

**CITY OF READING, OHIO**

Basic Financial Statements

December 31, 2004





**Auditor of State  
Betty Montgomery**

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

We have reviewed the *Report of Independent Accountants* of the City of Reading, Hamilton County, prepared by Plattenburg & Associates, Inc., for the audit period January 1, 2004 through December 31, 2004. 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 cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

November 6, 2006

**This Page is Intentionally Left Blank.**



August 9, 2006

## REPORT OF INDEPENDENT ACCOUNTANTS

The Honorable Mayor and Members of the  
City Council of the City of Reading

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, 2004, 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 above 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, as of December 31, 2004, 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 discussed in the Notes to the basic financial statements, the City has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Governmental Accounting Standards Board Statement No. 37, *Basic Financial Statements for State and Local Governments: Omnibus*; and Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2006, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Plattenburg & Associates, Inc.  
Certified Public Accountants

**This Page is Intentionally Left Blank.**

## **City of Reading**

### **Management's Discussion and Analysis For The Year Ended December 31, 2004 (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, 2004. 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 decreased \$818,815. Net assets of governmental activities decreased \$853,694, net assets of business-type activities increased by \$34,879.
- The General Fund reported a net change in fund balance of \$216,983.
- Business-type operations reflected operating income of \$63,236.

#### **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.



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, Capital Improvement, Reading Road Development, 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.

**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 Net Assets. 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 2004, since this is the first year the City has prepared financial statements following GASB Statement 34. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

**Table 1**  
Net Assets

	Governmental Activities	Business-Type Activities	Total
	2004	2004	2004
<b>Assets</b>			
Current Assets	\$4,622,557	\$546,027	\$5,168,584
Capital Assets, Net	3,943,708	799,948	4,743,656
<b>Total Assets</b>	<b>8,566,265</b>	<b>1,345,975</b>	<b>9,912,240</b>
<b>Liabilities</b>			
Long-Term Liabilities	2,669,886	628,499	3,298,385
Other Liabilities	1,338,225	98,376	1,436,601
<b>Total Liabilities</b>	<b>4,008,111</b>	<b>726,875</b>	<b>4,734,986</b>
<b>Net Assets</b>			
Invested in Capital			
Assets Net of Debt	1,971,055	253,948	2,225,003
Restricted	2,293,985	0	2,293,985
Unrestricted	293,114	365,152	658,266
<b>Total Net Assets</b>	<b>\$4,558,154</b>	<b>\$619,100</b>	<b>\$5,177,254</b>

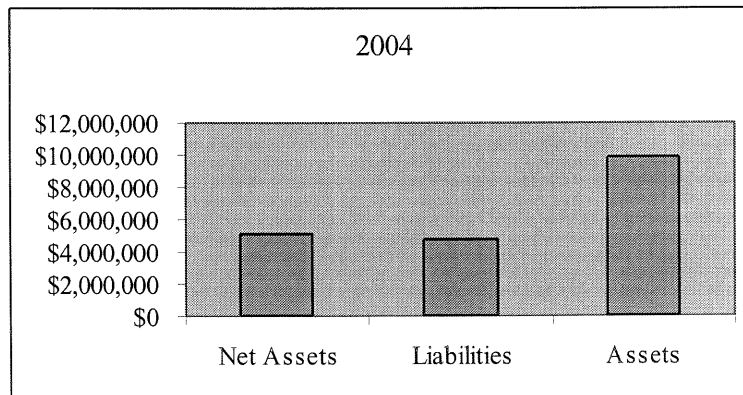


Table 2 shows the changes in net assets for the year ended December 31, 2004. Since this is the first year the City has prepared financial statements following GASB Statement 34, revenue and expenditure comparisons to the prior year are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

**Table 2**  
Changes in Net Assets

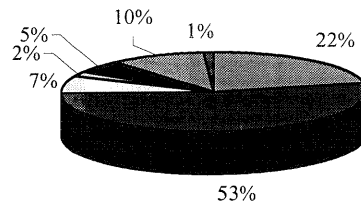
	Governmental Activities	Business-Type Activities	Total
	2004	2004	2004
Program Revenues:			
Charges for Services	\$852,397	\$1,372,117	\$2,224,514
Operating Grants, Contributions	487,156	0	487,156
Capital Grants and Contributions	192,152	0	192,152
Total Program Revenues	1,531,705	1,372,117	2,903,822
General Revenue:			
Income Taxes	4,380,851	0	4,380,851
Property Taxes	265,433	0	265,433
Grants and Entitlements	607,026	0	607,026
Unrestricted Contributions	85	0	85
Investment Earnings	44,568	0	44,568
Other	133,033	0	133,033
Total General Revenues	5,430,996	0	5,430,996
Total Revenues	6,962,701	1,372,117	8,334,818
Program Expenses:			
General Government	1,680,179	0	1,680,179
Public Safety	4,149,894	0	4,149,894
Leisure Time Activities	573,123	0	573,123
Community Development	184,255	0	184,255
Basic Utility Service	410,790	0	410,790
Transportation and Street Repair	720,718	0	720,718
Public Health and Welfare	10,738	0	10,738
Interest and Fiscal Charges	86,698	0	86,698
Water Utility	0	1,337,238	1,337,238
Total Program Expenses	7,816,395	1,337,238	9,153,633
Change in Net Assets	(853,694)	34,879	(818,815)
Beginning Net Assets	5,411,848	584,221	5,996,069
Ending Net Assets	\$4,558,154	\$619,100	\$5,177,254

### ***Governmental Activities***

The 1.50% income tax is the largest source of revenue for the City. Revenues generated by the earnings tax represent more than 80% of the City's governmental activities general revenues.

Governmental activities program expenses for 2004 were as follows:

Program Expenses	Percent of Total
General Government	22%
Public Safety	53%
Leisure Time Activities	7%
Community Development	2%
Basic Utility Service	5%
Transportation and Street Repair	10%
Interest and Fiscal Charges	1%
Total	100%



General Government include 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 \$1,372,117 and operating expenses of \$1,308,881 for fiscal year 2004. Business activities receive no support from tax revenues. The business activities net assets at the end of the year was \$619,100, which increased \$34,879 from 2003. The City had one business-type (enterprise) fund that was a major fund: the Water fund.

### **The City's Funds**

The City has three major governmental funds: the General Fund, Capital Improvement Fund and Reading Road Development Fund. Assets of the General fund comprised \$2,034,847 (42%), the Capital Improvement fund comprised \$584,881 (12%) and the Reading Road Development fund comprised \$951,669 (20%) of the total \$4,806,272 governmental funds assets.

**General Fund:** Fund balance at December 31, 2004 was \$251,905 an increase in fund balance of \$216,983 from 2003. The general fund had an increase in fund balance mainly due to the sale of property (partial) along Reading Road for \$115,000.

**Capital Improvement Fund:** Fund balance at December 31, 2004 was \$237,383 including \$233,251 of unreserved balance. The capital improvement fund remained fairly consistent from 2003 to 2004.

**Reading Road Development Fund:** Fund balance at December 31, 2004 was \$951,669 a decrease in fund balance of \$1,550,492 from 2003. The decrease was due to an increase in capital outlay due to the City's Reading Road Streetscape project (included as construction) that continued throughout 2004.

### ***General Fund Budgeting Highlights***

The City's General Fund budget is formally adopted at the fund 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 \$429,763, 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 amount and overestimated the general government and public safety expenditures for 2004.

### **Capital Assets and Debt Administration**

#### ***Capital Assets***

**Table 3**  
Capital Assets  
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2003 Restated	2004	2003 Restated	2004	2003 Restated	2004
Land	\$942,293	\$1,029,293	\$6,135	\$6,135	\$948,428	\$1,035,428
Construction in Progress	0	1,344,478	0	0	0	1,344,478
Buildings and Improvements	763,908	830,335	0	0	763,908	830,335
Equipment	865,666	739,602	65,591	63,774	931,257	803,376
Infrastructure*	0	0	752,843	730,039	752,843	730,039
Total Net Capital Assets	<u>\$2,571,867</u>	<u>\$3,943,708</u>	<u>\$824,569</u>	<u>\$799,948</u>	<u>\$3,396,436</u>	<u>\$4,743,656</u>

The increase in net capital assets was the result of the increase in construction in progress for the Reading Road streetscape project for the City.

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

\* NOTE – The City of Reading qualifies as a Phase III government for purposes of implementing GASB 34. Phase III governments are required to recognize governmental activities infrastructure on a prospective basis starting January 1, 2004. For the period January 1, 2004 through December 31, 2004, the City's acquisition of governmental activities infrastructure assets is recorded as construction in progress.

## ***Debt***

At year-end the City had \$2,518,653 in general obligation bonds and capital leases.

**Table 4**  
Outstanding Debt at Year End

		<u>2003</u>	<u>2004</u>
<b>Governmental Activities</b>			
<u>Bonds Payable</u>			
2003 Various Purpose Bonds	1.40-5.00%	\$1,000,000	\$900,000
2003 Streetscape Bonds	4.59%	<u>1,000,000</u>	<u>950,000</u>
Subtotal Bonds Payable		2,000,000	1,850,000
 <u>Capital Leases Payable</u>			
2003 Emergency Vehicles	2.90%	114,880	77,684
2003 Trucks	2.90%	<u>66,500</u>	<u>44,969</u>
Subtotal Capital Leases Payable		181,380	122,653
 Total Government Activities		<u>2,181,380</u>	<u>1,972,653</u>
 <b>Business Type Activities</b>			
<u>Notes Payable</u>			
2001 Water System Improvements II	4.94%	416,000	371,000
1990 Water System Improvements I	2.94%	<u>200,000</u>	<u>175,000</u>
Total Business Type Activities		616,000	546,000
 Total Debt		<u><u>\$2,797,380</u></u>	<u><u>\$2,518,653</u></u>

See 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.

## **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, 2004

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in Pooled Cash and Investments	\$2,402,077	\$236,660	\$2,638,737
Receivables:			
Taxes	1,641,425	0	1,641,425
Accounts	85,666	239,612	325,278
Intergovernmental	563,144	0	563,144
Internal Balances	(69,755)	69,755	0
Nondepreciable Capital Assets	2,373,771	6,135	2,379,906
Depreciable Capital Assets, Net	1,569,937	793,813	2,363,750
<b>Total Assets</b>	<b>8,566,265</b>	<b>1,345,975</b>	<b>9,912,240</b>
Liabilities:			
Accounts Payable	274,996	73,032	348,028
Accrued Wages and Benefits	337,736	14,492	352,228
Accrued Interest Payable	9,321	10,852	20,173
Unearned Revenue	716,172	0	716,172
Long-Term Liabilities:			
Due Within One Year	417,609	90,751	508,360
Due In More Than One Year	2,252,277	537,748	2,790,025
<b>Total Liabilities</b>	<b>4,008,111</b>	<b>726,875</b>	<b>4,734,986</b>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	1,971,055	253,948	2,225,003
Restricted for:			
Special Revenue	676,871	0	676,871
Capital Projects	1,617,114	0	1,617,114
Unrestricted	293,114	365,152	658,266
<b>Total Net Assets</b>	<b>\$4,558,154</b>	<b>\$619,100</b>	<b>\$5,177,254</b>

See accompanying notes to the basic financial statements.

City of Reading, Ohio  
Statement of Activities  
For the Fiscal Year Ended December 31, 2004

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
General Government	\$1,680,179	\$428,550	\$0	\$0
Public Safety	4,149,894	224,495	0	0
Leisure Time Activities	573,123	111,988	0	0
Community Development	184,255	87,364	0	0
Basic Utility Service	410,790	0	0	0
Transportation and Street Repair	720,718	0	487,156	192,152
Public Health and Welfare	10,738	0	0	0
Interest and Fiscal Charges	86,698	0	0	0
<b>Total Governmental Activities</b>	<b>7,816,395</b>	<b>852,397</b>	<b>487,156</b>	<b>192,152</b>
<b>Business-Type Activities:</b>				
Water Utility	1,337,238	1,372,117	0	0
<b>Total Business-Type Activities</b>	<b>1,337,238</b>	<b>1,372,117</b>	<b>0</b>	<b>0</b>
<b>Totals</b>	<b>\$9,153,633</b>	<b>\$2,224,514</b>	<b>\$487,156</b>	<b>\$192,152</b>

General Revenues:  
Income Taxes  
Property Taxes Levied for:  
    General Purposes  
    Capital Projects Purposes  
Grants and Entitlements not Restricted to Specific Programs  
Unrestricted Contributions  
Investment Earnings  
Other Revenues

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year, Restated

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
(\$1,251,629)	\$0	(\$1,251,629)
(3,925,399)	0	(3,925,399)
(461,135)	0	(461,135)
(96,891)	0	(96,891)
(410,790)	0	(410,790)
(41,410)	0	(41,410)
(10,738)	0	(10,738)
(86,698)	0	(86,698)
(6,284,690)	0	(6,284,690)
0	34,879	34,879
0	34,879	34,879
(\$6,284,690)	\$34,879	(\$6,249,811)
4,380,851	0	4,380,851
230,269	0	230,269
35,164	0	35,164
607,026	0	607,026
85	0	85
44,568	0	44,568
133,033	0	133,033
5,430,996	0	5,430,996
(853,694)	34,879	(818,815)
5,411,848	584,221	5,996,069
\$4,558,154	\$619,100	\$5,177,254

City of Reading, Ohio  
Balance Sheet  
Governmental Funds  
December 31, 2004

	General	Capital Improvement	Reading Road Development	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>					
Equity in Pooled Cash and Investments	\$454,546	\$123,423	\$951,669	\$872,439	\$2,402,077
<b>Receivables:</b>					
Taxes	1,293,927	347,498	0	0	1,641,425
Accounts	67,961	0	0	17,705	85,666
Intergovernmental	218,413	0	0	344,731	563,144
Interfund	0	113,960	0	0	113,960
<b>Total Assets</b>	<b>2,034,847</b>	<b>584,881</b>	<b>951,669</b>	<b>1,234,875</b>	<b>4,806,272</b>
<b>Liabilities and Fund Balances:</b>					
<b>Liabilities:</b>					
Accounts Payable	259,504	0	0	15,492	274,996
Accrued Wages and Benefits	325,094	0	0	12,642	337,736
Interfund Payable	118,765	0	0	64,950	183,715
Deferred Revenue	1,079,579	347,498	0	303,917	1,730,994
<b>Total Liabilities</b>	<b>1,782,942</b>	<b>347,498</b>	<b>0</b>	<b>397,001</b>	<b>2,527,441</b>
<b>Fund Balances:</b>					
Reserved for Encumbrances	0	4,132	876,755	0	880,887
<b>Unreserved, Undesignated, Reported in:</b>					
General Fund	251,905	0	0	0	251,905
Special Revenue Funds	0	0	0	480,450	480,450
Debt Service Funds	0	0	0	(41,091)	(41,091)
Capital Projects Funds	0	233,251	74,914	398,515	706,680
<b>Total Fund Balances</b>	<b>251,905</b>	<b>237,383</b>	<b>951,669</b>	<b>837,874</b>	<b>2,278,831</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$2,034,847</b>	<b>\$584,881</b>	<b>\$951,669</b>	<b>\$1,234,875</b>	<b>\$4,806,272</b>

See accompanying notes to the basic financial statements.

City of Reading, Ohio  
Reconciliation of Total Governmental Fund Balance to  
Net Assets of Governmental Activities  
December 31, 2004

---

Total Governmental Fund Balance \$2,278,831

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. 3,943,708

Other long-term assets are not available to pay for current-  
period expenditures and therefore are deferred in the funds.

Income Taxes	558,999	
Delinquent Property Taxes	70,329	
Intergovernmental	<u>385,494</u>	
		1,014,822

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. (9,321)

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	<u>(697,233)</u>	(697,233)
----------------------	------------------	-----------

Long-term liabilities, are not due and payable in the current  
period and therefore are not reported in the funds. (1,972,653)

Net Assets of Governmental Activities \$4,558,154

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, 2004

	General	Capital Improvement	Reading Road Development	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$4,585,125	\$0	\$0	\$0	\$4,585,125
Fines, Licenses & Permits	371,399	0	0	29,609	401,008
Charges for Services	252,626	0	0	180,764	433,390
Investment Earnings	44,119	0	0	449	44,568
Intergovernmental	626,051	298,623	0	586,154	1,510,828
Donations	0	0	0	85	85
Other Revenues	123,169	6,496	0	3,368	133,033
<b>Total Revenues</b>	<b>6,002,489</b>	<b>305,119</b>	<b>0</b>	<b>800,429</b>	<b>7,108,037</b>
Expenditures:					
Current:					
General Government	1,542,836	0	0	0	1,542,836
Public Safety	3,842,726	0	0	34,540	3,877,266
Leisure Time Activities	455,398	0	0	16,079	471,477
Community Development	137,446	0	0	15,640	153,086
Basic Utility Service	410,461	0	0	0	410,461
Transportation and Street Repair	0	0	17,014	694,331	711,345
Public Health and Welfare	10,738	0	0	0	10,738
Capital Outlay	901	82,059	1,533,478	99,417	1,715,855
Debt Service:					
Principal Retirement	0	171,531	0	37,196	208,727
Interest and Fiscal Charges	0	76,501	0	876	77,377
<b>Total Expenditures</b>	<b>6,400,506</b>	<b>330,091</b>	<b>1,550,492</b>	<b>898,079</b>	<b>9,179,168</b>
Excess of Revenues Over (Under) Expenditures	(398,017)	(24,972)	(1,550,492)	(97,650)	(2,071,131)
Other Financing Sources (Uses):					
Proceeds from Sale of Capital Assets	115,000	0	0	0	115,000
Transfers In	500,000	0	0	0	500,000
Transfers (Out)	0	0	0	(500,000)	(500,000)
<b>Total Other Financing Sources (Uses)</b>	<b>615,000</b>	<b>0</b>	<b>0</b>	<b>(500,000)</b>	<b>115,000</b>
<b>Net Change in Fund Balance</b>	<b>216,983</b>	<b>(24,972)</b>	<b>(1,550,492)</b>	<b>(597,650)</b>	<b>(1,956,131)</b>
Fund Balance Beginning of Year, Restated	34,922	262,355	2,502,161	1,435,524	4,234,962
<b>Fund Balance End of Year</b>	<b>\$251,905</b>	<b>\$237,383</b>	<b>\$951,669</b>	<b>\$837,874</b>	<b>\$2,278,831</b>

See accompanying notes to the basic financial statements.

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, 2004

---

Net Change in Fund Balance - Total Governmental Funds ( \$1,956,131)

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	1,700,151	
Depreciation Expense	<u>(327,310)</u>	1,372,841

Governmental funds only report the disposal of assets to the  
 extent proceeds are received from the sale. In the statement  
 of activities, a gain or loss is reported for each disposal. The  
 amount of the proceeds must be removed and the gain or loss  
 on the disposal of capital assets must be recognized. This is the  
 amount of the difference between the proceeds and the gain or loss. (1,000)

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

Income Taxes	21,679	
Delinquent Property Taxes	39,621	
Intergovernmental	<u>(320,636)</u>	(259,336)

Repayment of bond principal is an expenditure in the  
 governmental funds, but the repayment reduces long-term  
 liabilities in the statement of net assets. 208,727

In the statement of activities interest expense is accrued when incurred,  
 whereas in governmental funds an interest expenditure is reported  
 when due. (9,321)

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	<u>(209,474)</u>	<u>(209,474)</u>
----------------------	------------------	------------------

Change in Net Assets of Governmental Activities (\$853,694)

See accompanying notes to the basic financial statements.

City of Reading, Ohio  
Statement of Net Assets  
Proprietary Funds  
December 31, 2004

---

	<u>Water</u>
Assets:	
Equity in Pooled Cash and Investments	\$236,660
Receivables:	
Accounts	239,612
Interfund	<u>69,755</u>
Total Current Assets	<u>546,027</u>
Nondepreciable Capital Assets	6,135
Depreciable Capital Assets, Net	<u>793,813</u>
Total Assets	<u>1,345,975</u>
Liabilities:	
Current Liabilities:	
Accounts Payable	73,032
Accrued Wages and Benefits	14,492
Compensated Absences	18,751
Accrued Interest Payable	10,852
Long-Term Liabilities Due Within One Year	<u>72,000</u>
Total Current Liabilities	<u>189,127</u>
Long-Term Liabilities:	
Compensated Absences	63,748
Bonds, Notes & Loans Payable	<u>474,000</u>
Total Liabilities	<u>726,875</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	253,948
Unrestricted	<u>365,152</u>
Total Net Assets	<u>\$619,100</u>

See accompanying notes to the basic financial statements.

City of Reading, Ohio  
Statement of Revenues, Expenses  
and Changes in Fund Net Assets  
Proprietary Funds  
For the Fiscal Year Ended December 31, 2004

---

---

	<u>Water</u>
Operating Revenues:	
Charges for Services	<u>\$1,372,117</u>
Total Operating Revenues	<u>1,372,117</u>
Operating Expenses:	
Personal Services	327,497
Contactual Services	73,032
Materials and Supplies	881,192
Depreciation	<u>27,160</u>
Total Operating Expenses	<u>1,308,881</u>
Operating Income (Loss)	<u>63,236</u>
Non-Operating Revenues (Expenses):	
Interest (Expense)	<u>(28,357)</u>
Total Non-Operating Revenues (Expenses)	<u>(28,357)</u>
Change in Net Assets	34,879
Net Assets Beginning of Year, Restated	<u>584,221</u>
Net Assets End of Year	<u><u>\$619,100</u></u>

See accompanying notes to the basic financial statements.

City of Reading, Ohio  
Statement of Cash Flows  
Proprietary Funds  
For the Fiscal Year Ended December 31, 2004

---

	<u>Water</u>
Cash Flows from Operating Activities:	
Cash Received from Customers	\$1,364,339
Cash Payments to Employees	(330,408)
Cash Payments to Suppliers	<u>(885,797)</u>
Net Cash Provided (Used) by Operating Activities	<u>148,134</u>
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(2,539)
Debt Principal Payments	(70,000)
Debt Interest Payments	<u>(23,813)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(96,352)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	51,782
Cash and Cash Equivalents Beginning of Year	<u>184,878</u>
Cash and Cash Equivalents End of Year	<u><u>236,660</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	63,236
Adjustments:	
Depreciation	27,160
Changes in Assets & Liabilities:	
(Increase) Decrease in Receivables	(3,446)
Increase (Decrease) in Payables	3,110
Increase (Decrease) in Accrued Liabilities	<u>58,074</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$148,134</u></u>

See accompanying notes to the basic financial statements.



City of Reading, Ohio  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
December 31, 2004

---

---

	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Investments	\$249,309
Receivables:	
Accounts	<u>278,600</u>
Total Assets	<u>\$527,909</u>
Liabilities:	
Accounts Payable	237,424
Other Liabilities	<u>290,485</u>
Total Liabilities	<u>\$527,909</u>

See accompanying notes to the basic financial statements.

## **City of Reading**

Notes to the Basic Financial Statements  
For The Year Ended December 31, 2004

### **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.

### **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) Statements and Interpretations 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.

## **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 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 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.

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

Reading Road Development Capital Projects Fund – This capital projects fund accounts for financial resources used for Reading Road Development.

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

## 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 are 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 accounts for money collected for sewer services to be paid to the Metropolitan Sewer District for services provided. The City also has a Warranty Bond Agency Fund (to account for warranty bonds collected). The City also has a Mayor's Court 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.

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.

## **Equity in Pooled Cash and Investments**

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 and Investments" 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 2004 amounted to \$44,568. The general fund interest revenue was \$44,119.

## **Inventory**

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

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Inventories of the proprietary funds are expensed when used.

## **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>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Buildings and Improvements	15-40 years	15-40 years
Machinery and Equipment	5-20 years	5-20 years
Infrastructure	50 years	50 years

### **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, compensated absences, and contractually required pension contributions that 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 Reserves**

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. As a result, encumbrances are recorded as a reservation of fund balance.

## **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.

## **Operating Revenues and Expenses**

The City, in its proprietary funds, 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.

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.

## **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.

### **3. EQUITY IN POOLED CASH AND INVESTMENTS**

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 and Investments."

Statutes require the classification of funds held by the City into three categories.

Category 1 consists of "active" funds – those funds required to be kept in "cash" or "near cash" status for immediate use by the City. Such funds must be maintained either as cash in the City Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" funds – those funds not required for use within the current two-year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of "interim" funds – those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty day;
- Interim deposits in eligible institutions applying for interim funds;

- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and;
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository with which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amount equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Deposits collateralized by investment pools are classified as Category 3 deposits per GASB Statement No. 3.

The GASB has established risk categories for deposits and investments as follows:

*Deposits:*

- |            |   |
|------------|---|
| Category 1 | Insured or collateralized with securities held by the City or by its agent in the City's name.                                    |
| Category 2 | Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.         |
| Category 3 | Collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name. |

*Investments:*

- |            |  |
|------------|--|
| Category 1 | Insured or registered, with securities held by the City or its agent in the City's name.   |
| Category 2 | Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.                 |
| Category 3 | Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name. |

## Deposits

At year end, the carrying amount of the City's deposits was \$2,888,046 and the bank balance was \$2,988,076. Federal Depository Insurance covered \$145,292 of the deposits and bank balance. All remaining deposits were classified as Category 3.

## Investments

At year end, the City held no investments.

## 4. RECEIVABLES

Receivables at year end, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements, shared revenues, special assessments, accrued interest on investments, accounts and loans receivable.

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, public utility, and tangible personal property located in the City. Property tax revenue received during 2004 for real and public utility property taxes represents collections of the 2003 taxes. Property tax payments received during 2004 for tangible personal property (other than public utility property) is for 2004 taxes.

2004 real property taxes are levied after October 1, 2004, on the assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2004 real property taxes are collected in and intended to finance 2005 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. 2004 public utility property taxes became a lien December 31, 2003, are levied after October 1, 2004, and are collected in 2005 with real property taxes.

2004 tangible personal property taxes are levied after October 1, 2003, on the value as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are 25 percent of true value.

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

Real Property	\$135,141,292
Public Utility	7,280,422
Tangible Personal Property	<u>49,610,359</u>
Total Valuation	<u>\$192,032,073</u>

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

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30; with the remainder payable by September 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 represent real and tangible personal property taxes, 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 one and a half 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 one and a half percent is allowed if an individual pays income taxes to another municipality.

Additional increases in the income tax rate require voter approval.

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.

## **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.

## 6. CAPITAL ASSETS

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

	Restated Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$942,293	\$88,000	\$1,000	\$1,029,293
Construction in Progress*	0	1,344,478	0	1,344,478
Total Capital Assets, not being depreciated	<u>942,293</u>	<u>1,432,478</u>	<u>1,000</u>	<u>2,373,771</u>
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	1,453,268	189,000	0	1,642,268
Equipment	2,867,179	78,673	7,631	2,938,221
Total Capital Assets, being depreciated	<u>4,320,447</u>	<u>267,673</u>	<u>7,631</u>	<u>4,580,489</u>
Totals at Historical Cost	<u>5,262,740</u>	<u>1,700,151</u>	<u>8,631</u>	<u>6,954,260</u>
Less Accumulated Depreciation:				
Buildings and Improvements	689,360	122,573	0	811,933
Equipment	2,001,513	204,737	7,631	2,198,619
Total Accumulated Depreciation	<u>2,690,873</u>	<u>327,310</u>	<u>7,631</u>	<u>3,010,552</u>
Governmental Activities Capital Assets, Net	<u>\$2,571,867</u>	<u>\$1,372,841</u>	<u>\$1,000</u>	<u>\$3,943,708</u>
<b>Business-Type Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$6,135	\$0	\$0	\$6,135
<i>Capital Assets, being depreciated:</i>				
Equipment	204,285	2,539	0	206,824
Infrastructure	1,489,820	0	0	1,489,820
Total Capital Assets, being depreciated	<u>1,694,105</u>	<u>2,539</u>	<u>0</u>	<u>1,696,644</u>
Totals at Historical Cost	<u>1,700,240</u>	<u>2,539</u>	<u>0</u>	<u>1,702,779</u>
Less Accumulated Depreciation:				
Equipment	138,694	4,356	0	143,050
Infrastructure	736,977	22,804	0	759,781
Total Accumulated Depreciation	<u>875,671</u>	<u>27,160</u>	<u>0</u>	<u>902,831</u>
Business-Type Activities Capital Assets, Net	<u>\$824,569</u>	<u>(\$24,621)</u>	<u>\$0</u>	<u>\$799,948</u>

\* NOTE – The City of Reading qualifies as a Phase III government for purposes of implementing GASB 34. Phase III governments are required to recognize governmental activities infrastructure on a prospective basis starting January 1, 2004. For the period January 1, 2004 through December 31, 2004, the City's acquisition of governmental activities infrastructure assets is recorded as construction in progress.

Depreciation expense was charged to governmental functions as follows:

General Government	\$109,756
Public Safety	104,595
Community Development	228
Leisure Time	91,182
Transportation	21,549
Total Depreciation Expense	<u><u>\$327,310</u></u>

## 7. LONG-TERM DEBT

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

		Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>						
<u>General Obligation Bonds</u>						
2003 Various Purpose Bonds	1.40-5.00%	\$1,000,000	\$0	(\$100,000)	\$900,000	\$100,000
2003 Streetscape Bonds	4.59%	1,000,000	0	(50,000)	950,000	50,000
Total General Obligation Bonds		<u>2,000,000</u>	<u>0</u>	<u>(150,000)</u>	<u>1,850,000</u>	<u>150,000</u>
Capital Lease		181,380	0	(58,727)	122,653	60,444
Total Long-Term Liabilities Bonds and Leases		2,181,380	0	(208,727)	1,972,653	210,444
Compensated Absences		675,251	59,662	(37,680)	697,233	207,165
Total Governmental Activities		<u>\$2,856,631</u>	<u>\$59,662</u>	<u>(\$246,407)</u>	<u>\$2,669,886</u>	<u>\$417,609</u>
<b>Business-Type Activities</b>						
<u>Bonds</u>						
2001 Water System Improvements II	4.94%	\$416,000	\$0	(\$45,000)	\$371,000	\$47,000
1990 Water System Improvements I	2.19%	200,000	0	(25,000)	175,000	25,000
Total Bonds		<u>616,000</u>	<u>0</u>	<u>(70,000)</u>	<u>546,000</u>	<u>72,000</u>
Compensated Absences		16,316	82,683	(16,500)	82,499	18,751
Total Business-Type Activities		<u>\$632,316</u>	<u>\$82,683</u>	<u>(\$86,500)</u>	<u>\$628,499</u>	<u>\$90,751</u>

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.

The annual requirements to pay principal and interest on long-term debt at December 31, 2004 are as follows:

<u>Year</u>	<u>General Obligation Bonds and Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$222,000	\$94,422
2006	225,000	81,063*
2007	227,000	68,515*
2008	230,000	63,520*
2009	233,000	58,025*
2010-2014	809,000	182,700*
2015-2019	250,000	80,325*
2020-2023	<u>200,000</u>	<u>22,950*</u>
Total	<u>\$2,396,000</u>	<u>\$651,520*</u>

\*On March 23, 2006, the rate for the water system improvements I will be readjusted to the then the current rate of interest on five year treasury investments plus 20 basis points.

## 8. LEASES

The City has entered into capital leases for vehicles.

The lease for the vehicles meet the criteria of capital lease as defined by statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one that transfers benefits and risks of ownership to the lessee. Capital lease payments for the vehicles will be made from the Capital Projects fund.

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

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Long-Term</u> <u>Debt</u>
2005	\$63,566
2006	<u>63,566</u>
Total Minimum Lease Payments	127,132
Less: Amount Representing Interest	<u>(4,479)</u>
Present Value of Minimum Lease Payments	<u>\$122,653</u>

Capital assets acquired under capital leases in accordance with Statement of Financial Accounting Standards No. 13 are as follows:

Vehicles	\$181,380
----------	-----------



## **9. PENSION PLANS**

### **Ohio Public Employees Retirement System**

All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Members have a choice of 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 percent per year). Under the MD Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The CO Plan is a cost-sharing multiple-employer defined benefit pension plan. Under the CO Plan employer contributions are invested by the retirement system 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 adjustment to members of the TP and CO Plans. Members of the MD Plan do not qualify for the ancillary benefits.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The employer pension contribution rate for the City is 13.55 percent of covered payroll. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's required contributions to OPERS for the years ended December 31, 2004, 2003 and 2002 were \$227,397, \$249,420, and \$248,660, respectively. The full amount has been contributed for 2003 and 2002 and 74 percent has been contributed for 2004.

### **Ohio Police and Fire Pension Fund**

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple employer public employee retirement system administered by the OP&F's Board of Trustees. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and by 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 the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215 - 5164.

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 19.5 percent for police and 24.0 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F for the years ending December 31, 2004, 2003 and 2002 were \$451,093, \$441,545 and \$425,011, respectively. The full amount has been contributed for 2003 and 2002 and 72% has been contributed for 2004.

## **10. POST EMPLOYMENT BENEFITS**

### **Public Employees Retirement System**

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by State statute. The current year employer contribution rate was 13.55 percent of covered payroll; 4.00 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on PERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rates plus an additional factor ranging from 1 percent to 6 percent for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

At year end 2004, the number of active contributing participants in the Traditional and Combined Plans totaled 369,885. The City's actual contributions for the current year, which were used to fund postemployment benefits were \$67,126. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003, (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

### **Ohio Police and Fire Pension Fund**

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during the current year. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for the current year that were used to fund postemployment benefits were \$88,745 for police and \$73,559 for fire. The OP&F's total health care expenses for the year ended December 31, 2003, (the latest information available) were \$150,853,148, which was net of member contributions of \$17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003, was 13,662 for police and 10,474 for firefighters.

## **11. 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.

## 12. CONSTRUCTION COMMITMENTS

The City had the following outstanding commitments at year end:

<u>Projects</u>	<u>Amount</u>
Reading Road Streetscape	<u>\$1,066,520</u>

## 13. INTERFUND TRANSACTIONS

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

	Transfers	
	<u>In</u>	<u>Out</u>
General Fund	\$500,000	\$0
Other Governmental Funds	<u>0</u>	<u>500,000</u>
Total	<u>\$500,000</u>	<u>\$500,000</u>

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 City obtained a court order in accordance with the Ohio Revised Code in order to make the above transfer.

## 14. CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF PRIOR YEAR FUND EQUITY

### Change in Accounting Principle

For 2004, the City has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37 "Basic Financial Statements and Management's Discussion and Analysis-omnibus" and GASB Statement No. 38 "Certain Financial Statement Note Disclosures".

GASB 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column.

The government-wide financial statements split the City's programs between business-type and governmental activities. Except for the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at December 31, 2003, caused by the conversion to the accrual basis of accounting.

## Restatement of Fund Balance

The implementation of these statements had the following effects on fund balance of the major and non-major funds of the City as they were previously reported. The transition from governmental fund balances to net assets of the governmental activities is also presented.

	<u>General</u>	<u>Capital Improvement</u>	<u>Reading Road Improvement</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, December 31, 2003	(\$515,870)	\$148,395	\$2,502,161	\$1,966,996	\$4,101,682
Fund Reclassification	<u>550,792</u>	<u>113,960</u>	<u>0</u>	<u>(531,472)</u>	<u>133,280</u>
Adjusted Fund Balances, December 31, 2003	<u>\$34,922</u>	<u>\$262,355</u>	<u>\$2,502,161</u>	<u>\$1,435,524</u>	\$4,234,962
GASB 34 Adjustments:					
Capital Assets					\$2,571,867
Compensated Absences Payable					(487,759)
Deferred Revenue					1,274,158
Long Term Liabilities					<u>(2,181,380)</u>
Governmental Activities Net Assets, December 31, 2003					<u>\$5,411,848</u>

Capital assets and accounts receivable were misstated and a fund was reclassified to the enterprise fund as of December 31, 2003. This restatement had the following effect on fund equity/net assets as it was previously reported:

	<u>Water</u>
Fund Equity/Net Assets, December 31, 2003	\$562,097
Capital Assets	(91,442)
Accounts Receivable	111,523
Fund Reclassification	<u>2,043</u>
Adjusted Net Assets, December 31, 2003	<u>\$584,221</u>

## 15. COMPLIANCE AND ACCOUNTABILITY

At year end, the City had a deficit fund balance in the following funds: General Sinking Fund and Police and Fire Communications. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**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, 2004

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$4,615,414	\$4,928,928	\$4,696,271	(\$232,657)
Fines, Licenses & Permits	351,477	375,353	357,635	(17,718)
Intergovernmental	588,225	628,182	598,530	(29,652)
Charges for Services	234,518	250,449	238,627	(11,822)
Investment Earnings	43,359	46,305	44,119	(2,186)
Other Revenues	121,048	129,271	123,169	(6,102)
<b>Total Revenues</b>	<b>5,954,041</b>	<b>6,358,488</b>	<b>6,058,351</b>	<b>(300,137)</b>
Expenditures:				
Current:				
General Government	1,715,004	1,646,462	1,637,241	9,221
Public Safety	4,159,180	3,992,954	3,970,591	22,363
Leisure Time Activities	487,061	467,595	464,976	2,619
Community Development	135,902	130,471	129,740	731
Basic Utility Service	430,826	413,607	411,291	2,316
Public Health and Welfare	11,783	11,312	11,249	63
Capital Outlay	944	906	901	5
<b>Total Expenditures</b>	<b>6,940,700</b>	<b>6,663,307</b>	<b>6,625,989</b>	<b>37,318</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(986,659)</b>	<b>(304,819)</b>	<b>(567,638)</b>	<b>(262,819)</b>
Other financing sources (uses):				
Proceeds from Sale of Capital Assets	113,020	120,697	115,000	(5,697)
Transfers In	491,391	524,770	500,000	(24,770)
<b>Total Other Financing Sources (Uses)</b>	<b>604,411</b>	<b>645,467</b>	<b>615,000</b>	<b>(30,467)</b>
<b>Net Change in Fund Balance</b>	<b>(382,248)</b>	<b>340,648</b>	<b>47,362</b>	<b>(293,286)</b>
<b>Fund Balance Beginning of Year (includes prior year encumbrances appropriated)</b>	<b>382,401</b>	<b>382,401</b>	<b>382,401</b>	<b>0</b>
<b>Fund Balance End of Year</b>	<b>\$153</b>	<b>\$723,049</b>	<b>\$429,763</b>	<b>(\$293,286)</b>

See accompanying notes to the required supplementary information.

## 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 fund level for all funds.

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 (Non-GAAP Basis) and Actual presented for the General fund 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 a reservation 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.



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

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	\$216,983
Net Adjustment for Revenue Accruals	55,862
Net Adjustment for Expenditure Accruals	(218,149)
Encumbrances	<u>(7,334)</u>
Budget Basis	<u>\$47,362</u>

**CITY OF READING**

Yellow Book Report

December 31, 2005 and 2004



**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**

August 9, 2006

The Honorable Mayor and Members of the  
City Council of the City of Reading

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Reading, Ohio (the City), as of and for the years ended December 31, 2005 and 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 9, 2006 in which we noted for the year ended December 31, 2005 that the City adopted Government Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*. We also noted in our report for the year ended December 31, 2004 dated August 9, 2006 that the City adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Governmental Accounting Standards Board Statement No. 37, *Basic Financial Statements for State and Local Governments: Omnibus*; and Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*. We conducted our audits 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

In planning and performing our audits, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### 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 audits, 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 August 9, 2006.

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

Plattenburg & Associates, Inc.  
Certified Public Accountants



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**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 21, 2006**