

# **READING AREA WATER AUTHORITY**

A COMPONENT UNIT OF THE CITY OF READING

REPORT TO THE MEMBERS OF THE BOARD

SEPTEMBER 28, 2009



*Certified Public Accountants and Consultants*

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**To the Members of the Board  
Reading Area Water Authority  
Reading, Pennsylvania**

We are pleased to present this report related to our audit of the financial statements of the Reading Area Water Authority, a component unit of the City of Reading, for the year ended December 31, 2008. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for Reading Area Water Authority's financial reporting process.

This report is intended solely for the information and use of the Members of the Board and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to be of service to the Reading Area Water Authority.

*Reinsel Kuntz Lesher LLP*

**Wyomissing, Pennsylvania  
September 28, 2009**

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## **C O N T E N T S**

### **MATTERS TO BE COMMUNICATED**

- Required communications
- Summary of accounting estimates
- Summary of recorded audit adjustments

### **CERTAIN WRITTEN COMMUNICATIONS BETWEEN MANAGEMENT AND OUR FIRM**

- Letter communicating control deficiencies
- Representation letter
- Management letter

**MATTERS TO BE COMMUNICATED**

## Required Communications

Statement on Auditing Standards No. 114 requires the auditor to communicate certain matters to keep those charged with governance adequately informed about matters related to the financial statement audit that are, in our professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. The following summarizes these communications:

Area	Comments
<b>Auditor's Responsibility Under Professional Standards</b>	Our responsibility under auditing standards generally accepted in the United States of America has been described to you in our arrangement letter dated February 3, 2009.
<b>Accounting Practices</b>	<b>Adoption of, or Change in, Accounting Policies</b>  Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Authority. The Authority did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period.  <b>Significant or Unusual Transactions</b>  We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.  <b>Alternative Treatments Discussed with Management</b>  We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit period.
<b>Management's Judgments and Accounting Estimates</b>	Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached "Summary of Accounting Estimates."

## Required Communications (Continued)

Area	Comments
<b>Audit Adjustments</b>	There were 23 audit adjustments made to the original trial balance presented to us to begin our audit. Audit adjustments recorded by the Reading Area Water Authority are shown on the attached "Summary of Recorded Audit Adjustments."
<b>Disagreements with Management</b>	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.
<b>Consultations with Other Accountants</b>	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
<b>Significant Issues Discussed with Management</b>	No significant issues arising from the audit were discussed or were the subject of correspondence with management.
<b>Difficulties Encountered in Performing the Audit</b>	We did not encounter any difficulties in dealing with management during the audit.
<b>Certain Written Communications Between Management and Our Firm</b>	Copies of certain written communications between our firm and the management of the Authority are included in the last section of this report.

**READING AREA WATER AUTHORITY  
A COMPONENT UNIT OF THE CITY OF READING**

**Summary of Accounting Estimates  
Year Ended December 31, 2008**

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to compute and record these accounting estimates. The following describes the significant accounting estimates reflected in the Authority's December 31, 2008 financial statements:

<b>Area</b>	<b>Accounting Policy</b>	<b>Estimation Process</b>	<b>Comments</b>
<b>Capital asset lives</b>	Depreciation of capital assets is computed on the straight-line method over their estimated useful lives.	Estimated lives are based on industry standards and experience.	None.
<b>Unbilled water usage</b>	Water usage that is not billed by year-end is recorded using subsequent billings for water used through December 31, 2008.	Use actual billings issued after year-end for usage through December 31, 2008.	None.
<b>Allowance for uncollectible accounts receivable</b>	Accounts receivable are evaluated based on past collection history and an allowance is established as needed.	Management reviews the collectibility on an annual basis.	The Authority established an allowance of \$ 1,556,065 at December 31, 2008.
<b>Fair value of investments</b>	The Authority adjusts the carrying value of investments based on current market prices.	The estimates of fair value are based on reports received from the Authority's trustee and quoted market prices.	None.

**READING AREA WATER AUTHORITY  
A COMPONENT UNIT OF THE CITY OF READING**

**Summary of Recorded Audit Adjustments  
Year Ended December 31, 2008**

**See attached Schedule.**



**Reading Area Water Authority**

Year End: December 31, 2008

Trial balance

Date: 1/1/08 To 12/31/08

Number	Name	Account No	Reference	Debit	Credit
1	Cash-Water/Receipts	105		14,564.48	
1	Due From City Of Reading	405			2,550,000.00
1	Retained Earnings	500		2,531,791.96	
1	Miscellaneous Expense	795		3,643.56	
	To properly state beginning net assets.				
2	Change in Market Value	618			1,500.00
2	Revenue Fee	681		1,500.00	
2	Bond Administration Fees	713		4,888.00	
2	Legal Fees	720			10,000.00
2	Bank Charges	775			4,888.00
2	Interest Swap Libor	800		10,000.00	
	To reclassify pmt of trustee fees and legal fees from SWAP termination.				
3	Developer Reviews	450			112,926.64
3	Escrow Deposits	686		112,926.64	
	To reclassify escrow deposits as a liability.				
4	Due From City Of Reading	405		1,275,000.00	
4	Lease Payments - City Of Reading	735.735		13,477,638.96	
4	Lease Payments - City of Reading - Current Meter	735.736			35,416.00
4	Lease Payments-City of Reading-Previous Meter	735.737			1,239,584.00
4	Reconciliation Lease Payment - Lease Payments - Ci	735.738			13,477,638.96
	To apply payment of prior surcharge amounts owed to the City of Reading and reclassify lease pmts.				
5	Cash-Water/Receipts	105			12,819.00
5	Cash-Water/Receipts	105		25,794.70	
5	Cash Capital Reserve Acct	106			25,794.70
5	Escrow Account	107		12,819.00	
	To adjust cash accounts for py entry error and current year error on reconciliations.				
6	Cash-Water/Receipts	105			1,160,580.76
6	Cash-Water/Receipts	105			17,196.92
6	Interest Income	615		17,196.92	
6	Bond Fund	685		1,160,580.76	
	To properly state Cash-Water/Receipts account for requisition paid and other entries posted by client.				
7	FEMA Awards	670			9,881.29
7	CIP-18th Ward Booster Station	350.867		9,881.29	
	To reclassify posting of a/p per review of gl detail and client aje.				
8	Accrued Interest	425		80,395.76	
8	Interest Expense	750			80,395.76
	To reduce accrued interest payable to actual per pbc wp.				

**Reading Area Water Authority**

Year End: December 31, 2008

Trial balance

Date: 1/1/08 To 12/31/08

Number	Name	Account No	Reference	Debit	Credit
9	Cash-Water/Receipts	105		47,688.30	
9	Interest Expense	750			47,688.30
	To adjust interest expense for client mispostings.				
10	Equipment	305			5,000.00
10	Accounts Payable	415			3,655.95
10	Accounts Payable	415		45,525.53	
10	Accounts Payable	415		5,000.00	
10	Collection Expense	731		3,655.95	
10	CIP - SCADA Projects	350.362			2,500.00
10	CIP - Rehabilitation of Screen House	350.374			1,500.00
10	CIP - Amesway Booster Station	350.375			41,525.53
	To record PBC A/P adjustment, reversal of py retainage a/p recorded and not reversed by RAWA and reversal of PBC entry 1081				
11	Prepaid Expense	372			2,264.00
11	Accounts Payable	415		3,985.45	
11	Payroll Expenses	710			408.42
11	Collection Expense	731			3,655.95
11	Meter Reading Service	732			37,808.85
11	Contracted Executive Director	803			3,985.45
11	*Accounts Payable	2000		44,137.22	
	To adjust accounts payable per wps 2001, 2001A & 2001B				
12	Other Receivables - Reimb	210			197,153.49
12	Grant Revenue	675		197,153.49	
	To properly post receipts on grant and write off portion that will not be billed or received - receivable was set up as of 12/31/07.				
13	Due From City Of Reading	405	2002	1,051,139.16	
13	Reconciliation Lease Payment - Lease Payments - Ci	735.738	2002		1,051,139.16
	To adjust for reconciled amounts for 2008.				
14	Payroll Expenses	710	8101		10,861.67
14	Payroll Liabilities	215.215	8101	6,946.38	
14	Federal W/H	215.216	8101	493.00	
14	Social Security & Medicare	215.218	8101		223.10
14	State W/H	215.219	8101	2,461.93	
14	Local W/H	215.220	8101	1,142.09	
14	Payroll Liabilites - OPT Tax W/H	215.221	8101	432.98	
14	Payroll Liabilites - PA PUC EE	215.222	8101		391.61
	To adjust payroll tax liability accounts & payroll tax account per wp				
15	Cash-Water/Receipts	105		2,606.72	
15	Payroll Expenses	710			2,606.72
	To clear out old erroneous items on bank reconciliation.				

**Reading Area Water Authority**

Year End: December 31, 2008

Trial balance

Date: 1/1/08 To 12/31/08

Number	Name	Account No	Reference	Debit	Credit
16	A/R - Water Billings	205		630,641.22	
16	A/R - Allowance	206			547,765.11
16	Water Billings	605			288,739.92
16	Penalty and interest on delinquents	607			341,901.30
16	Bad Debt Expenses	786		547,765.11	
	To adjust water billing revenue, receivables and allowance per 1501 wps				
17	Other Receivables - Reimb	210	1553	1,460,134.00	
17	Capital Contribution	690	1553		1,460,134.00
	To record receivable from OTMA for Phase II of extension project per d/w Dean Miller.				
18	Debt Service Reserve Fund 2007	170	1001H-1		31,440.36
18	Change in Market Value	618	1001H-1	31,440.36	
	To adjust FMV on 07 DSRF per confirmation from M&T.				
19	Other Receivables - Reimb	210	4002	62,150.00	
19	Accounts Payable	415	4002	9,000.00	
19	CIP - SCADA Projects	350.362	4002		9,000.00
19	CIP - Amesway Booster Station	350.375	4002		62,150.00
	To record overpayment of contract with Barry Hoffman (rec'd 7/8/09) and receivable from LB Industries for damages @ Amesway Booster station incurred 7/5/08 - settlement noted in 2/26/09 minutes.				
20	Due From City Of Reading	405	2002	222,495.53	
20	Miscellaneous Expense	795	2002		222,495.53
	To reduce amount owed to the City of Reading per wp				
21	Equipment	305	4002	64,265.53	
21	Equipment	305	4002	51,787.00	
21	Equipment	305	4002	520,027.44	
21	Equipment	305	4002	23,912.03	
21	Vehicles	310	4002	146,666.30	
21	Leasehold Improvements	315	4002	8,400.00	
21	Leasehold Improvements	315	4002	4,109,333.36	
21	Leasehold Improvements	315	4002	203,530.61	
21	Leasehold Improvements	315	4002	127,994.23	
21	Leasehold Improvements	315	4002	1,076,229.12	
21	Retained Earnings	500	4002	11,034.86	
21	Retained Earnings	500	4002	8,849.34	
21	Retained Earnings	500	4002	11,118.34	
21	Engineering Fees	740	4002	32,724.76	
21	Engineering Fees	740	4002	5,201.20	
21	Professional Services	743	4002	2,006.92	
21	Advertising	772	4002	284.75	
21	Repairs	790	4002	130,963.86	
21	Miscellaneous Expense	795	4002	2,500.00	
21	Miscellaneous Expense	795	4002	1,248.88	
21	Construction In Progress	350.350	4002		43,624.76
21	CIP - Rebuild Pump #5	350.353	4002		64,265.53

**Reading Area Water Authority**

Year End: December 31, 2008

Trial balance

Date: 1/1/08 To 12/31/08

Number	Name	Account No	Reference	Debit	Credit
21	CIP - Repaving Route 61	350.354	4002		141,998.72
21	CIP - Phase I & Phase II	350.355	4002		4,045,763.33
21	CIP - Capital 2008	350.356	4002		51,887.00
21	CIP - Capital Plan 2007	350.359	4002		2,380.00
21	CIP - Gate House Project	350.360	4002		203,530.61
21	CIP - Early Warning System	350.361	4002		10,098.02
21	CIP - SCADA Projects	350.362	4002		427,197.44
21	CIP - Reimbursement St. Joes	350.363	4002		218,444.23
21	CIP - Reimbursement OTMA	350.364	4002		83,570.03
21	CIP-Capital Fund 2006	350.367	4002		319,561.00
21	CIP - Amesway Booster Station	350.375	4002		927,531.20
21	CIP - Cathodic Protection	350.376	4002		11,116.34
21	CIP-Marketing Plan	350.377	4002		2,006.92
21	CIP - Reading School District	350.379	4002		576.98
21	CIP-Schuykill River	350.380	4002		2,315.24
21	CIP-Van Reed Road Reloca	350.868	4002		2,306.98
21	CIP-Alum Tank	350.870	4002	100.00	
To adjust CIP accounts per discussion with client & wp analysis.					
22	Accum Depr Equipment	306	4003		2,933.46
22	Accum Depr- Vehicles	311	4003		15,884.39
22	Accum Depr - LHI	316	4003		73,955.84
22	Accumulated Depreciation Comput	321	4003		87.50
22	Depreciation	765	4003	92,861.19	
To adjust depreciation expense per report @ 12/31/08.					
23	Accrued Interest Receivable	211	1552	33,211.00	
23	Retained Earnings	500	1552		82,034.00
23	Interest Income	615	1552	48,823.00	
To adjust accrued interest @ 12/31/08 and PPA for accrual @ 12/31/07.					
				29,827,687.97	29,827,687.97
Net Income (Loss)		2,062,130.19			

**CERTAIN WRITTEN COMMUNICATIONS BETWEEN  
MANAGEMENT AND OUR FIRM**

**To the Members of the Board  
Reading Area Water Authority  
Reading, Pennsylvania**

In connection with our audit of the financial statements of the Reading Area Water Authority (the "Authority"), a component unit of the City of Reading, as of and for the year ended December 31, 2008, we identified deficiencies in internal control over financial reporting (control deficiencies).

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect financial statement misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Authority's ability to authorize, initiate, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Following are descriptions of identified control deficiencies that we determined did not constitute significant deficiencies or material weaknesses:

Information Technology:

*Physical security and disaster protection:*

- The restore from backup function may be tested as a matter of necessity, but routine tests are not scheduled. This makes it difficult to know if the backups are valid, and if you have the needed data recovery software.

Information Technology (Continued):

*Logical access:*

- Idle workstations are not protected, via a Windows group policy, by automatic password protected screen savers after a set period of idle time (i.e., 10-15 minutes), increasing the risk of unauthorized access via an open terminal.

This communication is intended solely for the information and use of management, the Members of the Board and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties.

*Reinsel Kuntz Lesker LLP*

**Wyomissing, Pennsylvania  
September 28, 2009**

# Reading Area Water Authority

Chairman  
*John Ulrich*

Vice-Chairman  
*Dr. Thomas Brogan*

Treasurer  
*Joseph Kuzminski*

Secretary  
*Donna Glaze*

Board Member  
*Raymond Schuenemann III*



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Executive Director  
*Dean A. Miller*

September 28, 2009

Reinsel Kuntz Leshar LLP  
1330 Broadcasting Road  
P.O. Box 7008  
Wyomissing, PA 19610

In connection with your audit of the basic financial statements of the Reading Area Water Authority, Pennsylvania, as of and for the year ended December 31, 2008, we confirm, that we are responsible for the fair presentation in the financial statements of financial position, changes in financial position, and cash flows in conformity with accounting principles generally accepted in the United States of America.

We confirm to the best of our knowledge and belief the following representations made to you during your audit:

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. We are a component unit of the City of Reading, Pennsylvania, as this term is defined in Section 2100 of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards.
3. We have identified for you all of our identifiable business-type activities.
4. We have properly classified all funds and activities.
5. We are responsible for compliance with laws and regulations applicable to the Authority, including the adopting, approving, and amending budgets.



6. We have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts including legal and contractual provisions for reporting specific activities in separate funds.
7. We have made available to you:
  - a. All financial records and related data of all funds and activities, including those of all special funds, programs, departments, projects, activities, etc., in existence at any time during the period covered by your audit.
  - b. All minutes of the meetings of the governing board and committees of board members or summaries of actions of recent meetings for which minutes have not yet been prepared.
  - c. All communications from grantors, lenders, other funding sources or regulatory agencies concerning noncompliance with:
    - (1) Statutory, regulatory or contractual provisions or requirements.
    - (2) Financial reporting practices that could have a material effect on the financial statements.
8. We have no knowledge of fraud or suspected fraud affecting the entity involving:
  - a. Management or employees who have significant roles in the internal control.
  - b. Others where the fraud could have a material effect on the financial statements.
9. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected.
10. We have no knowledge of any allegations of fraud or suspected fraud affecting the Authority received in communications from employees, former employees, analysts, regulators, short sellers, or others.
11. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the entity's ability to record, process, summarize, and report financial data.
12. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in, financial reporting practices.
13. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

14. The following have been properly reflected and/or disclosed in the financial statements:
- a. Related party transactions, including those with the primary government having accountability for the Reading Area Water Authority, as defined in Section 2100 of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards, and interfund transactions, including interfund accounts and advances receivable and payable, sale and purchase transactions, interfund transfers, long-term loans, leasing arrangements and guarantees, all of which have been recorded in accordance with the economic substance of the transaction and appropriately classified and reported.
  - b. Guarantees, whether written or oral, under which the government is contingently liable.
  - c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line of credit or similar arrangements.
  - d. Lines of credits or similar arrangements.
  - e. Security agreements in effect under the Uniform Commercial Code.
  - f. Any other liens or encumbrances on assets or revenues or any assets or revenues which were pledged as collateral for any liability or which were subordinated in any way.
  - g. The fair value of investments.
  - h. Amounts of contractual obligations for construction and purchase of real property or equipment not included in the liabilities recorded on the books.
  - i. Any liabilities which are subordinated in any way to any other actual or possible liabilities.
  - j. Debt issue repurchase options or agreements, or sinking fund debt repurchase ordinance requirements.
  - k. Debt issue provisions.
  - l. All leases and material amounts of rental obligations under long-term leases.

- m. All significant estimates and material concentrations known to management which are required to be disclosed in accordance with the AICPA's Statement of Position 94-6, Disclosure of Certain Significant Risks and Uncertainties. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year.
  - n. Derivative financial instruments.
  - o. Deposits and investment securities category of custodial credit risk.
15. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made:
- a. To reduce receivables to their estimated net collectable amounts.
  - b. For risk retention, including uninsured losses or loss retentions (deductibles) attributable to events occurring through December 31, 2008 and/or for expected retroactive insurance premium adjustments applicable to periods through December 31, 2008.
  - c. For any material loss to be sustained in the fulfillment of, or from the inability to fulfill, any service commitments.
  - d. For any material loss to be sustained as a result of purchase commitments.
  - e. For closure and post-closure care costs associated with operation of the Authority's landfill cells.
16. There are no:
- a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.
  - b. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent that we have not been designated as, or alleged to be, a "potentially responsible party" by the Federal Environmental Protection Agency or any equivalent state agencies in connection with any environmental contamination.

- c. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5 and/or GASB Statement No. 10.
  - d. Agreements to repurchase assets previously sold.
  - e. Authorized but unissued bonds and/or notes.
  - f. Risk financing activities.
  - g. Special and extraordinary items.
  - h. Arbitrage rebate liabilities.
  - i. Impairment of capital assets.
  - j. Investments, intangibles, and other assets which have permanently declined.
  - k. Environmental cleanup obligations.
17. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5 and/or GASB Statement No. 10.
18. We have no direct or indirect, legal or moral, obligation for any debt of any organization, public or private, that is not disclosed in the financial statements.
19. We have satisfactory title to all owned assets.
20. We have complied with all aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance.
21. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
22. Capital assets, including infrastructure assets, are properly capitalized, reported, and depreciated.
23. Required supplementary information is properly measured and presented.
24. We are responsible for and have reviewed and approved the proposed adjustments to the trial balances identified during the audit, and will post all adjustments accordingly. We have reviewed, approved, and are responsible for overseeing the preparation and completion of the basic financial statements and related notes.

25. The restatement of the financial statements as of and for the year ended December 31, 2007 to record accrued interest receivable and expense capital asset items is appropriate. We agree with the restatement of the previously issued financial statements discussed in Note 8. In that regard:
- a. The restatement corrects an error in those financial statements.
  - b. We were not aware of the error when those financial statements were issued.
  - c. We are not aware of any other errors in those financial statements.
  - d. We do not believe it is necessary to recall those financial statements and all users of those financial statements will receive a copy of the current year's financial statements and independent auditor's report.

No events or transactions other than those disclosed in the financial statements have occurred subsequent to the balance sheet date that would require adjustment to, or disclosure in, the financial statements.


During the course of your audit, you may have accumulated records containing data which should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Management reviewed, approved and asserted their responsibility for the final draft financial statements.

READING AREA WATER AUTHORITY



\_\_\_\_\_  
Dean A. Miller  
Executive Director



\_\_\_\_\_  
John Ulrich  
Chairman

**To the Members of the Board  
Reading Area Water Authority  
Reading, Pennsylvania**

This letter includes comments and suggestions with respect to matters that came to our attention in connection with our audit of the financial statements of the Reading Area Water Authority for the year ended December 31, 2008. These items are offered as constructive suggestions to be considered part of the ongoing process of modifying and improving the Authority's practices and procedures.

**BANK RECONCILIATIONS**

A number of reconciling items on the Authority's bank reconciliations are not cleared or resolved. There are a number of items which were the result of prior audit entries and prior year transactions that should be marked as cleared on the reconciliation.

**Recommendation:**

- ❖ The current bank reconciliation should be reviewed and older reconciling items should be cleared. Going forward, the bank reconciliation should also be reviewed and signed-off on by someone other than the individual preparing it.

**ESCROW ACCOUNTS**

The activity in the Authority's escrow account is tracked on a schedule which maintains the activity by each depositor/project. However, this schedule is not reconciled to the Authority's trial balance. During the audit we had to reduce the Authority's income by approximately \$ 113,000 to properly reflect the deposits received in the escrow account. We recommend that the schedule prepared by the Authority's staff be reconciled to the trial balance quarterly.

**Recommendation:**

- ❖ The Authority should reconcile the escrow schedule to the trial balance on a monthly or quarterly basis to ensure the accounts are fairly stated.

## TRUST ACCOUNTS

The activity in the Authority's trust accounts is only adjusted at year-end. During the audit, we reduced revenue by approximately \$ 1,160,000 to properly reflect a transfer made from a trust account to the Authority's cash account.

### **Recommendation:**

- ❖ The activity in these accounts which affects the revenue and expenses of the Authority and should be recorded and reconciled on a monthly basis.

## PETTY CASH

Petty cash reimbursement checks are posted directly to the petty cash (asset) account instead of the respective expense accounts for which the petty cash was used.

### **Recommendation:**

- ❖ The Authority should adjust the petty cash to its proper amount of \$ 300 and charge future reimbursements to expense accounts.

## **GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENT NO. 53, ACCOUNTING AND FINANCIAL REPORTING FOR DERIVATIVE INSTRUMENTS**

GASB Statement No. 53 addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by the Authority. GASB Statement No. 53 will be effective for the Authority's fiscal year ending December 31, 2010.

### **Recommendation:**

- ❖ The Authority currently has one derivative instrument in an interest rate swap related to its Guaranteed Water Revenue Bonds, Series of 2003. The Authority will need to evaluate and reflect this swap at its fair value on the Statement of Net Assets for the year ending December 31, 2010.

## ACCOUNTS RECEIVABLE

The Authority currently adjusts accounts receivable and the related allowance for uncollectible accounts at year-end. To ensure proper financial reporting to the Board and outside entities, management should be adjusting these accounts during the year.

### **Recommendations:**

- ❖ A print file is generated monthly from the billing system. A procedure should be set-up to use this report to record accounts receivable and revenue. Receipts are currently reported as the Authority's revenue throughout the year (instead of actual billings).
- ❖ Management should create a formula and analysis to adjust the allowance for uncollectible accounts receivable throughout the year.
- ❖ By properly recording the water billing revenue, posting the receipts directly to the accounts receivable account and adjusting the allowance, the Board will receive more accurate financial reports during the year.

## ACCOUNTS SENT TO COLLECTIONS

A report is generated from the billing system and is reviewed for accounts to be sent to the collection agency on a monthly basis. However, only one person is involved in this process.

### **Recommendation:**

- ❖ Another individual should review the accounts to be sent to collections and sign-off on the list to indicate approval of the list.

## CREDIT CARD RECEIPTS

The Authority's policy is to receive receipts for transactions charged to the Authority's credit cards. During our audit, there were credit card statements paid with no receipts attached.

### **Recommendation:**

- ❖ The Authority should ensure that all supporting documentation/receipts are attached to the credit card statement when being paid.



## ARBITRAGE REBATE CALCULATIONS

Tax-exempt debt of the Authority is subject to requirements under the Internal Revenue Code of 1986, as amended, Section 148(f) related to arbitrage calculations. Each bond issue is to have an arbitrage rebate calculation performed every five years.

### **Recommendation:**

- ❖ The Authority's Guaranteed Water Revenue Bonds, Series of 2002 and 2003 have not had an arbitrage rebate calculation performed. Both are past the five year due date for this calculation. We recommend management proceed with having these calculations performed.

## BUDGET REPORTING

The Board does not receive a financial statement during the year that compares budget to actual amounts.

### **Recommendation:**


- ❖ The Authority should ensure that budgeted amounts are entered into Quickbooks. Reports should be given to the Members of the Board on a monthly basis that compare actual revenue and expenses to budgeted revenue and expenses.

## CAPITAL ASSETS/EXPENDITURES

During the audit, we noted that all capital expenditures paid are charged to construction in progress accounts. Although the items are capital in nature, if they are not part of a larger project or a physical asset that the Authority will put into service, the item should be expensed. We recorded expenses totaling \$ 174,930 and recorded a prior period adjustment of \$ 31,000 to properly remove expense type items from the construction in progress accounts.

### **Recommendation:**

- ❖ The construction in progress accounts should be monitored during the year and any expense item should be removed and properly recorded as an expense.



This letter is intended solely for the information and use of the Members of the Board, management and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties. We appreciate serving the Reading Area Water Authority and would be happy to assist you in addressing and implementing any of the suggestions in this letter.

*Reinsel Kuntz Lesher LLP*

**Wyomissing, Pennsylvania**  
**September 28, 2009**