Service fees for these operations are charged based upon the amount of usage or a usage fee. The intent is that the fees charged recoup operational costs.

Fund Financial Statements

Information about the City's major funds is presented in the Fund Financial Statements. Fund financial statements provide detailed information about the City's major funds - not the City as a whole. Some funds are required by State law and bond covenants. Other funds may be established by the City, with approval of council, to help control, manage and report money received for a particular purpose or to show that the City is meeting legal responsibilities for use of grants. The City's major funds are General, EPA Brownsfield Grant, Capital Improvement and Water Funds.

Governmental Funds - Most of the City's 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 an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to 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 to determine whether there are more or less financial resources that can be spent in the near future on services provided to our residents. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds - When the City charges citizens for the services it provides, with the intent of recapturing operating costs, these services are generally reported in proprietary funds. Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

City of Reading, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2011
(Unaudited)

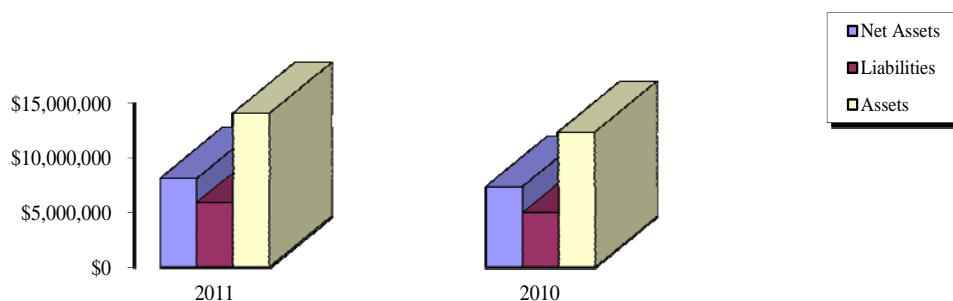
Fiduciary Funds - The City is the fiscal agent for three agency funds. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Assets and Liabilities. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The City as a Whole

As stated previously, the Statement of Net Assets looks at the City as a whole. Table 1 provides a summary of the City's net assets for 2011 compared to 2010.

Table 1
Net Assets

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|-------------------------|--------------------|--------------------------|------------------|--------------------|--------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Assets: | | | | | | |
| Current and Other Assets | \$6,366,072 | \$6,009,356 | \$266,650 | \$347,801 | \$6,632,722 | \$6,357,157 |
| Capital Assets | 6,708,157 | 5,220,983 | 716,519 | 748,985 | 7,424,676 | 5,969,968 |
| Total Assets | 13,074,229 | 11,230,339 | 983,169 | 1,096,786 | 14,057,398 | 12,327,125 |
| Liabilities: | | | | | | |
| Long-Term Liabilities | 3,581,457 | 2,557,415 | 99,385 | 156,064 | 3,680,842 | 2,713,479 |
| Other Liabilities | 2,199,840 | 2,250,803 | 43,263 | 27,427 | 2,243,103 | 2,278,230 |
| Total Liabilities | 5,781,297 | 4,808,218 | 142,648 | 183,491 | 5,923,945 | 4,991,709 |
| Net Assets: | | | | | | |
| Invested in Capital Assets, Net of Related Debt | 3,851,996 | 3,672,852 | 716,519 | 689,915 | 4,568,515 | 4,362,767 |
| Restricted | 2,836,706 | 2,839,706 | 0 | 0 | 2,836,706 | 2,839,706 |
| Unrestricted | 604,230 | (90,437) | 124,002 | 223,380 | 728,232 | 132,943 |
| Total Net Assets | \$7,292,932 | \$6,422,121 | \$840,521 | \$913,295 | \$8,133,453 | \$7,335,416 |



The City saw an increase in Capital Assets for Governmental Activities mainly due to the purchase of a \$650,000 Fire Truck and due to the start and completion of the Jefferson Avenue road improvement project. Long-Term Liabilities increased mainly due to the City issuing an OPWC loan, Fire Truck Bonds and Dump Truck Bonds. Business-Type Activities Capital Assets decreased mainly due to current year depreciation expense exceeding current year additions. Business-Type Activities Long-Term Liabilities decreased mainly due to the City paying off its long term debt obligations.

City of Reading, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2011
(Unaudited)

Table 2 shows the changes in net assets at year end and revenue and expense comparisons of 2011 to 2010.

Table 2
Changes in Net Assets

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|-------------------------|--------------------|--------------------------|------------------|--------------------|--------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Program Revenues: | | | | | | |
| Charges for Services | \$1,394,660 | \$1,357,545 | \$1,416,692 | \$1,333,909 | \$2,811,352 | \$2,691,454 |
| Operating Grants, Contributions | 1,113,063 | 976,156 | 0 | 0 | 1,113,063 | 976,156 |
| Capital Grants and Contributions | 86,300 | 0 | 0 | 0 | 86,300 | 0 |
| Total Program Revenues | 2,594,023 | 2,333,701 | 1,416,692 | 1,333,909 | 4,010,715 | 3,667,610 |
| General Revenues: | | | | | | |
| Income Taxes | 6,229,949 | 6,010,240 | 0 | 0 | 6,229,949 | 6,010,240 |
| Property Taxes | 709,368 | 660,536 | 0 | 0 | 709,368 | 660,536 |
| Grants and Entitlements | 774,783 | 485,399 | 0 | 0 | 774,783 | 485,399 |
| Investment Earnings | 1,389 | 4,773 | 0 | 0 | 1,389 | 4,773 |
| Other | 104,124 | 29,669 | 0 | 0 | 104,124 | 29,669 |
| Total General Revenues | 7,819,613 | 7,190,617 | 0 | 0 | 7,819,613 | 7,190,617 |
| Total Revenues | 10,413,636 | 9,524,318 | 1,416,692 | 1,333,909 | 11,830,328 | 10,858,227 |
| Program Expenses: | | | | | | |
| General Government | 1,943,296 | 2,014,109 | 0 | 0 | 1,943,296 | 2,014,109 |
| Public Safety | 5,647,431 | 5,461,354 | 0 | 0 | 5,647,431 | 5,461,354 |
| Leisure Time Activities | 435,229 | 461,934 | 0 | 0 | 435,229 | 461,934 |
| Community Development | 174,053 | 145,067 | 0 | 0 | 174,053 | 145,067 |
| Basic Utility Service | 473,346 | 438,421 | 0 | 0 | 473,346 | 438,421 |
| Transportation and Street Repair | 771,072 | 965,519 | 0 | 0 | 771,072 | 965,519 |
| Public Health and Welfare | 5,190 | 5,000 | 0 | 0 | 5,190 | 5,000 |
| Interest and Fiscal Charges | 81,878 | 95,024 | 0 | 0 | 81,878 | 95,024 |
| Water Utility | 0 | 0 | 1,500,796 | 1,340,991 | 1,500,796 | 1,340,991 |
| Total Program Expenses | 9,531,495 | 9,586,428 | 1,500,796 | 1,340,991 | 11,032,291 | 10,927,419 |
| Increase (Decrease) in Net Assets before Transfers | | | | | | |
| | 882,141 | (62,110) | (84,104) | (7,082) | 798,037 | (69,192) |
| Transfers - Internal Activities | | | | | | |
| | (11,330) | 0 | 11,330 | 0 | 0 | 0 |
| Change in Net Assets | 870,811 | (62,110) | (72,774) | (7,082) | 798,037 | (69,192) |
| Net Assets Beginning of Year | 6,422,121 | 6,484,231 | 913,295 | 920,377 | 7,335,416 | 7,404,608 |
| Net Assets End of Year | \$7,292,932 | \$6,422,121 | \$840,521 | \$913,295 | \$8,133,453 | \$7,335,416 |

Operating and Capital Grants and Contributions increased in 2011 as compared to 2010 due to an increase in grant monies received for various projects throughout the City. Grants and Entitlements increased mainly due to an increase in grants receivable from the Ohio Job Ready Site Grant. Transportation and Street Repair decreased due to an decrease in repairs and maintenance to streets. The Business-Type Activities saw an increase in expenses mainly due to an increase in personnel services expense.

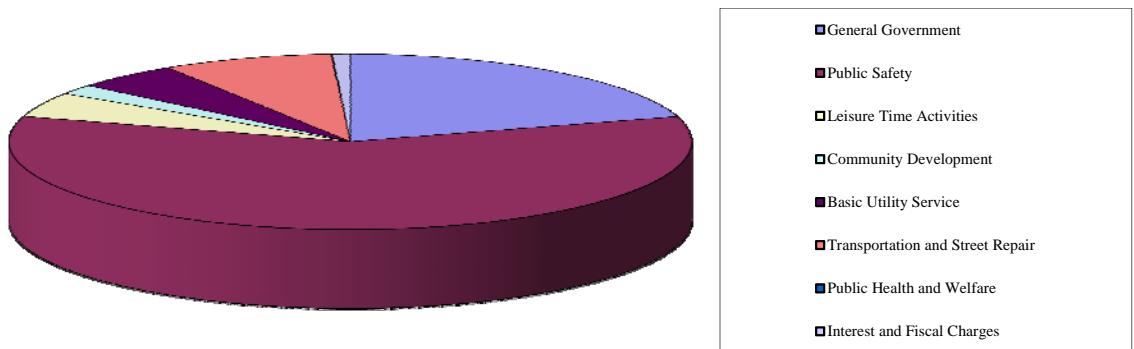
City of Reading, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2011
(Unaudited)

Governmental Activities

The 2.0% income tax is the largest source of revenue for the City. Revenues generated by the earnings tax represent approximately 80% of the City's governmental activities general revenues.

Governmental Activities
Program Expenses for 2011

| | <u>Percentage</u> |
|----------------------------------|-----------------------|
| General Government | 20.39% |
| Public Safety | 59.25% |
| Leisure Time Activities | 4.57% |
| Community Development | 1.83% |
| Basic Utility Service | 4.97% |
| Transportation and Street Repair | 8.09% |
| Public Health and Welfare | 0.05% |
| Interest and Fiscal Charges | <u>0.85%</u> |
| Total | <u><u>100.00%</u></u> |



General Government includes legislative and executive as well as judicial expenses. Leaf and brush pickup, storm sewer projects, aggressive street resurfacing program, amenities in the parks, and police and fire services all culminate into a full service city.

Business-Type Activities

The City's business-type activity includes water. This program had operating revenues of \$1,416,692 and operating expenses of \$1,500,073 for fiscal year 2011. Business activities receive no support from tax revenues. The business activities net assets at the end of the year was \$840,521, which decreased \$72,774 from 2010. The City had one business-type (enterprise) fund that was a major fund: the Water fund.

City of Reading, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2011
(Unaudited)

The City's Funds

The City has three major governmental funds: the General Fund, EPA Brownsfield Grant Fund and Capital Improvement Fund. Assets of the General fund comprised \$2,588,743 (38%), the EPA Brownsfield Grant fund comprised \$1,432,281 (21%) and the Capital Improvement fund comprised \$1,206,715 (18%) of the total \$6,774,938 governmental funds assets.

General Fund: Fund balance at December 31, 2011 was \$173,974 an increase in fund balance of \$260,666 from 2010. The general fund had an increase in fund balance mainly due to an increase in intergovernmental revenue.

EPA Brownsfield Grant Fund: Fund balance at December 31, 2011 was \$656,297 an increase in fund balance of \$12,986 from 2010. The EPA Brownsfield grant had an increase in fund balance mainly due to an increase in intergovernmental revenue.

Capital Improvement Fund: Fund balance at December 31, 2011 was \$730,490 an increase in fund balance of \$200,018. The capital improvement fund had an increase in fund balance due to a increase in taxes and intergovernmental revenue.

General Fund Budgeting Highlights

The City's General Fund budget is formally adopted at the object level. Financial reports, which compare actual performance with the budget, are prepared quarterly and presented to the Council so the Council is able to review the financial status and measure the effectiveness of the budgetary controls.

As the City completed the year, its General Fund balance reported an actual fund balance of \$122,725, on a Non-GAAP Budgetary Basis.

Variations from the final budget amounts to the actual amounts are primarily due to the following reasons: The City overestimated the taxes revenue and charges for services revenue amount and overestimated the general government and public safety expenditures for 2011.

City of Reading, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2011
(Unaudited)

Capital Assets and Debt Administration

Capital Assets

At year end, the City had \$7,424,676 invested in land, buildings and improvements, equipment and infrastructure. Table 3 shows 2011 balances compared to 2010:

Table 3
Capital Assets, Net of Depreciation

| | Governmental Activities | | Business-Type Activities | | Total | |
|----------------------------|-------------------------|--------------------|--------------------------|------------------|--------------------|--------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Land | \$1,337,171 | \$1,337,171 | \$6,135 | \$6,135 | \$1,343,306 | \$1,343,306 |
| Construction in Progress | 284,222 | 0 | 0 | 0 | 284,222 | 0 |
| Buildings and Improvements | 322,832 | 399,131 | 49,302 | 50,796 | 372,134 | 449,927 |
| Equipment | 1,330,105 | 608,390 | 73,664 | 85,786 | 1,403,769 | 694,176 |
| Infrastructure | 3,433,827 | 2,876,291 | 587,418 | 606,268 | 4,021,245 | 3,482,559 |
| Total Net Capital Assets | <u>\$6,708,157</u> | <u>\$5,220,983</u> | <u>\$716,519</u> | <u>\$748,985</u> | <u>\$7,424,676</u> | <u>\$5,969,968</u> |

The increases in net capital assets was the result of the purchase of a fire truck and various improvements to Jefferson Avenue in 2011.

See Note 6 in the notes to the basic financial statements for further details on the City's capital assets.

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City of Reading, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2011
(Unaudited)

Debt

At year-end the City had \$2,587,459 in general obligation bonds, notes, loans and capital leases.

Table 4
Outstanding Debt at Year End

| | | 2011 | 2010 |
|------------------------------------|-------------|---------------------------|---------------------------|
| Governmental Activities | | | |
| <u>Bonds and Notes Payable</u> | | | |
| 2003 Various Purpose Bonds | 1.40-5.00% | \$200,000 | \$300,000 |
| 2003 Streetscape Bonds | 4.59% | 600,000 | 650,000 |
| 2009 Real Estate Acquisition Note | 6.80% | 250,000 | 300,000 |
| 2011 Dump Truck Acquisition Bonds | 2.00%-4.50% | 195,000 | 0 |
| 2011 Fire Truck Acquisition Bonds | 2.00%-5.00% | 390,000 | 0 |
| | | <u>1,635,000</u> | <u>1,250,000</u> |
| <u>OPWC Loans Payable</u> | | | |
| 2010 Waxwing Improvements | 0.00% | 270,429 | 284,662 |
| 2011 Jefferson Avenue Improvements | 0.00% | 682,030 | 0 |
| Subtotal Loans | | <u>952,459</u> | <u>284,662</u> |
| <u>Capital Leases Payable</u> | | | |
| 2009 Dump Truck | 2.90% | 0 | 13,469 |
| Total Government Activities | | <u>2,587,459</u> | <u>1,548,131</u> |
| Business Type Activities | | | |
| <u>Bonds Payable</u> | | | |
| 2001 Water System Improvements II | 4.94% | 0 | 48,000 |
| Subtotal Bonds Payable | | <u>0</u> | <u>48,000</u> |
| <u>Capital Lease Payable</u> | | | |
| 2009 Dump Truck | 7.31% | 0 | 11,070 |
| Total Business-Type Activities | | <u>0</u> | <u>59,070</u> |
| Total Debt | | <u><u>\$2,587,459</u></u> | <u><u>\$1,607,201</u></u> |

See Notes 8 - 9 in the notes to the basic financial statements for further details on the City's long-term obligations.

Economic Factors

The City is not immune to economic conditions that have negatively affected many public and private entities. Management has been committed to providing its residents with full disclosure of the financial position of the City.

City of Reading, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2011
(Unaudited)

Contacting the City's Financial Department

This 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 any questions about this report or need additional financial information, contact the City Auditor, City of Reading, 1000 Market Street, Reading, Ohio 45215.

City of Reading, Ohio
Statement of Net Assets
December 31, 2011

| | Governmental Activities | Business-Type Activities | Total |
|---|----------------------------|-----------------------------|--------------------|
| Assets: | | | |
| Equity in Pooled Cash | \$1,665,794 | \$72,353 | \$1,738,147 |
| Receivables: | | | |
| Taxes | 2,124,817 | 0 | 2,124,817 |
| Accounts | 559,737 | 124,542 | 684,279 |
| Intergovernmental | 1,073,496 | 0 | 1,073,496 |
| Internal Balances | (69,755) | 69,755 | 0 |
| Land Held for Resale | 1,011,983 | 0 | 1,011,983 |
| Nondepreciable Capital Assets | 1,621,393 | 6,135 | 1,627,528 |
| Depreciable Capital Assets, Net | 5,086,764 | 710,384 | 5,797,148 |
| Total Assets | 13,074,229 | 983,169 | 14,057,398 |
| Liabilities: | | | |
| Accounts Payable | 351,266 | 16,366 | 367,632 |
| Accrued Wages and Benefits | 778,571 | 26,897 | 805,468 |
| Accrued Interest Payable | 26,681 | 0 | 26,681 |
| Unearned Revenue | 543,322 | 0 | 543,322 |
| General Obligation Notes Payable | 500,000 | 0 | 500,000 |
| Long-Term Liabilities: | | | |
| Due Within One Year | 667,930 | 17,984 | 685,914 |
| Due In More Than One Year | 2,913,527 | 81,401 | 2,994,928 |
| Total Liabilities | 5,781,297 | 142,648 | 5,923,945 |
| Net Assets: | | | |
| Invested in Capital Assets, Net of Related Debt | 3,851,996 | 716,519 | 4,568,515 |
| Restricted for: | | | |
| Debt Service | 1,730 | 0 | 1,730 |
| Capital Projects | 1,369,025 | 0 | 1,369,025 |
| Street Maintenance and Repair | 123,625 | 0 | 123,625 |
| EPA Brownsfield Grant | 946,435 | 0 | 946,435 |
| Streets and Curbs | 263,145 | 0 | 263,145 |
| Other Purposes | 132,746 | 0 | 132,746 |
| Unrestricted | 604,230 | 124,002 | 728,232 |
| Total Net Assets | \$7,292,932 | \$840,521 | \$8,133,453 |

See accompanying notes to the basic financial statements.

City of Reading, Ohio
Statement of Activities
For the Fiscal Year Ended December 31, 2011

| | Expenses | Program Revenues | | |
|---------------------------------------|---------------------|--------------------------------|------------------------------------|----------------------------------|
| | | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions |
| Governmental Activities: | | | | |
| General Government | \$1,943,296 | \$343,818 | \$0 | \$0 |
| Public Safety | 5,647,431 | 487,594 | 1,592 | 0 |
| Leisure Time Activities | 435,229 | 80,146 | 0 | 0 |
| Community Development | 174,053 | 62,548 | 0 | 0 |
| Basic Utility Service | 473,346 | 420,554 | 0 | 0 |
| Transportation and Street Repair | 771,072 | 0 | 1,111,471 | 86,300 |
| Public Health and Welfare | 5,190 | 0 | 0 | 0 |
| Interest and Fiscal Charges | 81,878 | 0 | 0 | 0 |
| Total Governmental Activities | 9,531,495 | 1,394,660 | 1,113,063 | 86,300 |
| Business-Type Activities: | | | | |
| Water Utility | 1,500,796 | 1,416,692 | 0 | 0 |
| Total Business-Type Activities | 1,500,796 | 1,416,692 | 0 | 0 |
| Totals | \$11,032,291 | \$2,811,352 | \$1,113,063 | \$86,300 |

General Revenues:
Income Taxes
Property Taxes Levied for:
 General Purposes
 Capital Projects Purposes
Grants and Entitlements not Restricted to Specific Programs
Unrestricted Contributions
Investments Earnings
Other Revenues
Transfers-Internal Activities

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements.

| Net (Expense) Revenue and Changes in Net Assets | | |
|--|-----------------------------|--------------------|
| Governmental Activities | Business-Type Activities | Total |
| (\$1,599,478) | \$0 | (\$1,599,478) |
| (5,158,245) | 0 | (5,158,245) |
| (355,083) | 0 | (355,083) |
| (111,505) | 0 | (111,505) |
| (52,792) | 0 | (52,792) |
| 426,699 | 0 | 426,699 |
| (5,190) | 0 | (5,190) |
| (81,878) | 0 | (81,878) |
| <u>(6,937,472)</u> | <u>0</u> | <u>(6,937,472)</u> |
| <u>0</u> | <u>(84,104)</u> | <u>(84,104)</u> |
| <u>0</u> | <u>(84,104)</u> | <u>(84,104)</u> |
| <u>(6,937,472)</u> | <u>(84,104)</u> | <u>(7,021,576)</u> |
| 6,229,949 | 0 | 6,229,949 |
| 400,445 | 0 | 400,445 |
| 308,923 | 0 | 308,923 |
| 774,783 | 0 | 774,783 |
| 10,202 | 0 | 10,202 |
| 1,389 | 0 | 1,389 |
| 93,922 | 0 | 93,922 |
| (11,330) | 11,330 | 0 |
| <u>7,808,283</u> | <u>11,330</u> | <u>7,819,613</u> |
| 870,811 | (72,774) | 798,037 |
| <u>6,422,121</u> | <u>913,295</u> | <u>7,335,416</u> |
| <u>\$7,292,932</u> | <u>\$840,521</u> | <u>\$8,133,453</u> |

City of Reading, Ohio
Balance Sheet
Governmental Funds
December 31, 2011

| | General | EPA Brownsfield Grant | Capital Improvement | Other Governmental Funds |
|--|--------------------|-----------------------------|------------------------|--------------------------------|
| Assets: | | | | |
| Equity in Pooled Cash | \$294,972 | \$100,769 | \$28,126 | \$1,241,927 |
| Receivables: | | | | |
| Taxes | 1,829,089 | 0 | 295,728 | 0 |
| Accounts | 85,261 | 0 | 453,750 | 20,726 |
| Intergovernmental | 379,421 | 408,767 | 762 | 284,546 |
| Interfund | 0 | 0 | 339,111 | 0 |
| Land Held for Resale | 0 | 922,745 | 89,238 | 0 |
| Total Assets | 2,588,743 | 1,432,281 | 1,206,715 | 1,547,199 |
| Liabilities and Fund Balances: | | | | |
| Liabilities: | | | | |
| Accounts Payable | 155,563 | 20,372 | 134,359 | 40,972 |
| Accrued Wages and Benefits | 765,474 | 0 | 0 | 13,097 |
| Accrued Interest Payable | 0 | 6,771 | 0 | 0 |
| Interfund Payable | 118,765 | 225,151 | 0 | 64,950 |
| Deferred Revenue | 1,374,967 | 23,690 | 341,866 | 240,811 |
| General Obligation Notes Payable | 0 | 500,000 | 0 | 0 |
| Total Liabilities | 2,414,769 | 775,984 | 476,225 | 359,830 |
| Fund Balances: | | | | |
| Restricted | 0 | 656,297 | 730,490 | 1,282,990 |
| Unassigned | 173,974 | 0 | 0 | (95,621) |
| Total Fund Balances | 173,974 | 656,297 | 730,490 | 1,187,369 |
| Total Liabilities and Fund Balances | \$2,588,743 | 1,432,281 | \$1,206,715 | \$1,547,199 |

See accompanying notes to the basic financial statements.

| Total Governmental Funds |
|--------------------------------|
| \$1,665,794 |
| 2,124,817 |
| 559,737 |
| 1,073,496 |
| 339,111 |
| 1,011,983 |
| <u>6,774,938</u> |
| 351,266 |
| 778,571 |
| 6,771 |
| 408,866 |
| 1,981,334 |
| 500,000 |
| <u>4,026,808</u> |
| 2,669,777 |
| 78,353 |
| <u>2,748,130</u> |
| <u>\$6,774,938</u> |

City of Reading, Ohio
 Reconciliation of Total Governmental Fund Balance to
 Net Assets of Governmental Activities
 December 31, 2011

| | | |
|---|---------------|---------------------------|
| Total Governmental Fund Balance | | \$2,748,130 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | 6,708,157 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. | | |
| Income Taxes | 875,219 | |
| Delinquent Property Taxes | 48,134 | |
| Intergovernmental | 469,283 | |
| Other | <u>45,376</u> | |
| | | 1,438,012 |
| In the statement of net assets interest payable is accrued when incurred, whereas in the governmental funds interest is reported as a liability only when it will require the use of current financial resources. | | (19,910) |
| Some liabilities reported in the statement of net assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds. | | |
| Compensated Absences | | (993,998) |
| Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds. | | <u>(2,587,459)</u> |
| Net Assets of Governmental Activities | | <u><u>\$7,292,932</u></u> |

See accompanying notes to the basic financial statements.

City of Reading, Ohio
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended December 31, 2011

| | General | EPA Brownsfield Grant | Capital Improvement | Other Governmental Funds |
|---|------------------|-----------------------------|------------------------|--------------------------------|
| Revenues: | | | | |
| Taxes | \$6,570,253 | \$0 | \$313,614 | \$0 |
| Fines, Licenses & Permits | 270,113 | 0 | 0 | 21,726 |
| Charges for Services | 813,337 | 0 | 0 | 273,483 |
| Investment Earnings | 1,390 | 0 | 0 | 0 |
| Intergovernmental | 652,142 | 435,077 | 96,557 | 721,342 |
| Other Revenues | 26,987 | 47,710 | 9,308 | 19,598 |
| Total Revenues | 8,334,222 | 482,787 | 419,479 | 1,036,149 |
| Expenditures: | | | | |
| Current: | | | | |
| General Government | 1,867,817 | 0 | 0 | 0 |
| Public Safety | 5,087,778 | 0 | 0 | 48,871 |
| Leisure Time Activities | 435,217 | 0 | 0 | 0 |
| Community Development | 171,312 | 0 | 0 | 2,005 |
| Basic Utility Service | 473,346 | 0 | 0 | 0 |
| Transportation and Street Repair | 1,887 | 326,799 | 0 | 615,842 |
| Public Health and Welfare | 5,190 | 0 | 0 | 0 |
| Capital Outlay | 0 | 20,372 | 185,833 | 1,709,808 |
| Debt Service: | | | | |
| Principal Retirement | 50,000 | 0 | 163,469 | 14,233 |
| Interest and Fiscal Charges | 20,400 | 22,630 | 38,829 | 0 |
| Total Expenditures | 8,112,947 | 369,801 | 388,131 | 2,390,759 |
| Excess of Revenues Over (Under) Expenditures | 221,275 | 112,986 | 31,348 | (1,354,610) |
| Other Financing Sources (Uses): | | | | |
| Proceeds from Sale of Capital Assets | 2,021 | 0 | 0 | 0 |
| Issuance of Long-Term Capital-Related Debt | 0 | 0 | 195,000 | 1,072,030 |
| Transfers In | 115,000 | 0 | 0 | 77,630 |
| Transfers (Out) | (77,630) | (100,000) | (26,330) | 0 |
| Total Other Financing Sources (Uses) | 39,391 | (100,000) | 168,670 | 1,149,660 |
| Net Change in Fund Balance | 260,666 | 12,986 | 200,018 | (204,950) |
| Fund Balance Beginning of Year | (86,692) | 643,311 | 530,472 | 1,392,319 |
| Fund Balance End of Year | \$173,974 | \$656,297 | \$730,490 | \$1,187,369 |

See accompanying notes to the basic financial statements.

| |
|--|
| <u> <u> Total Governmental Funds </u> </u> |
| \$6,883,867 |
| 291,839 |
| 1,086,820 |
| 1,390 |
| 1,905,118 |
| <u>103,603</u> |
| <u>10,272,637</u> |
| |
| 1,867,817 |
| 5,136,649 |
| 435,217 |
| 173,317 |
| 473,346 |
| 944,528 |
| 5,190 |
| 1,916,013 |
| |
| 227,702 |
| <u>81,859</u> |
| <u>11,261,638</u> |
| |
| <u>(989,001)</u> |
| |
| 2,021 |
| 1,267,030 |
| 192,630 |
| <u>(203,960)</u> |
| |
| <u>1,257,721</u> |
| |
| 268,720 |
| |
| <u>2,479,410</u> |
| |
| <u><u>\$2,748,130</u></u> |

City of Reading, Ohio
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended December 31, 2011

Net Change in Fund Balance - Total Governmental Funds \$268,720

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

Governmental funds report capital asset additions 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 of the difference between capital
 asset additions and depreciation in the current period.

| | | |
|--|-----------|-----------|
| Capital assets used in governmental activities | 1,958,767 | |
| Depreciation Expense | (471,593) | |
| | 1,487,174 | 1,487,174 |

Revenues in the statement of activities that do not provide
 current financial resources are not reported as revenues in
 the funds.

| | | |
|---------------------------|---------|---------|
| Income Taxes | 64,872 | |
| Delinquent Property Taxes | (9,382) | |
| Intergovernmental | 84,988 | |
| Other | (1,500) | |
| | 138,978 | 138,978 |

Repayment of bond, loan and capital lease principal is an expenditure in the
 governmental funds, but the repayment reduces long-term
 liabilities in the statement of net assets. 227,702

In the statement of activities interest expense is accrued when incurred,
 whereas in governmental funds an interest expenditure is reported
 when due. (19)

Some expenses reported in the statement of activities do not require the
 use of current financial resources and therefore are not reported as
 expenditures in governmental funds.

| | | |
|----------------------|--|--------|
| Compensated Absences | | 15,286 |
|----------------------|--|--------|

Proceeds from debt issues are an other financing source in the funds,
 but a debt issue increases long-term liabilities in the statement
 of net assets. (1,267,030)

| | | |
|---|--|-----------|
| Change in Net Assets of Governmental Activities | | \$870,811 |
|---|--|-----------|

See accompanying notes to the basic financial statements.

City of Reading, Ohio
Statement of Net Assets
Proprietary Fund
December 31, 2011

| | <u>Water</u> |
|---|-------------------------|
| Assets: | |
| Equity in Pooled Cash | \$72,353 |
| Receivables: | |
| Accounts | 124,542 |
| Interfund | <u>69,755</u> |
| Total Current Assets | <u>266,650</u> |
| Nondepreciable Capital Assets | 6,135 |
| Depreciable Capital Assets, Net | <u>710,384</u> |
| Total Assets | <u>983,169</u> |
| Liabilities: | |
| Current Liabilities: | |
| Accounts Payable | 16,366 |
| Accrued Wages and Benefits | 26,897 |
| Compensated Absences | <u>17,984</u> |
| Total Current Liabilities | <u>61,247</u> |
| Long-Term Liabilities: | |
| Compensated Absences | <u>81,401</u> |
| Total Long-Term Liabilities | <u>81,401</u> |
| Total Liabilities | <u>142,648</u> |
| Net Assets: | |
| Invested in Capital Assets, Net of Related Debt | 716,519 |
| Unrestricted | <u>124,002</u> |
| Total Net Assets | <u><u>\$840,521</u></u> |

See accompanying notes to the basic financial statements.

City of Reading, Ohio
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended December 31, 2011

| | <u>Water</u> |
|---|-------------------------|
| Operating Revenues: | |
| Charges for Services | <u>\$1,416,692</u> |
| Total Operating Revenues | <u>1,416,692</u> |
| Operating Expenses: | |
| Personal Services | 394,018 |
| Contractual Services | 16,366 |
| Materials and Supplies | 1,030,494 |
| Depreciation | <u>59,195</u> |
| Total Operating Expenses | <u>1,500,073</u> |
| Operating Income (Loss) | <u>(83,381)</u> |
| Non-Operating Revenues (Expenses): | |
| Interest (Expense) | <u>(723)</u> |
| Total Non-Operating Revenues (Expenses) | <u>(723)</u> |
| Income Before Transfers | (84,104) |
| Transfers In | <u>11,330</u> |
| Change in Net Assets | (72,774) |
| Net Assets Beginning of Year | <u>913,295</u> |
| Net Assets End of Year | <u><u>\$840,521</u></u> |

See accompanying notes to the basic financial statements.

City of Reading, Ohio
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended December 31, 2011

| | <u>Water</u> |
|---|--------------------------|
| Cash Flows from Operating Activities: | |
| Cash Received from Customers | \$1,406,973 |
| Cash Payments to Employees | (382,411) |
| Cash Payments to Suppliers | <u>(1,039,517)</u> |
| Net Cash Provided (Used) by Operating Activities | <u>(14,955)</u> |
| Cash Flows from Noncapital Financing Activities: | |
| Payments from Other Funds | <u>11,330</u> |
| Net Cash Provided (Used) by Noncapital Financing Activities | <u>11,330</u> |
| Cash Flows from Capital and Related Financing Activities: | |
| Payments for Capital Acquisitions | (26,729) |
| Debt Principal Payments | (59,070) |
| Debt Interest Payments | <u>(1,446)</u> |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>(87,245)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | (90,870) |
| Cash and Cash Equivalents Beginning of Year | <u>163,223</u> |
| Cash and Cash Equivalents End of Year | <u><u>72,353</u></u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | |
| Operating Income (Loss) | (83,381) |
| Adjustments: | |
| Depreciation | 59,195 |
| Changes in Assets & Liabilities: | |
| (Increase) Decrease in Receivables | (9,719) |
| Increase (Decrease) in Payables | 7,343 |
| Increase (Decrease) in Accrued Liabilities | <u>11,607</u> |
| Net Cash Provided (Used) by Operating Activities | <u><u>(\$14,955)</u></u> |

See accompanying notes to the basic financial statements.

City of Reading, Ohio
Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
December 31, 2011

| | <u>Agency</u> |
|-----------------------|------------------|
| Assets: | |
| Equity in Pooled Cash | \$752,828 |
| Receivables: | |
| Accounts | <u>230,241</u> |
| Total Assets | <u>983,069</u> |
| Liabilities: | |
| Other Liabilities | <u>983,069</u> |
| Total Liabilities | <u>\$983,069</u> |

See accompanying notes to the basic financial statements.

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

Note 1 – Description of the City and Reporting Entity

The City of Reading, Ohio (the “City”) operates under a seven-member council. An elected City Auditor is responsible for fiscal control of the City’s resources. Services provided by the City include public service, public safety, recreation and development.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. The City operates under a seven-member council. An elected City Auditor is responsible for fiscal control of the resources of the City. Services provided by the City include public services, public safety, recreation, and development.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization’s governing board; and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization’s resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organizations. Component units may also include organizations for which the City authorizes the issuance of debt or the levying of taxes, or determines the budget. There are no component units included as part of this report.

Note 2 – Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its governmental and business-type activities and to its enterprise funds provided they do not conflict with or contradict GASB pronouncements. For proprietary funds the City has elected not to follow subsequent private-sector guidance. The most significant of the City’s accounting policies are described below.

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

interest earned on grants that is required to be used to support a particular program.

Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund - The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the charter of the City and/or the general laws of Ohio.

EPA Brownsfield Grant Fund – This special revenue fund accounts for financial resources used for the EPA Brownsfield Grant for the City.

Capital Improvement Fund – This capital projects fund accounts for financial resources used for various capital improvements for the City.

The other governmental funds of the City account for grants and other resources that are generally restricted to use for a particular purpose.

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

Proprietary Funds

Proprietary fund reporting focuses on changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City does not have an internal service fund.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following is the City's major enterprise fund:

Water Fund - This fund accounts for provision of water treatment and distribution to the residents and commercial users of the water system.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: agency funds, pension trust funds, investment trust funds and private-purpose trust funds. The City has three Agency funds. The Sewer Disposal Trust Fund (Agency Fund) accounts for money collected for sewer services to be paid to the Metropolitan Sewer District for services provided. The City also has a Warranty Bonds Fund (Agency Fund) to account for warranty bonds collected. The City also has a Mayor's Court Cash Fund (Agency Fund) to account for amounts held on behalf of other governments and bonds deposited with the court pending final disposition of various causes. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Trust funds are used to account for assets held under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City currently has no trust funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty days of year-end.

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax), fines and forfeitures, interest, grants and fees.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of the current year-end, but which were levied to finance future operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Unearned Revenue

Unearned revenue represents amounts under the accrual basis of accounting for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met because such amounts have not yet been earned.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

Equity in Pooled Cash

To improve cash management the City's cash and investments are pooled. Monies for all funds, except cash and investments held in segregated accounts, are maintained in this pool. Individual fund integrity is maintained through City records. Each fund's interest in the pool is presented as "Equity in Pooled Cash" on the balance sheet.

Investments are reported at fair value which is based on quoted market prices, with the exception of nonparticipating repurchase agreements, which are reported at cost. For investments in open-end mutual funds, fair value is determined by the fund's share price.

For purposes of the statement of cash flows and for presentation on the statement of net assets/balance sheet, investments with an original maturity of three months or less and investments of the cash management pool are considered to be cash equivalents.

Following the Ohio Revised Code, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenues during 2011 amounted to \$1,390 in the General Fund.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective proprietary funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City's infrastructure consists of bridges, culverts, curbs, sidewalks, storm sewers, streets, and water and sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The City uses a \$100 capitalization threshold.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

| <u>Description</u> | <u>Estimated Lives</u> |
|----------------------------|------------------------|
| Buildings and Improvements | 15-40 years |
| Equipment | 5-20 years |
| Infrastructure | 50 years |

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

Compensated Absences

The City reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The entire compensated absence liability is reported on the government-wide financial statements.

For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. Compensated absences are reported in governmental funds only if they have matured. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability on the fund financial statements when due.

Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the City classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The following categories are used:

Nonspendable – resources that are not in spendable form or have legal or contractual requirements to maintain the balance intact.

Restricted – resources that have external purpose restraints imposed on them by providers, such as creditors, grantors, or other regulators.

Committed – resources that are constrained for specific purposes that are internally imposed by the government at its highest level of decision making authority, City Council.

City of Reading, Ohio
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For The Year Ended December 31, 2011

Assigned – resources that are intended to be used for specific purposes as approved through the City’s formal purchasing procedure by the City Auditor.

Unassigned – residual fund balance within the General Fund that is not restricted, committed, or assigned. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from incurred expenses for specific purposes exceeding amounts which had been restricted, committed or assigned for said purposes.

The City applies restricted resources first when an expenditure is incurred for purposes which both restricted and unrestricted fund balance is available. The City considers committed, assigned, and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be uses.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Of the City’s \$2,836,706 in restricted net assets, none were restricted by enabling legislation.

Operating Revenues and Expenses

The City, in its proprietary fund, distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the City’s enterprise fund are charges to customers for sales and services. Operating expenses for the enterprise fund includes 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.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

As a general rule, the effect of interfund (internal) activity has been eliminated from the government-wide statement of activities. The interfund services provided and used are not eliminated through the process of consolidation.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 3 – Equity in Pooled Cash

Cash resources of several individual funds are combined to form a pool of cash and investments. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash."

State statute requires the classification of monies held by the City into three categories:

Active Monies - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the City. Such monies must by law be maintained either as cash in the City treasury, in depository accounts payable or withdrawable on demand.

Inactive Monies – Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Monies – Those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Ohio law permits interim monies to be invested or deposited in the following securities:

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.

City of Reading, Ohio
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For The Year Ended December 31, 2011

- (3) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).
- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.
- (8) Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public moneys deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of December 31, 2011, \$1,819,097 of the City's bank balance of \$2,674,543 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

Investments

At year end the City held no investments.

Note 4 – Receivables

Receivables at year end, consisted primarily of taxes (income taxes, property and other taxes), accounts and intergovernmental arising from grants and entitlements.

No allowances for doubtful accounts have been recorded because uncollectible amounts are expected to be insignificant.

Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2011 for real and public utility property taxes represents collections of the 2010 taxes.

2011 real property taxes are levied after October 1, 2011, on the assessed value as of January 1, 2011, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2011 real property taxes are collected in and intended to finance 2012 operations.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2011 public utility property taxes became a lien December 31, 2011, are levied after October 1, 2011, and are collected in 2012 with real property taxes.

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

The assessed values of real and public utility property upon which current year property tax receipts were based are as follows:

| | <u>Amount</u> |
|----------------|-----------------------------|
| Real Property | \$173,038,240 |
| Public Utility | <u>7,555,860</u> |
| Total | <u><u>\$180,594,100</u></u> |

Real property taxes are payable annually or semi-annually. The first payment is due January 20 with the remainder payable by June 20.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. The County Auditor periodically remits to the City its portion of the taxes collected. Accrued property taxes receivable represents real and public utility taxes and outstanding delinquencies which are measurable as of year end for which there is an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at year end, nor were they levied to finance current year operations. The receivable is therefore offset by deferred revenue.

Income Taxes

The City levies a two percent income tax on wages, salaries, commissions and other compensation in addition to net profits of business activity. The tax applies to all income earned within the City plus income earned by residents who earned income outside the City. A credit up to two percent is allowed if an individual pays income taxes to another municipality.

Additional increases in the income tax rate require voter approval.

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

Employers within the City withhold income tax on employee compensation and remit at least quarterly. Corporations and other individual taxpayers pay estimated taxes quarterly based on an annual declaration and file an annual tax return.

Note 5 – Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial general liability insurance against these risks and all other risks of loss, including workers' compensation and employee health and accident insurance.

There have been no significant reductions in insurance coverage from that of prior years and settlements have not exceeded insurance coverage for any of the past three fiscal years.

Note 6 – Capital Assets

Capital asset activity for the current year end was as follows:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|---|----------------------|--------------------|----------------|--------------------|
| Governmental Activities | | | | |
| <i>Capital Assets, not being depreciated:</i> | | | | |
| Land | \$1,337,171 | \$0 | \$0 | \$1,337,171 |
| Construction in Progress | 0 | 284,222 | 0 | 284,222 |
| Total Capital Assets, not being depreciated | <u>1,337,171</u> | <u>284,222</u> | <u>0</u> | <u>1,621,393</u> |
| <i>Capital Assets, being depreciated:</i> | | | | |
| Buildings and Improvements | 1,662,487 | 0 | 0 | 1,662,487 |
| Equipment | 3,684,426 | 1,042,515 | 340,484 | 4,386,457 |
| Infrastructure | 3,092,534 | 632,030 | 0 | 3,724,564 |
| Total Capital Assets, being depreciated | <u>8,439,447</u> | <u>1,674,545</u> | <u>340,484</u> | <u>9,773,508</u> |
| Totals at Historical Cost | <u>9,776,618</u> | <u>1,958,767</u> | <u>340,484</u> | <u>11,394,901</u> |
| Less Accumulated Depreciation: | | | | |
| Buildings and Improvements | 1,263,356 | 76,299 | 0 | 1,339,655 |
| Equipment | 3,076,036 | 320,800 | 340,484 | 3,056,352 |
| Infrastructure | 216,243 | 74,494 | 0 | 290,737 |
| Total Accumulated Depreciation | <u>4,555,635</u> | <u>471,593</u> | <u>340,484</u> | <u>4,686,744</u> |
| Governmental Activities Capital Assets, Net | <u>\$5,220,983</u> | <u>\$1,487,174</u> | <u>\$0</u> | <u>\$6,708,157</u> |

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

| | Beginning Balance | Additions | Deletions | Ending Balance |
|---|----------------------|-------------------|------------|-------------------|
| Business-Type Activities | | | | |
| <i>Capital Assets, not being depreciated:</i> | | | | |
| Land | \$6,135 | \$0 | \$0 | \$6,135 |
| <i>Capital Assets, being depreciated:</i> | | | | |
| Building and Improvements | 106,609 | 0 | 0 | 106,609 |
| Equipment | 233,323 | 26,729 | 0 | 260,052 |
| Infrastructure | 1,489,820 | 0 | 0 | 1,489,820 |
| Total Capital Assets, being depreciated | <u>1,829,752</u> | <u>26,729</u> | <u>0</u> | <u>1,856,481</u> |
| Totals at Historical Cost | <u>1,835,887</u> | <u>26,729</u> | <u>0</u> | <u>1,862,616</u> |
| Less Accumulated Depreciation: | | | | |
| Building and Improvements | 55,813 | 1,494 | 0 | 57,307 |
| Equipment | 147,537 | 38,851 | 0 | 186,388 |
| Infrastructure | <u>883,552</u> | <u>18,850</u> | <u>0</u> | <u>902,402</u> |
| Total Accumulated Depreciation | <u>1,086,902</u> | <u>59,195</u> | <u>0</u> | <u>1,146,097</u> |
| Business-Type Activities Capital Assets, Net | <u>\$748,985</u> | <u>(\$32,466)</u> | <u>\$0</u> | <u>\$716,519</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------------|------------------|
| General Government | \$59,168 |
| Public Safety | 257,444 |
| Leisure Time Activities | 44,823 |
| Community Development | 736 |
| Transportation and Street Repair | <u>109,422</u> |
| Total Depreciation Expense | <u>\$471,593</u> |

Note 7 – Notes Payable

A summary of the note transactions for the current year end are as follows:

| | Beginning Balance | Issued | Retired | Ending Balance |
|------------------------------------|----------------------|------------------|--------------------|-------------------|
| Governmental Activities: | | | | |
| EPA Brownsfield Grant Fund: | | | | |
| 3.27% Real Estate Acquisition Note | \$200,000 | \$0 | (\$200,000) | \$0 |
| 3.27% Public Improvement | 400,000 | 0 | (400,000) | 0 |
| 2.60% Real Estate Acquisition Note | 0 | 150,000 | 0 | 150,000 |
| 2.60% Public Improvement | <u>0</u> | <u>350,000</u> | <u>0</u> | <u>350,000</u> |
| Total | <u>\$600,000</u> | <u>\$500,000</u> | <u>(\$600,000)</u> | <u>\$500,000</u> |

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

Note 8 – Long-Term Debt

A schedule of changes in bonds, notes and other long-term obligations of the City during the current year follows:

| | | Beginning Balance | Additions | Deletions | Ending Balance | Due Within One Year |
|--|------------|----------------------|--------------------|--------------------|--------------------|------------------------|
| Governmental Activities | | | | | | |
| <u>General Obligation Bonds and Notes</u> | | | | | | |
| 2003 Various Purpose Bonds | 1.40-5.00% | \$300,000 | \$0 | (\$100,000) | \$200,000 | \$200,000 |
| 2003 Streetscape Bonds | 4.59% | 650,000 | 0 | (50,000) | 600,000 | 50,000 |
| 2009 Real Estate Acquisition Note | 6.80% | 300,000 | 0 | (50,000) | 250,000 | 50,000 |
| 2011 Dump Truck Acquisition Bonds | 2.00-4.50% | 0 | 195,000 | 0 | 195,000 | 15,000 |
| 2011 Fire Truck Acquisition Bonds | 2.00-5.00% | 0 | 390,000 | 0 | 390,000 | 50,000 |
| Total General Obligation Bonds and Notes | | <u>1,250,000</u> | <u>585,000</u> | <u>(200,000)</u> | <u>1,635,000</u> | <u>365,000</u> |
| OPWC Loans: | | | | | | |
| Waxwing Drive Improvements | 0.00% | 284,662 | 0 | (14,233) | 270,429 | 14,233 |
| Jefferson Avenue Improvements | 0.00% | 0 | 682,030 | 0 | 682,030 | 34,101 |
| Total Loans | | <u>284,662</u> | <u>682,030</u> | <u>(14,233)</u> | <u>952,459</u> | <u>48,334</u> |
| Capital Lease | | <u>13,469</u> | <u>0</u> | <u>(13,469)</u> | <u>0</u> | <u>0</u> |
| Total Long-Term Liabilities Bonds, Notes, Loans and Leases | | <u>1,548,131</u> | <u>1,267,030</u> | <u>(227,702)</u> | <u>2,587,459</u> | <u>413,334</u> |
| Compensated Absences | | <u>1,009,284</u> | <u>264,341</u> | <u>(279,627)</u> | <u>993,998</u> | <u>254,596</u> |
| Total Governmental Activities | | <u>\$2,557,415</u> | <u>\$1,531,371</u> | <u>(\$507,329)</u> | <u>\$3,581,457</u> | <u>\$667,930</u> |
| Business-Type Activities | | | | | | |
| <u>Bonds</u> | | | | | | |
| 2001 Water System Improvements II | 4.94% | \$48,000 | \$0 | (\$48,000) | \$0 | \$0 |
| Total Bonds | | <u>48,000</u> | <u>0</u> | <u>(48,000)</u> | <u>0</u> | <u>0</u> |
| Capital Lease | | <u>11,070</u> | <u>0</u> | <u>(11,070)</u> | <u>0</u> | <u>0</u> |
| Total Long-Term Liabilities Bonds and Leases | | <u>59,070</u> | <u>0</u> | <u>(59,070)</u> | <u>0</u> | <u>0</u> |
| Compensated Absences | | <u>96,994</u> | <u>21,748</u> | <u>(19,357)</u> | <u>99,385</u> | <u>17,984</u> |
| Total Business-Type Activities | | <u>\$156,064</u> | <u>\$21,748</u> | <u>(\$78,427)</u> | <u>\$99,385</u> | <u>\$17,984</u> |

In 2010, the City issued a \$284,662 Ohio Public Works Commission (OPWC) Loan to finance the various improvements to Waxwing Drive. This loan is interest free and will be paid off in 2030. In 2011, the City issued a \$682,030 Ohio Public Works Commission (OPWC) Loan to finance the various improvements to Jefferson Avenue. This loan is interest free and will be paid off in 2031.

The City's bonds and capital leases will be paid from the Capital Improvement Fund and Water Fund. The Real Estate Acquisition Note is paid from the General Fund. The OPWC loans will be paid out of the streets and curbs fund. Compensated Absences will be paid from the fund from which the person is paid. Historically, this is the General Fund or a Special Revenue Fund.

City of Reading, Ohio
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For The Year Ended December 31, 2011

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

| Year Ending December 31 | General Obligation Bonds | | OPWC Loan |
|------------------------------------|-------------------------------------|------------------|------------------|
| | Principal | Interest | Principal |
| 2012 | \$365,000 | \$66,240 | \$48,334 |
| 2013 | 165,000 | 49,245 | 48,335 |
| 2014 | 175,000 | 46,650 | 48,334 |
| 2015 | 175,000 | 40,105 | 48,335 |
| 2016 | 175,000 | 35,560 | 48,334 |
| 2017-2021 | 480,000 | 79,025 | 241,672 |
| 2022-2026 | 100,000 | 6,885 | 241,672 |
| 2027-2031 | 0 | 0 | 227,443 |
| Total | \$1,635,000 | \$323,710 | \$952,459 |

Note 9 – Leases

Lessee

The City has entered into capital leases for vehicles.

The lease for the vehicles meet the criteria of capital lease as defined by FASB guidance, which defines a capital lease generally as one that transfers benefits and risks of ownership to the lessee.

As of December 31, 2011, all capital leases have been paid off.

Capital assets acquired under capital leases in accordance with FASB guidance are as follows:

| | |
|----------|-----------|
| Vehicles | \$140,205 |
|----------|-----------|

Lessor

The City leased certain land to R.J. Viox, LLC.

The lease meets the criteria of a capital lease as defined by FASB guidance and therefore has been recorded as a sale since all the benefits and risks of ownership have been transferred to the lessee.

The City's net investment in the lease consists of the \$450,000 cost of the land. Of the original amount of unearned revenue of \$25,000, \$2,500 was recognized as revenue for the current year. The land being leased is located in Reading, Ohio and the lessee can purchase the land for \$1 at the end of the lease. This is a no interest 20 year lease with payments of \$2,083 per month, but this could lower to \$1,250 per month depending on if Viox's payroll exceeds \$12,000,000 during the year. The lessee has built its own building on the land and therefore the lease has been treated as a capital lease.

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

The following is a schedule of the future minimum lease payments required under the capital lease and the future minimum lease payments as of fiscal year end.

| Fiscal Year Ending December 31, | Payments Receivable |
|---|-------------------------|
| 2012 | \$25,000 |
| 2013 | 25,000 |
| 2014 | 25,000 |
| 2015 | 25,000 |
| 2016 | 25,000 |
| 2017-2021 | 125,000 |
| 2022-2026 | 125,000 |
| 2027-2029 | 78,750 |
| Total | <u>453,750</u> |
| Less: Amount Representing Interest* | <u>0</u> |
| Total Minimum Lease Payments Receivable | <u><u>\$453,750</u></u> |

* – no interest lease

Note 10 – Pension Plans

Ohio Public Employees Retirement System

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans, a Traditional Pension Plan (TP), a Member-Directed Plan (MD) and a Combined Plan (CO). The TP Plan is a cost-sharing multiple-employer defined benefit pension plan. The MD Plan is a defined contribution plan in which member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the MD Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings. The CO Plan is a cost sharing, multiple-employer defined benefit pension plan. Under the CO Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the TP Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the MD Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the TP and CO Plans. Members of the MD Plan do not qualify for the ancillary benefits. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to the OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-222-5601 or 800-222-7377, or by visiting the OPERS website at www.opers.org.

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

The Ohio Revised Code provides statutory authority for member and employer contributions. Plan members and employer contributions rates were consistent across all three plans. Plan members are required to contribute 10% of their annual covered salary to fund pension obligations. The employer pension contribution rate for the City is 14% of covered payroll. The contribution rates are determined actuarially. The City's required contributions to OPERS for the years ended December 31, 2011, 2010 and 2009 were \$294,768, \$293,447, and \$298,438 respectively. The full amount has been contributed for 2010 and 2009, and 89 percent has been contributed for 2011.

Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple employer defined benefit pension plan. OP&F provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164, or by visiting the OP&F website at www.op-f.org.

Plan members are required to contribute 10.0% of their annual covered salary, while employers (the City) are required to contribute 19.5% for police officers and 24.0% for firefighters. The City's contributions to OP&F for the years ending December 31, 2011, 2010 and 2009 were \$302,658 (police) and \$292,657 (fire), \$295,951 (police) and \$279,079 (fire), and \$307,434 (police) and \$286,939 (fire), respectively. The 47% (police) and 48% (fire) has been contributed for 2011 and the full amount has been contributed for 2010 and 2009.

Note 11 – Post Employment Benefits

Ohio Public Employees Retirement System

Plan Description

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan – a cost sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

In order to qualify for post-employment health card coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377, or by visiting the OPERS website at www.opers.org.

Funding Policy

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, the City contributed at 14% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14% of covered payroll. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care Plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determined the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to the health care for members in the Traditional Plan was 4.0% during calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2011. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Information from City's Records

The rates stated in Funding Policy, above, are the contractually required contribution rates for OPERS. The City's actual contributions for the current year, which were used to fund postemployment benefits, were \$84,215 for 2011; \$21,320 for the period January 1 through February 28, 2010, and \$85,413 for the period of March 1 through December 31, 2010; and \$36,858 for the period of January 1 through March 31, 2009, and \$88,294 for the period of April 1 through December 31, 2009. The full amount has been contributed for 2010 and 2009, and 89 percent has been contributed for 2011.

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

OPERS Retirement Board Implements its Health Care Preservation Plan

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1 of each year 2006 to 2008, which allowed additional funds to be allocated to the health care plan.

Ohio Police and Fire Pension Fund

Plan Description

The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment healthcare plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement healthcare coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The healthcare coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code allows, but does not mandate, OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide healthcare coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164, or by visiting the OP&F website at www.op-f.org.

Funding Policy

The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5% and 24.0% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5% of the covered payroll for police employer units and 24.0% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and Section 401(h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2011, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the healthcare plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the healthcare plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Information from City's Records

The City's contributions to OP&F for the year ending December 31, 2011 were \$104,723 (police) and \$82,237 (fire); for the year ending December 31, 2010 were \$102,399 (police) and \$78,421 (fire); and for the year ending December 31, 2009 were \$106,372 (police) and \$80,630 (fire); respectively, and were allocated to the healthcare plan. The full amount has been contributed for 2009 and 2010 and 47% (police) and 48% (fire) has been contributed for 2011.

Note 12 – Contingencies

The City is a party to various legal proceedings, which seek damages or injunctive relief generally incidental to its operations and pending projects. The City's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect on the financial condition of the City.

Note 13 – Interfund Transactions

Interfund transactions at year end, consisted of the following transfers in and transfers out:

| | Interfund | | Transfers | |
|----------------------------|------------------|------------------|------------------|------------------|
| | Receivable | Payable | In | Out |
| General Fund | \$0 | \$118,765 | \$115,000 | \$77,630 |
| Capital Improvement Fund | 339,111 | 225,151 | 0 | 26,330 |
| EPA Brownsfield Grant Fund | 0 | 0 | 0 | 100,000 |
| Other Governmental Funds | 0 | 64,950 | 77,630 | 0 |
| Water Fund | 69,755 | 0 | 11,330 | 0 |
| Total All Funds | <u>\$408,866</u> | <u>\$408,866</u> | <u>\$203,960</u> | <u>\$203,960</u> |

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

Interfund balance/transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate and to return money to the fund from which it was originally provided once a project is completed. The majority of transfers into the General Fund were made to reimburse the General Fund for a payment made to Trend Construction that should have come out of the EPA Brownsfield Grant Fund.

Note 14 – Accountability

As of year end the following funds had deficit fund balances:

| | |
|----------------------------------|-----------|
| <u>Other Governmental Funds:</u> | |
| General Sinking | \$ 59,846 |
| Reading Road Development | 35,775 |

The deficits in fund balances were primarily due to accrual in GAAP. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required not when accruals occur.

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City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

Note 15 – Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

| <u>Fund Balances</u> | <u>General</u> | <u>EPA Brownsfield Grant</u> | <u>Capital Improvement</u> | <u>Other Governmental Funds</u> | <u>Total</u> |
|---------------------------------|------------------|--------------------------------------|--------------------------------|---|--------------------|
| Restricted for: | | | | | |
| EPA Brownsfield Grant | \$0 | \$656,297 | \$0 | \$0 | \$656,297 |
| Street Maintenance and Repair | 0 | 0 | 0 | 94,829 | 94,829 |
| State Highway Improvement | 0 | 0 | 0 | 47,969 | 47,969 |
| Mayor's Court Computer | 0 | 0 | 0 | 12,652 | 12,652 |
| DUI Enforcement | 0 | 0 | 0 | 8,922 | 8,922 |
| Streets and Curbs | 0 | 0 | 0 | 263,145 | 263,145 |
| Drug Enforcement | 0 | 0 | 0 | 76,966 | 76,966 |
| Motor Vehicle Permissive | 0 | 0 | 0 | 146,558 | 146,558 |
| Alcohol Education | 0 | 0 | 0 | 12,715 | 12,715 |
| Grant | 0 | 0 | 0 | 42,722 | 42,722 |
| Special Assessment Debt Service | 0 | 0 | 0 | 1,730 | 1,730 |
| Capital Improvement | 0 | 0 | 730,490 | 0 | 730,490 |
| Stadium | 0 | 0 | 0 | 23,892 | 23,892 |
| Fire/EMS Capital Improvement | 0 | 0 | 0 | 450,990 | 450,990 |
| Municipal Road | 0 | 0 | 0 | 47,128 | 47,128 |
| Stadium Track Improvement | 0 | 0 | 0 | 274 | 274 |
| Growth | 0 | 0 | 0 | 50,191 | 50,191 |
| OPWC SCIP | 0 | 0 | 0 | 2,307 | 2,307 |
| Total Restricted | 0 | 656,297 | 730,490 | 1,282,990 | 2,669,777 |
| Unassigned (Deficit) | 173,974 | 0 | 0 | (95,621) | 78,353 |
| Total Fund Balance | <u>\$173,974</u> | <u>\$656,297</u> | <u>\$730,490</u> | <u>\$1,187,369</u> | <u>\$2,748,130</u> |

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

Note 16 – Change in Accounting Principles

Change in Accounting Principles

For fiscal year 2011, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” GASB 54 does not affect the calculation of the City’s fund balance but shifts the focus of fund balance reporting from the availability of fund resources for budgeting to the extent to which the City is bound to honor constraints on the specific purposes for which amounts in funds can be spent.

Note 17 – Subsequent Event

In 2012, the District issued an interest free \$367,450 Ohio Public Works Commission (OPWC) Loan to finance various improvements to Trillium Court and Krylon Drive. This loan will be paid off in 2032. These improvements were completed in 2012.

REQUIRED SUPPLEMENTARY INFORMATION

City of Reading, Ohio
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2011

| | General (1) Fund | | | |
|---|---------------------|------------------|------------------|-------------------------------|
| | Original Budget | Final Budget | Actual | Variance from Final Budget |
| Revenues: | | | | |
| Taxes | \$405,735 | \$405,735 | \$384,089 | (\$21,646) |
| Fines, Licenses & Permits | 286,799 | 286,799 | 271,498 | (15,301) |
| Intergovernmental | 539,564 | 539,564 | 510,778 | (28,786) |
| Charges for Services | 869,430 | 869,430 | 823,046 | (46,384) |
| Investment Earnings | 1,467 | 1,467 | 1,389 | (78) |
| Other Revenues | 28,508 | 28,508 | 26,987 | (1,521) |
| Total Revenues | 2,131,503 | 2,131,503 | 2,017,787 | (113,716) |
| Expenditures: | | | | |
| Current: | | | | |
| <u>General Government</u> | | | | |
| Personal Services | 1,271,364 | 1,271,364 | 1,231,472 | 39,892 |
| Materials and Supplies | 422,052 | 422,052 | 408,809 | 13,243 |
| Total General Government | 1,693,416 | 1,693,416 | 1,640,281 | 53,135 |
| <u>Public Safety</u> | | | | |
| Personal Services | 4,989,013 | 4,989,013 | 4,832,470 | 156,543 |
| Materials and Supplies | 245,335 | 245,335 | 237,637 | 7,698 |
| Total Public Safety | 5,234,348 | 5,234,348 | 5,070,107 | 164,241 |
| <u>Leisure Time Activities</u> | | | | |
| Personal Services | 223,116 | 223,116 | 216,115 | 7,001 |
| Materials and Supplies | 224,622 | 224,622 | 217,574 | 7,048 |
| Total Leisure Time Activities | 447,738 | 447,738 | 433,689 | 14,049 |
| <u>Community Development</u> | | | | |
| Personal Services | 7,332 | 7,332 | 7,102 | 230 |
| Materials and Supplies | 163,025 | 163,025 | 157,910 | 5,115 |
| Total Community Development | 170,357 | 170,357 | 165,012 | 5,345 |
| <u>Basic Utility Service</u> | | | | |
| Contractual Services | 447,276 | 447,276 | 433,242 | 14,034 |
| Total Basic Utility Service | 447,276 | 447,276 | 433,242 | 14,034 |
| <u>Transportation & Street Repair</u> | | | | |
| Materials and Supplies | 1,949 | 1,949 | 1,888 | 61 |
| Total Transportation & Street Repair | 1,949 | 1,949 | 1,888 | 61 |
| <u>Public Health and Welfare</u> | | | | |
| Materials and Supplies | 5,358 | 5,358 | 5,190 | 168 |
| Total Public Health and Welfare | 5,358 | 5,358 | 5,190 | 168 |

Continued

City of Reading, Ohio
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual (Non-GAAP Budgetary Basis)
 For the Fiscal Year Ended December 31, 2011

| | General (1) Fund | | | |
|---|---------------------|-----------------|-------------|-------------------------------|
| | Original Budget | Final Budget | Actual | Variance from Final Budget |
| Debt Service: | | | | |
| Principal Retirement | 51,620 | 51,620 | 50,000 | 1,620 |
| Interest and Fiscal Charges | 21,061 | 21,061 | 20,400 | 661 |
| Total Expenditures | 8,073,123 | 8,073,123 | 7,819,809 | 253,314 |
| Excess of Revenues Over (Under) Expenditures | (5,941,620) | (5,941,620) | (5,802,022) | 139,598 |
| Other financing sources (uses): | | | | |
| Proceeds from Sale of Capital Assets | 2,135 | 2,135 | 2,021 | (114) |
| Transfers In | 6,264,195 | 6,264,195 | 5,930,000 | (334,195) |
| Transfers (Out) | (51,620) | (51,620) | (50,000) | 1,620 |
| Total Other Financing Sources (Uses) | 6,214,710 | 6,214,710 | 5,882,021 | (332,689) |
| Net Change in Fund Balance | 273,090 | 273,090 | 79,999 | (193,091) |
| Fund Balance Beginning of Year (includes prior year encumbrances appropriated) | 42,726 | 42,726 | 42,726 | 0 |
| Fund Balance End of Year | \$315,816 | \$315,816 | \$122,725 | (\$193,091) |

(1) - GAAP basis statements include the City Earnings Tax Fund, the Economic Development Agency Fund, the Sewer Service Fee Fund and the Accrued Sick and Vacation Pay Fund.

See accompanying notes to the required supplementary information.

City of Reading, Ohio
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual (Non-GAAP Budgetary Basis)
 For the Fiscal Year Ended December 31, 2011

| | EPA Brownsfield Grant Fund | | | |
|---|-------------------------------------|-----------------|-----------|-------------------------------|
| | Original Budget | Final Budget | Actual | Variance from Final Budget |
| Revenues: | | | | |
| Intergovernmental | \$0 | \$49,782 | \$50,000 | \$218 |
| Other Revenues | 0 | 47,502 | 47,710 | 208 |
| Total Revenues | 0 | 97,284 | 97,710 | 426 |
| Expenditures: | | | | |
| Current: | | | | |
| Transportation & Street Repair | 261,460 | 527,823 | 446,637 | 81,186 |
| Total Expenditures | 261,460 | 527,823 | 446,637 | 81,186 |
| Excess of Revenues Over (Under) Expenditures | (261,460) | (430,539) | (348,927) | 81,612 |
| Other Financing Sources (uses): | | | | |
| Transfers In | 0 | 224,171 | 225,151 | 980 |
| Transfers (Out) | (58,540) | (118,177) | (100,000) | 18,177 |
| Total Other Financing Sources (Uses) | (58,540) | 105,994 | 125,151 | 19,157 |
| Net Change in Fund Balance | (320,000) | (324,545) | (223,776) | 100,769 |
| Fund Balance Beginning of Year (includes prior year encumbrances appropriated) | 324,545 | 324,545 | 324,545 | 0 |
| Fund Balance End of Year | \$4,545 | \$0 | \$100,769 | \$100,769 |

See accompanying notes to the required supplementary information.

City of Reading, Ohio
Notes to the Required Supplementary Information
For The Year Ended December 31, 2011

Note 1 - Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the object level.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the City. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the year.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Non-GAAP Basis) is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as an assignment of fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

City of Reading, Ohio
Notes to the Required Supplementary Information
For The Year Ended December 31, 2011

5. Some funds are reported as part of the General Fund (GAAP basis) as opposed to the General Fund being reported alone (budget basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General fund and the EPA Brownsfield Grant fund.

Net Change in Fund Balance

| | General | EPA Brownsfield Grant |
|--------------------------|-----------------|-----------------------------|
| GAAP Basis | \$260,666 | \$12,986 |
| Revenue Accruals | (151,358) | (385,077) |
| Expenditure Accruals | (193,097) | (76,836) |
| Transfers In | 163,340 | 225,151 |
| Encumbrances | (4,126) | 0 |
| Funds Budgeted Elsewhere | 4,574 | 0 |
| Budget Basis | <u>\$79,999</u> | <u>(\$223,776)</u> |

**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**

To City Council
City of Reading, Ohio:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Reading, Ohio (the City) as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 11, 2012 wherein we noted the District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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 a combination of deficiencies, in internal control such that there is a 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 deficiency described and labeled as item 2011-1 in the accompanying schedule of findings and responses to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated July 11, 2012.

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

This report is intended solely for the information and use of management, City Council, the Ohio Auditor of State and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
July 11, 2012

**CITY OF READING, OHIO
Schedule of Findings and Responses
Year Ended December 31, 2011**

Finding 2011-1 – Audit Adjustments

During the course of our audit, we identified misstatements in the financial statements for the year under audit that were not initially identified by the City's internal control over financial reporting. Throughout the year, the City maintains its books and records on the cash-basis of accounting and converts its financial statements at year-end to generally accepted accounting principles. The audit adjustments were necessary to correct errors in the City's conversion process.

- **Accounts Payable** – At year-end, we noted unrecorded accounts payable in the amount of approximately \$187,000.
- **Accounts Receivable**– The City overstated its reported accounts receivable for utilities in the Water Fund, Sewer Disposal Trust and General Fund in the amount of \$411,349 due to not taking into accounts its change from a quarterly billing to a monthly billing.
- **Interfund** – The City improperly accounted for an interfund advance of \$225,151 between the EPA Brownsfield and Capital Improvement funds as an interfund transfer. Advances represent interfund borrowings while a transfer is meant to be a permanent use of resources.
- **Land Held for Sale** – The City incorrectly reported a land purchase of \$89,238 which is being held for sale as a capital asset.
- **Net Assets** - The City understated net assets invested in capital assets, net of related debt and overstated its unrestricted net assets by \$560,641 due to not properly considering a note liability associated with the acquisition of land held for sale and unspent bond proceeds.
- **Construction in Progress** - The City did not capitalize construction in progress for the JRS Access Road project in the amount of \$284,222

Management response: *Management concurs with the finding and will implement controls to ensure that when the City converts its cash-basis financial statements to general accepted accounting principles, that revenues and expenditures are accurately reflected.*

**CITY OF READING, OHIO
Schedule of Prior Year Findings
Year Ended December 31, 2011**

Finding 2010-1 – Audit Adjustment

During the course of our audit, we identified misstatements in the financial statements for the year under audit that were not initially identified by the City's internal control over financial reporting. Throughout the year, the City maintains its books and records on the cash-basis of accounting and converts its financial statements at year-end to generally accepted accounting principles. The audit adjustments were necessary to correct errors in the City's conversion process.

- **On Behalf Payment** – The Ohio Public Works Commission made payments to vendors on behalf of the City in the amount of \$125,248. The City did not record the corresponding intergovernmental revenue and expense.
- **Accounts Receivable** – The City overstated its reported accounts receivable for utilities in the Water Fund, Sewer Disposal Trust and General Fund in the amount of \$411,349 due to not taking into accounts its change from a quarterly billing to a monthly billing.
- **Net Assets** – The City overstated net assets invested in capital assets, net of related debt and understated its unrestricted net assets by \$300,000 due to not considering a note liability associated with the acquisition of capital assets in its reporting.
- **Accounts Payable** – The City did not record accounts payable totaling \$126,839 at year-end for its streetscape project within the Reading Road Development Fund.

Current Status: *The City had similar audit adjustments in 2011 as described in Finding 2011-1.*

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Dave Yost • Auditor of State

CITY OF READING

HAMILTON COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 13, 2012**