



Reading Area Water Authority
A Component Unit of the City of Reading

Financial Statements

December 31, 2012 and 2011

**Reading Area Water Authority
A Component Unit of the City of Reading**

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December 31, 2012 and 2011

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Reading Area Water Authority (the Authority), a component unit of the City of Reading, which comprise the statement of net position as of December 31, 2012 and 2011, and the related statements of revenue, expenses and changes in net position and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards required that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Auditor's Responsibility (continued)

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

Basis for Qualified Opinion

As of December 31, 2011, the Authority was unable to provide records that reflect accounts receivable balances due by customer.

Qualified Opinion

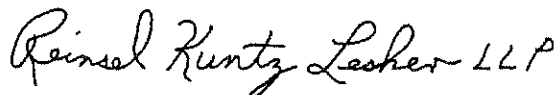
In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2012 and 2011, and the results of its operations and its cash flow for the years ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 3 to 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other

As further described in Note 2, on January 1, 2012, the Authority adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Authority's 2011 financial statements have been restated to conform with these statements.



August 28, 2013
Wyomissing, Pennsylvania

Reading Area Water Authority A Component Unit of the City of Reading

Management's Discussion and Analysis
December 31, 2012

The Management of the Reading Area Water Authority (the Authority) offers readers of our financial statements the following narrative overview and analysis of our financial activities for the year ended December 31, 2012.

Financial Highlights

- Unrestricted current assets exceed current liabilities by \$10,117,296 at the close of the year. This is compared to \$5,502,983 and \$6,412,769 at the close of the 2011 and 2010 years, respectively.
- Total net position increased (decreased) by \$80,705 and (\$1,538,823) at the close of the 2012 and 2011 years over the total net position balance at the close of the 2011 and 2010 years, respectively. The 2012 increase is largely due to the net effect of a change in estimate of the allowance for uncollectible accounts receivable and increases in operational costs offset by a reduction in lease payments to the City of Reading. The 2011 decrease is largely due to an increase in salaries and payroll taxes due to the transfer of the City of Reading's water department employees to the Authority.
- The Authority had net operating income of \$1,985,094 for 2012 compared to net operating income of \$900,712 and \$670,551 for the 2011 and 2010 years, respectively. This increase in net operating income is the result of an increase in water billings of \$132,693 combined with a decrease in lease payments to the City of Reading of \$3,545,560, an increase in salaries and payroll taxes of \$1,773,025 and an increase in insurance related to employees of \$246,522.
- During 2012, the processing of the Authority's monthly operating costs was transitioned from the City of Reading to the Authority resulting in the reduction of the lease payments made to the City of Reading and an offsetting increase in operational expenses.
- During 2012, the Authority changed the methodology of the calculation of the allowance for uncollectible accounts receivable, which resulted in a reduction of the allowance for uncollectible accounts receivable and a change in accounting estimate of \$2,332,339 being recorded.
- The Authority adopted the provisions of Government Accounting Standards Board (GASB) Statements No. 63 and No. 65 for the year ended December 31, 2012. The 2011 financial statements have been restated to conform with these standards.

Basic Financial Statements

Our basic financial statements are prepared on the accrual basis of accounting using an economic resources measurement focus, which is basically the same as what is used in for profit businesses in the private-sector. The basic financial statements include statement of net position, statement of revenues, expenses and changes in net position, statement of cash flows and notes to the financial statements.

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Management's Discussion and Analysis
December 31, 2012

Basic Financial Statements (continued)

The statement of net position present information on the assets and liabilities, with the difference between assets and liabilities reported as net position. The increases and decreases in net position over time may be a useful indicator of the finances of the Authority as to whether it is improving or deteriorating.

The statement of revenues, expenses and changes in net position of the Authority for the year, show the detail of net income or loss being combined with the beginning net position balance, resulting in the ending net position for the year.

The statement of cash flows report cash activities for the year resulting from operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The net result of these activities, added to the beginning of the year cash balance, reconciles to the cash balance at the end of the current year.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Information

Net Position. The following schedule presents a summary of net position comparison for the years ended December 31, 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets			
Unrestricted current assets	\$ 15,963,543	\$ 9,061,742	\$ 10,983,068
Restricted current assets	46,408,723	57,562,261	16,610,866
Capital assets, net	41,242,111	35,551,858	28,439,474
Other assets	<u>1,020,000</u>	<u>1,118,086</u>	<u>2,453,833</u>
Total Assets	<u>\$ 104,634,377</u>	<u>\$ 103,293,947</u>	<u>\$ 58,487,241</u>
Liabilities			
Current liabilities	\$ 5,846,247	\$ 4,522,136	\$ 4,570,299
Long-term debt	<u>95,361,415</u>	<u>96,264,787</u>	<u>48,699,114</u>
Total Liabilities	<u>\$ 101,207,662</u>	<u>\$ 100,786,923</u>	<u>\$ 53,269,413</u>
Deferred Inflows of Resources, Interest Rate Swap	<u>\$ -</u>	<u>\$ 124,391</u>	<u>\$ 332,995</u>
Net Position			
Invested in capital assets, net	\$ -	\$ -	\$ -
Restricted for debt service	4,099,908	4,060,685	4,044,555
Unrestricted assets (deficit)	<u>(673,193)</u>	<u>(1,678,052)</u>	<u>840,278</u>
Total Net Position	<u>\$ 3,426,715</u>	<u>\$ 2,382,633</u>	<u>\$ 4,884,833</u>

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Management's Discussion and Analysis
December 31, 2012

Financial Information (continued)

Current liabilities increased by 29.3% in 2012 compared to a decrease of 1.1% in 2011. The 2012 increase is attributable to increases in capital and trade accounts payable and the amount due to the City of Reading.

Revenues. The following schedule presents a summary of revenue for the years ended December 31, 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenues			
Water billings	\$ 22,677,064	\$ 22,544,371	\$ 19,832,168
Interest and penalty charges	457,101	491,790	395,410
Tampered meter and other charges	822,344	474,164	397,579
Tapping and connection fees	202,631	133,518	157,335
Abandonment fees	<u>38,673</u>	<u>23,531</u>	<u>51,519</u>
Total Operating Revenues	<u>\$ 24,197,813</u>	<u>\$ 23,667,374</u>	<u>\$ 20,834,011</u>

The 2012 fiscal year's total operating revenue increased by 2.2% compared to 2011 and increased by 13.6% in 2011 and 9.8% in 2010, respectively.

Expenses. The following schedule presents a summary of expenses for the years ended December 31, 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Expenses			
Lease payments, City of Reading	\$ 13,329,961	\$ 16,875,521	\$ 16,790,137
Meter reading	538,924	523,137	498,226
Salaries and payroll taxes	3,402,483	1,629,458	197,650
Insurance	783,391	536,869	99,231
Other	<u>2,510,705</u>	<u>1,930,404</u>	<u>1,497,776</u>
Total Operating Expenses	<u>\$ 20,565,464</u>	<u>\$ 21,495,389</u>	<u>\$ 19,083,020</u>

The \$929,925 decrease in expenses is mainly the result of a decrease in lease payments to the City of Reading in the amount of \$3,545,560 and an increase in salaries and payroll taxes of \$1,773,025.

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Management's Discussion and Analysis
December 31, 2012

Financial Information (continued)

Changes in Net Position. The following schedule presents a summary of changes in net position for the years ended December 31, 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues	\$ 24,197,813	\$ 23,667,374	\$ 20,834,011
Operating expenses	<u>20,565,464</u>	<u>21,495,389</u>	<u>19,083,020</u>
Operating Income before Depreciation	3,632,349	2,171,985	1,750,991
Depreciation	<u>1,647,255</u>	<u>1,271,273</u>	<u>1,080,440</u>
Operating Income	1,985,094	900,712	670,551
Nonoperating revenues (expenses), net	<u>(1,904,389)</u>	<u>(2,439,535)</u>	<u>(1,751,459)</u>
Increase (Decrease) in Net Position	\$ <u>80,705</u>	\$ <u>(1,538,823)</u>	\$ <u>(1,080,908)</u>

**Statement of Changes in Net Position
Year Ended December 31, 2012**

	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Balance</u>
Invested in capital assets, net	\$ -	\$ -	\$ -
Restricted	4,060,685	39,223	4,099,908
Unrestricted	<u>(714,675)</u>	<u>41,482</u>	<u>(673,193)</u>
Total Net Position	\$ <u>3,346,010</u>	\$ <u>80,705</u>	\$ <u>3,426,715</u>

**Statement of Changes in Net Position
Year Ended December 31, 2011**

	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Balance</u>
Invested in capital assets, net	\$ -	\$ -	\$ -
Restricted	4,044,555	16,130	4,060,685
Unrestricted	<u>840,278</u>	<u>(1,554,953)</u>	<u>(714,675)</u>
Total Net Position	\$ <u>4,884,833</u>	\$ <u>(1,538,823)</u>	\$ <u>3,346,010</u>

**Reading Area Water Authority
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Management's Discussion and Analysis
December 31, 2012

Financial Information (continued)

**Statement of Changes in Net Position
Year Ended December 31, 2010**

	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Balance</u>
Invested in capital assets, net	\$ -	\$ -	\$ -
Restricted	4,399,356	(354,801)	4,044,555
Unrestricted	<u>1,566,385</u>	<u>(726,107)</u>	<u>840,278</u>
Total Net Position	<u>\$ 5,965,741</u>	<u>\$ (1,080,908)</u>	<u>\$ 4,884,833</u>

Capital Assets

The Authority's investment in capital assets includes leasehold improvements, equipment, vehicles, computers and software, and construction-in-progress. Major additions are funded by the issuance of water revenue bonds and notes or funds held in the Authority's construction accounts.

The Authority's capital assets as of December 31, 2012, 2011 and 2010, net of accumulated depreciation, amounted to \$41,242,111, \$35,551,858 and \$28,439,474, respectively. For the year ended December 31, 2012, this amount represents a net increase (including additions, deletions and depreciation) of \$5,690,253 from the prior year. See Note 5 for more information on capital assets.

**Capital Assets at December 31
(Net of Accumulated Depreciation)**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Leasehold improvements	\$ 21,198,542	\$ 20,824,547	\$ 15,730,869
Acquired systems	850,308	875,762	-
Equipment	4,806,427	4,870,530	2,427,454
Vehicles	614,318	400,574	559,299
Computers and software	256,759	95,974	120,237
Construction-in-progress	<u>13,515,757</u>	<u>8,484,471</u>	<u>9,601,615</u>
	<u>\$ 41,242,111</u>	<u>\$ 35,551,858</u>	<u>\$ 28,439,474</u>

Debt Administration

At December 31, 2012, the Authority had \$101,239,276 of Guaranteed Revenue Bonds and loans payable, compared to \$102,751,257 and \$55,196,820 at the years ended 2011 and 2010, respectively. The proceeds from these long-term borrowings are used for renovations and improvements to the water system. See Note 6 for additional information on the Authority's debt.

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Management's Discussion and Analysis
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Economic Factors

The Authority will continue to address the existing infrastructure by addressing the rehabilitation needs of the system, as well as pursue possible extension of the water system into new areas.

Future investments include expanding the water service extensions, relining of water mains throughout the existing system, cleaning of finished water reservoirs to uphold water quality, address PADEP requirements for the Lake Ontelaunee Dam and address sediment within Lake Ontelaunee.

Request for Information

This financial report is intended to provide an overview of the finances of the Reading Area Water Authority for those with an interest in the Authority. Questions concerning any information contained in the report may be directed to the Executive Director, Reading Area Water Authority, 1801 Kutztown Road, Reading, PA 19604.

	December 31,	
	2012	2011
Liabilities		
Current Liabilities		
Accounts payable, capital	\$ 1,594,030	\$ 1,236,034
Accounts payable, trade	532,157	124,999
Accrued payroll	59,726	54,579
Accrued interest payable	324,800	208,365
Escrow deposits	60,290	57,061
Other	13,884	-
Due to City of Reading	366,864	-
Current maturities of long-term debt	<u>2,894,496</u>	<u>2,841,098</u>
Total Current Liabilities	5,846,247	4,522,136
Long-Term Debt, Less Current Maturities	<u>95,361,415</u>	<u>96,264,787</u>
Total Liabilities	<u>101,207,662</u>	<u>100,786,923</u>
Deferred Inflows of Resources, Interest Rate Swap	<u>-</u>	<u>124,391</u>
Net Position		
Invested in capital assets, net of related debt	-	-
Restricted for debt service	4,099,908	4,060,685
Unrestricted (deficit)	<u>(673,193)</u>	<u>(1,678,052)</u>
Total Net Position	<u>3,426,715</u>	<u>2,382,633</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 104,634,377</u>	<u>\$ 103,293,947</u>

**Reading Area Water Authority
A Component Unit of the City of Reading**

Statement of Revenues, Expenses and Changes in Net Position

	Years Ended December 31,	
	2012	2011
Operating Revenues		
Water billings	\$ 22,677,064	\$ 22,544,371
Interest and penalty charges	457,101	491,790
Tampered meter and other charges	822,344	474,164
Tapping and connection fees	202,631	133,518
Abandonment fees	38,673	23,531
	<u>24,197,813</u>	<u>23,667,374</u>
Total Operating Revenues		
Operating Expenses		
Lease payments, City of Reading	13,329,961	16,875,521
Meter reading	538,294	523,137
Engineering	67,930	92,888
Legal fees	207,199	168,757
Salaries and payroll taxes	3,402,483	1,629,458
Insurance	783,391	536,869
Employee benefits	69,340	50,319
Grant expenditures	75,183	66,530
Utilities	319,834	11,851
Contracted services	848,176	183,813
Repairs and maintenance	236,419	33,714
Audit and accounting	50,235	87,681
Bank charges	66,314	10,507
Dues and subscriptions	10,188	28,629
Advertising	6,719	1,866
Education	8,568	7,499
Supplies	505,948	17,773
Bad debt expense	30,538	959,622
Other professional services, rate study	7,019	72,146
Lake Ontelaunee dredging	1,725	136,809
	<u>20,565,464</u>	<u>21,495,389</u>
Total Operating Expenses		
Operating Income before Depreciation	3,632,349	2,171,985
Depreciation	1,647,255	1,271,273
Operating Income	1,985,094	900,712

Reading Area Water Authority
A Component Unit of the City of Reading

Statement of Revenues, Expenses and Changes in Net Position (continued)

	Years Ended December 31,	
	2012	2011
Nonoperating Revenues (Expenses)		
Investment income	\$ 231,529	\$ 194,323
Swap income, net	25,527	30,291
Miscellaneous income	24,762	22,777
Change in value of interest rate swap	124,391	208,604
Interest expense	(4,520,451)	(2,096,347)
Debt issuance costs	(45,693)	(753,557)
Miscellaneous expense	(76,793)	(12,933)
Change in estimate for allowance for uncollectible accounts receivable	2,332,339	-
Arbitrage rebate	-	(32,693)
Total Nonoperating Revenues (Expenses), Net	(1,904,389)	(2,439,535)
Increase (Decrease) in Net Position	80,705	(1,538,823)
Net Position at Beginning of Year	3,346,010	4,884,833
Net Position at End of Year	\$ 3,426,715	\$ 3,346,010

Reading Area Water Authority
A Component Unit of the City of Reading

Statement of Cash Flows

	Years Ended December 31,	
	2012	2011
Cash Flows from Operating Activities		
Cash receipts from customers	\$ 26,315,476	\$ 22,255,768
Cash payments to suppliers for goods and services	(14,862,545)	(18,986,681)
Cash payments to employees for services	(3,545,611)	(1,574,879)
Net Cash Provided by Operating Activities	7,907,320	1,694,208
Cash Flows from Noncapital Financing Activities		
Increase (decrease) in escrow liability, net	3,229	(35,747)
Increase in other liabilities	13,884	-
Miscellaneous income received	24,762	22,777
Miscellaneous expenses paid	(76,793)	(12,933)
Net Cash Used in Noncapital Financing Activities	(34,918)	(25,903)
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(6,910,517)	(7,796,014)
Proceeds from issuance of debt	3,649,571	51,733,833
Principal paid on long-term debt	(5,063,466)	(3,114,739)
Interest paid on long-term debt	(3,811,003)	(1,417,630)
Debt issuance costs	(45,693)	(753,557)
Arbitrage rebate paid	-	(32,693)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(12,181,108)	38,619,200
Cash Flows from Investing Activities		
(Increase) decrease in restricted assets, net	11,153,538	(40,951,395)
Swap income received, net	25,527	30,291
Investment income received	231,405	223,996
Net Cash Provided by (Used in) Investing Activities	11,410,470	(40,697,108)
Net Increase (Decrease) in Cash	7,101,764	(409,603)
Cash at Beginning of Year	5,466,860	5,876,463
Cash at End of Year	\$ 12,568,624	\$ 5,466,860

**Reading Area Water Authority
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Statement of Cash Flows (continued)

	Years Ended December 31,	
	2012	2011
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 1,985,094	\$ 900,712
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,647,255	1,271,273
(Increase) decrease in assets:		
Accounts receivable	2,148,201	(678,070)
Due from City of Reading	1,477,135	1,219,221
Inventory	(107,799)	-
Prepaid expenses	(21,735)	(22,478)
Increase (decrease) in liabilities:		
Accounts payable	407,158	(1,051,029)
Accrued payroll	5,147	54,579
Due to City of Reading	366,864	-
	<u>\$ 7,907,320</u>	<u>\$ 1,694,208</u>
Net Cash Provided by Operating Activities		
Noncash Capital and Financing Activities		
Payment by City of Reading, PENNVEST loan assumption applied to PENNVEST note payable	<u>\$ 98,086</u>	<u>\$ 1,335,747</u>

Reading Area Water Authority
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Notes to Financial Statements
December 31, 2012 and 2011

Note 1 - Nature of Activity

The Reading Area Water Authority (the Authority), a component unit of the City of Reading, (the City) was created as an operating authority in 1995 in compliance with the Pennsylvania Municipality Authorities Act. The Authority was formed to provide water services to residential, commercial and industrial users of the water system for the City of Reading and certain surrounding municipalities. The Authority is governed by a five-member Board, each of whom is appointed by the City of Reading.

Note 2 - Summary of Significant Accounting Policies

The accompanying financial statements conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant accounting policies used by the Authority:

The Financial Reporting Entity

The Authority is a water supply and distribution entity which operates under a Board of Directors form of government. Accounting principles generally accepted in the United States of America require that the reporting entity consists of the primary government and organizations for which the primary government is financially accountable. In addition, the primary government may determine through the exercise of management's professional judgment that the inclusion of an organization that does not meet the financial accountability criteria that is necessary in order to prevent the reporting entity's financial statements from being misleading. In such instances, that organization should be included as a component unit if the nature and significance of their relationship with the primary government or other component units, are such that exclusion from the financial reporting entity would render the financial reporting entity's financial statements incomplete or misleading. In evaluating how to define the reporting entity, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made based upon the above criteria. There are no agencies or entities which should be presented with the Authority.

The Authority is a component unit of the City of Reading, Pennsylvania.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows.

Reading Area Water Authority
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Notes to Financial Statements
December 31, 2012 and 2011

Note 2 - Summary of Significant Accounting Policies (continued)

**Measurement Focus, Basis of Accounting and Financial Statement Presentation
(continued)**

Operating revenues and expenses are distinguished from nonoperating items in the statement of revenues, expenses and changes in net position. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for the sale of water. Operating expenses include the cost of providing services, administrative expenses, depreciation on capital assets and amortization on bond premium. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal nonoperating revenues and expenses of the Authority are interest expense, investment income and capital contributions.

When restricted and unrestricted resources are available for its use, it is the Authority's policy to use restricted resources first.

Assets, Liabilities and Net Position

In accordance with the terms of the trust indenture dated September 15, 2002, the first supplemental indenture dated July 1, 2003, the second supplemental indenture dated July 15, 2007 and the third supplemental indenture dated December 19, 2011 (hereinafter collectively referred to as the "indentures"), relating to the bonded debt, funds of the Authority are accounted for by separate trust accounts; segregated for specific use and held for the benefit of the bondholders. In accordance with the indentures, the trust accounts maintained by the independent trustee are accounted for, by the trustee, using the cash basis method of accounting. A brief description of the purposes of the several revenue bond trust restricted accounts follows:

Project Accounts

Clearing Account

Funds are deposited herein to cover principal and interest payments due on the bonds. Transfers are made to the Debt Service Account to make these payments.

Construction Account

The Construction Account consists of funds deposited from the Settlement Account for the purpose of paying costs of capital additions.

Debt Service Account

Semiannual transfers from the Clearing Account are recorded in this account. Current debt service and sinking fund requirements of the bond issues are paid from this Account.

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Notes to Financial Statements
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Note 2 - Summary of Significant Accounting Policies (continued)

Assets, Liabilities and Net Position (continued)

Project Accounts (continued)

Debt Service Reserve Account

This Account was funded by the trust indentures. The aggregate balance provides additional collateral for the bondholders.

Cash

For purposes of reporting cash flows, the Authority considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly-liquid debt investments purchased with a maturity of three months or less to be cash.

Accounts Receivable

Accounts receivable are shown net of an allowance for uncollectibles, as applicable. Accounts receivable are evaluated for collectibility and an allowance is established, as deemed necessary, based on the best information available and in an amount that management believes is adequate. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

Investments

The Board and trustee are permitted to invest the Authority's funds as defined in the Local Government Unit Debt Act, the Municipality Authorities Act and the related trust indentures. Authorized types of investments include the following:

- a. U. S. Treasury Bills.
- b. Short-term obligations of the U. S. Government and federal agencies.
- c. Insured savings and checking accounts and certificates of deposit in banks, savings and loan associations, and credit unions.
- d. General obligation bonds of the federal government, the Commonwealth of Pennsylvania or any state agency, or of any Pennsylvania political subdivision.
- e. Shares of mutual funds whose investments are restricted to the above categories.

**Reading Area Water Authority
A Component Unit of the City of Reading**

Notes to Financial Statements
December 31, 2012 and 2011

Note 2 - Summary of Significant Accounting Policies (continued)

Assets, Liabilities and Net Position (continued)

Investments (continued)

When making investments, the Board and trustee can combine funds from more than one fund under the Authority's control for the purchase of a single investment and join with other political subdivisions and municipal authorities in the purchase of a single investment.

Investments are carried at fair value.

Capital Assets

Capital assets are stated at cost. Depreciation of capital assets is computed on the straight-line method over the following estimated useful lives:

Leasehold improvements	10 to 40 years
Acquired systems	40 years
Equipment	3 to 40 years
Vehicles	5 to 7 years
Computers and software	3 to 5 years

Maintenance and repairs of capital assets are charged to operations and major improvements are capitalized. Upon retirement, sale or other disposition of capital assets, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in operations. Interest costs incurred during the construction period of major projects are capitalized and amortized over the life of the asset. The total interest expense incurred by the Authority for the years ending December 31, 2012 and 2011 was \$4,589,445 and \$2,156,040, respectively. Of these amounts, \$68,994 and \$59,693, respectively, was included as part of the cost of capital assets under construction.

Bond/Note Premiums/Discounts

Bond/note premiums/discounts are deferred and amortized over the term of the bonds/notes. Unamortized bond premiums/discounts are presented as an addition or deduction to the face amount of the revenue bonds payable.

Derivatives

Changes in fair value for effective hedges that are achieved with derivative instruments are recognized in the reporting period to which they relate. Changes in fair value of these hedging derivative instruments do not affect the current period, but are instead reported as deferrals in the statement of net position. Derivative instruments that either do not meet the criteria for an effective hedge or are associated with investments that are already reported at fair value are classified as investment derivative instruments for financial reporting purposes. Changes in fair value of those derivative instruments are reported in the current reporting period.

**Reading Area Water Authority
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Notes to Financial Statements
December 31, 2012 and 2011

Note 2 - Summary of Significant Accounting Policies (continued)

Assets, Liabilities and Net Position (continued)

Net Position

Net position is classified into three categories as follows:

Invested in capital assets - Consists of capital assets, net of accumulated depreciation and debt incurred for the acquisition of capital assets.

Restricted - Amounts that have externally imposed restrictions on how the funds can be spent.

Unrestricted - Amounts that do not meet the definitions of "invested in capital assets" or "restricted" and are available for Authority operations.

Recent Accounting Pronouncements

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The objective of this Statement is to provide guidance for reporting of deferred inflows and outflows of resources which are distinctly different from assets and liabilities. As a result of reporting these additional elements, the residual balances will be considered as net position, rather than net position. The Authority adopted this Statement in its December 31, 2012 financial statements.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this Statement is to reclassify certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, this Statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources. This Statement is effective for periods beginning after December 15, 2012; however, the Authority early adopted this Statement in its December 31, 2012 financial statements.

Note 3 - Stewardship, Compliance and Accountability

Compliance with Finance-Related Legal and Contractual Provisions

The Authority had no material violations of finance-related legal and contractual provisions in regard to the terms, covenants, provisions or conditions contained in the trust indentures relating to the bond issues.

Reading Area Water Authority
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Notes to Financial Statements
 December 31, 2012 and 2011

Note 4 - Cash and Investments

The carrying amounts of cash and investments at December 31, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Petty cash	\$ 380	\$ 300
Demand deposit accounts	12,628,534	5,523,621
Investments	<u>46,348,433</u>	<u>57,505,200</u>
	<u>\$ 58,977,347</u>	<u>\$ 63,029,121</u>
Classification per statement of net position:		
Unrestricted current assets, cash	\$ 12,568,624	\$ 5,466,860
Restricted current assets:		
Developer escrow deposits, cash	60,290	57,061
Trust accounts, cash and investments	<u>46,348,433</u>	<u>57,505,200</u>
	<u>\$ 58,977,347</u>	<u>\$ 63,029,121</u>

Cash

The Authority's available cash is invested in demand deposit accounts.

The Authority has custodial credit risk on cash deposits. This is the risk that in the event of a financial institution failure, the Authority's deposits may not be returned. The Authority has a deposit policy for custodial risk that requires depository institutions to pledge securities as collateral for deposits that exceed depository insurance.

At December 31, 2012 and 2011, the carrying amounts of the Authority's bank deposits were \$12,628,534 and \$5,523,621, respectively, and the bank balances were \$12,758,536 and \$6,037,936, respectively, of which \$750,000 and \$500,000 were covered by Federal Depository Insurance, respectively. The remaining \$12,008,536 and \$5,537,936, respectively, of deposits were exposed to custodial risk because they were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Authority's name.

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Notes to Financial Statements
December 31, 2012 and 2011

Note 4 - Cash and Investments (continued)

Investments

As of December 31, 2012 and 2011, the Authority has the following investments with M&T Bank:

	Investment Maturities (in Years)	
	Fair Value	Less than One Year
December 31, 2012		
Federated Treasury Obligation Funds	\$ 42,566,833	\$ 42,566,833
Federal National Mortgage Association Notes	3,781,600	3,781,600
	<u>\$ 46,348,433</u>	<u>\$ 46,348,433</u>
December 31, 2011		
Federated Treasury Obligation Funds	\$ 53,771,200	\$ 53,771,200
Federal National Mortgage Association Notes	3,734,000	3,734,000
	<u>\$ 57,505,200</u>	<u>\$ 57,505,200</u>

Interest Rate Risk

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

Credit Risk

The Authority does not have an investment policy that would limit its investment choices to certain credit ratings. However, the Authority limits the type of investments permitted as defined in the Local Government Unit Debt Act, the Municipality Authorities Act and the related trust indentures. Permitted investments are defined in Note 2.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of December 31, 2012 and 2011, \$46,348,433 and \$57,505,200, respectively, is held by the investment's counterparty, not in the name of the Authority.

Reading Area Water Authority
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Notes to Financial Statements
 December 31, 2012 and 2011

Note 5 - Capital Assets

Capital asset activity for the years ended December 31, 2012 and 2011 was as follows:

	Balance January 1, 2012	Additions	Deletions	Balance December 31, 2012
Capital assets not being depreciated, construction-in-progress	\$ 8,484,471	\$ 8,379,688	\$ 3,348,402	\$ 13,515,757
Capital assets being depreciated:				
Leasehold improvements	24,901,942	1,226,835	-	26,128,777
Acquired systems	883,121	7,624	11,000	879,745
Equipment	6,681,536	468,854	-	7,150,390
Vehicles	1,654,792	386,059	-	2,040,851
Computers and software	462,033	227,850	-	689,883
Total capital assets being depreciated	<u>34,583,424</u>	<u>2,317,222</u>	<u>11,000</u>	<u>36,889,646</u>
Less accumulated depreciation for:				
Leasehold improvements	4,077,395	852,840	-	4,930,235
Acquired systems	7,359	22,078	-	29,437
Equipment	1,811,006	532,957	-	2,343,963
Vehicles	1,254,218	172,315	-	1,426,533
Computers and software	366,059	67,065	-	433,124
Total accumulated depreciation	<u>7,516,037</u>	<u>1,647,255</u>	<u>-</u>	<u>9,163,292</u>
Total capital assets being depreciated, net	<u>27,067,387</u>	<u>669,967</u>	<u>11,000</u>	<u>27,726,354</u>
Total capital assets, net	<u>\$ 35,551,858</u>	<u>\$ 9,049,655</u>	<u>\$ 3,359,402</u>	<u>\$ 41,242,111</u>

Reading Area Water Authority
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Notes to Financial Statements
 December 31, 2012 and 2011

Note 5 - Capital Assets (continued)

	Balance January 1, 2011	Additions	Deletions	Balance December 31, 2011
Capital assets not being depreciated, construction-in-progress	\$ 9,601,615	\$ 8,350,890	\$ 9,468,034	\$ 8,484,471
Capital assets being depreciated:				
Leasehold improvements	19,167,334	5,734,608	-	24,901,942
Acquired systems	-	883,121	-	883,121
Equipment	3,808,904	2,872,632	-	6,681,536
Vehicles	1,654,792	-	-	1,654,792
Computers and software	451,593	10,440	-	462,033
Total capital assets being depreciated	25,082,623	9,500,801	-	34,583,424
Less accumulated depreciation for:				
Leasehold improvements	3,436,465	640,930	-	4,077,395
Acquired systems	-	7,359	-	7,359
Equipment	1,381,450	429,556	-	1,811,006
Vehicles	1,095,493	158,725	-	1,254,218
Computers and software	331,356	34,703	-	366,059
Total accumulated depreciation	6,244,764	1,271,273	-	7,516,037
Total capital assets being depreciated, net	18,837,859	8,229,528	-	27,067,387
Total capital assets, net	\$ 28,439,474	\$ 16,580,418	\$ 9,468,034	\$ 35,551,858

Reading Area Water Authority
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Notes to Financial Statements
 December 31, 2012 and 2011

Note 6 - Long-Term Debt

At December 31, 2012 and 2011, long-term debt consists of the following:

	Balance Outstanding January 1, 2012	Additions (Payments)	Balance Outstanding December 31, 2012
Note payable to PENNVEST, due in monthly payments of \$18,405, including interest at 3.997% to December 2017, secured by a lien and security interest in substantially all Authority assets	\$ 1,176,511	\$ (1,176,511)	\$ -
Note payable to PENNVEST, due in monthly payments of \$111,998, including interest at 1.000% through January 2012, guaranteed by the City of Reading	98,086	(98,086)	-
Guaranteed Water Revenue Bonds, Series of 2002, initial issue \$3,250,000, various interest rates ranging from 1.300% to 4.400%, maturing in amounts ranging from \$190,000 to \$265,000 through 2017	1,450,000	(1,450,000)	-
Guaranteed Water Revenue Bonds, Series of 2003 (Capital Appreciation Bonds), initial issue \$21,080,000, various interest rates ranging from 3.600% to 4.620%, maturing in amounts ranging from \$610,000 to \$2,690,000 through 2020	20,470,000	(1,935,000)	18,535,000
Guaranteed Water Revenue Bonds, Series of 2007, initial issue \$25,000,000, various interest rates ranging from 4.250% to 5.000%, maturing in amounts ranging from \$125,000 to \$3,860,000 through 2027	24,875,000	(135,000)	24,740,000
Note payable to PENNVEST, maximum drawdown of \$6,550,000, interest only for the first 36 months of the loan, principal and interest due monthly thereafter; interest at 1.274% for first five years and 2.547% thereafter through 2032. Guaranteed by the City of Reading	4,681,660	909,616	5,591,276

Reading Area Water Authority
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Notes to Financial Statements
 December 31, 2012 and 2011

Note 6 - Long-Term Debt (continued)

	<u>Balance Outstanding January 1, 2012</u>	<u>Additions (Payments)</u>	<u>Balance Outstanding December 31, 2012</u>
Water Revenue Bonds, Series of 2012, initial issue \$50,000,000, various interest rates ranging from 2.350% to 5.250%, maturing in amounts ranging from \$100,000 to \$6,975,000 through 2036	\$ 50,000,000	\$ -	\$ 50,000,000
Water Revenue Note, Series of 2012, initial issue \$2,459,000, interest at 2.100%, maturing in amounts ranging from \$86,000 to \$249,000 through 2017	-	2,373,000	2,373,000
	<u>\$ 102,751,257</u>	<u>\$ (1,511,981)</u>	<u>\$ 101,239,276</u>
	<u>Balance Outstanding January 1, 2011</u>	<u>Additions (Payments)</u>	<u>Balance Outstanding December 31, 2011</u>
Note payable to a bank in quarterly principal payments ranging from \$21,366 to \$23,300, plus monthly interest payments calculated at a variable rate through February 2012	\$ 23,422	\$ (23,422)	\$ -
Note payable to PENNVEST, due in monthly payments of \$18,405, including interest at 3.997% to December 2017, secured by a lien and security interest in substantially all Authority assets	1,346,641	(170,130)	1,176,511
Note payable to PENNVEST, due in monthly payments of \$111,998, including interest at 1.000% through January 2012, guaranteed by the City of Reading	1,433,833	(1,335,747)	98,086
Guaranteed Water Revenue Bonds, Series of 2002, initial issue \$3,250,000, various interest rates ranging from 1.300% to 4.400%, maturing in amounts ranging from \$190,000 to \$265,000 through 2017	1,665,000	(215,000)	1,450,000

Reading Area Water Authority
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Notes to Financial Statements
 December 31, 2012 and 2011

Note 6 - Long-Term Debt (continued)

	<u>Balance Outstanding January 1, 2011</u>	<u>Additions (Payments)</u>	<u>Balance Outstanding December 31, 2011</u>
Guaranteed Water Revenue Bonds, Series of 2003 (Capital Appreciation Bonds), initial issue \$21,080,000, various interest rates ranging from 3.600% to 4.620%, maturing in amounts ranging from \$610,000 to \$2,690,000 through 2020	\$ 21,080,000	\$ (610,000)	\$ 20,470,000
Guaranteed Water Revenue Bonds, Series of 2007, initial issue \$25,000,000, various interest rates ranging from 4.250% to 5.000%, maturing in amounts ranging from \$125,000 to \$3,860,000 through 2027	25,000,000	(125,000)	24,875,000
Note payable to PENNVEST, maximum drawdown of \$6,550,000, interest only for the first 36 months of the loan, principal and interest due monthly thereafter; interest at 1.274% for first five years and 2.547% thereafter through 2032. Guaranteed by the City of Reading	2,875,070	1,806,590	4,681,660
Water Revenue Note, Series of 2009, maximum drawdown of \$6,550,000, interest payable monthly at 3.150%, with principal due October 2012	1,772,854	(1,772,854)	-
Water Revenue Bonds, Series of 2012, initial issue \$50,000,000, various interest rates ranging from 2.350% to 5.250%, maturing in amounts ranging from \$100,000 to \$6,975,000 through 2036	-	50,000,000	50,000,000
	<u>\$ 55,196,820</u>	<u>\$ 47,554,437</u>	<u>\$ 102,751,257</u>

Reading Area Water Authority
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Notes to Financial Statements
 December 31, 2012 and 2011

Note 6 - Long-Term Debt (continued)

Aggregate maturities required on the long-term debt at December 31, 2012 are as follows:

Years Ending	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2013	\$ 2,894,496	\$ 4,058,035	\$ 6,952,531
2014	2,913,988	4,101,583	7,015,571
2015	3,247,525	4,142,908	7,390,433
2016	3,258,859	4,241,489	7,500,348
2017	3,280,365	4,298,339	7,578,704
2018-2022	16,517,191	23,074,914	39,592,105
2023-2027	19,885,129	15,473,252	35,358,381
2028-2032	23,356,723	10,288,912	33,645,635
2033-2036	25,885,000	3,484,162	29,369,162
	<u>\$ 101,239,276</u>	<u>\$ 73,163,594</u>	<u>\$ 174,402,870</u>
		<u>2012</u>	<u>2011</u>
Total long-term debt payable		\$ 101,239,276	\$ 102,751,257
Less current maturities		(2,894,496)	(2,841,098)
Less unamortized bond discount		(259,794)	(270,638)
Plus unamortized bond premium		669,029	713,880
Less unamortized interest on capital appreciation bonds		<u>(3,392,600)</u>	<u>(4,088,614)</u>
		<u>\$ 95,361,415</u>	<u>\$ 96,264,787</u>

Bonds Payable

The bonds are secured under the indentures by an assignment and pledge to the trustee of receipts and revenues from the water system.

Derivative Financial Instrument

Interest rate swap - In July 2005, the Authority entered into a forward interest rate swap agreement with a financial institution in conjunction with its Guaranteed Water Revenue Bonds, Series of 2003. The agreement uses an underlying index of 67% of the 30-day LIBOR versus the BMA Municipal Bond Index.

**Reading Area Water Authority
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Notes to Financial Statements
December 31, 2012 and 2011

Note 6 - Long-Term Debt (continued)

Derivative Financial Instrument (continued)

The swap is a cash flow hedge - a pay-fixed interest rate swap. The classification of the interest rate swap is deferred outflow. In September 2012, the Authority terminated its interest rate swap. The fair value liability as of December 31, 2012 and 2011 was as follows:

2012					
Original Notional Amount	Effective Date	Maturity Date	January 1, Beginning	Increase (Decrease)	December 31, Ending
\$ 20,470,000	July 1, 2005	November 1, 2020	\$ (124,391)	\$ 124,391	\$ -
2011					
Original Notional Amount	Effective Date	Maturity Date	January 1, Beginning	Increase (Decrease)	December 31, Ending
\$ 20,470,000	July 1, 2005	November 1, 2020	\$ (332,995)	\$ 208,604	\$ (124,391)

Note 7 - Operating Lease

The Authority has entered into a 99-year operating lease, effective June 1, 1994, with the City of Reading for the operations of the water system. Lease payments are the sum of agreed-upon administrative expenses, operating expenses, debt service expenses and financing fees of the City of Reading. In addition, the Authority must provide water service free of charge to the City. Lease payments are made monthly based on an estimate of the anticipated lease payments for the year. At the end of the year, the Authority receives an annual reconciliation statement, which reflects a credit due to the Authority or a payment due to the City. Total lease expense for the years ended December 31, 2012 and 2011 was \$13,329,961 and \$16,875,521, respectively.

In December 2010, a Second Addendum to the lease was agreed upon by the City of Reading and the Authority. The Addendum authorizes the Authority to directly employ the City's Water Department employees at various dates beginning in January 2011, as defined therein. Upon employment by the Authority of each employee, the lease payment to the City of Reading is reduced by the operational expenses and administrative expenses directly attributed to the City's employment of such employees for the period following employment.

The Addendum also required the payment by the Authority to the City of \$1,020,000 for restriction on the City's Ontelaunee Township property. Under the Addendum, except in the exercise of its Take-Back Powers or with the Authority's prior written approval, the City cannot voluntarily convey or transfer any property interest in the approximate 120-acre parcel of land located in Ontelaunee Township.

Reading Area Water Authority
A Component Unit of the City of Reading

Notes to Financial Statements
December 31, 2012 and 2011

Note 7 - Operating Lease (continued)

In June 2012, a Third Addendum to the lease was agreed upon by the City of Reading and the Authority to facilitate additional payments to the City by the Authority to assist in the Act 47 recovery program of the City. In addition to the lease payment to the City for operational and administrative expenses, the Authority is to pay a financing fee and meter surcharge payment. The following is a schedule of the future minimum lease payments under the Third Addendum for the financing fee and meter surcharge payment:

Years Ending December 31:	
2013	\$ 8,170,000
2014	8,370,000
2015	<u>1,700,000</u>
	<u>\$ 18,240,000</u>

Note 8 - Retirement Plan

During 2011, the Authority adopted a retirement plan covering salary deferral for those employees who meet the eligibility requirements set forth in the plan. The amount of the contribution for salary deferral is at the discretion of the employee subject to the provisions of Section 457(b) of the Internal Revenue Code. Under terms of the plan, the Authority may make discretionary matching contributions.

The Authority reflects its contributions to the plan as an operating expense. For the years ended December 31, 2012 and 2011, \$68,965 and \$13,652, respectively, was contributed to the plan.

Note 9 - Restatement

For the year ended December 31, 2012, the Authority adopted the provisions of the GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This Statement provided financial reporting guidance for deferred outflows of resources and deferred inflows of resources and changed the terminology and format of the financial statements.

For the year ended December 31, 2012, the Authority adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement requires debt issuance costs to be expensed in the year incurred. Previous guidance required debt issuance costs to be amortized over the life of the related debt. The December 31, 2011 financial statements have been restated to reflect these changes. The effect on the December 31, 2011 financial statements was to decrease other assets \$1,520,608, decrease amortization \$65,643, increase bond issue costs \$753,557 and decrease net position, unrestricted \$1,520,608.

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Notes to Financial Statements
December 31, 2012 and 2011

Note 10 - Commitments and Contingencies

Commitments

Management Agreement

The Authority has entered into an agreement with Miller Environmental, Inc. for the services of a water filter plant manager, who is responsible for the management of all operational and maintenance activities of the water filter plant. The agreement is automatically renewable annually unless one of the parties gives written notice of their intent to terminate the agreement. Total expense under the agreement for the years ended December 31, 2012 and 2011 was \$214,849 and \$177,343, respectively.

Water Reading Services Agreement

The Authority has entered into an agreement with Miller Environmental, Inc. to perform water reading services in the Authority's service area. The agreement was amended in February 2012. Under the terms of the amended agreement, the Authority pays a monthly operating fee of \$44,957 beginning March 1, 2012, plus additional hourly charges for services performed outside the scope of the agreement. The monthly fee and hourly rates are subject to a 5% increase per year, effective March 1 of each year. The amended agreement expires February 28, 2015 and is automatically renewable for three-year terms unless one of the parties gives written notice of their intent to terminate the agreement. Total expense under the agreement for the years ended December 31, 2012 and 2011 was \$538,294 and \$523,137, respectively.

Capital Improvements

The Authority has entered into contracts for various capital improvements. Outstanding commitments on these contracts totaled approximately \$6,167,000 as of December 31, 2012.

Contingencies

Litigation

The Authority is a defendant in a lawsuit. While it is not feasible to determine the outcome of the matter, in the opinion of management, it would not have a material effect on the Authority's financial position.

Letter of Credit

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

Concentration of Labor

The Authority has entered into a collective bargaining agreement with the employees who operate and maintain the Authority's facilities, effective through December 31, 2015. Of the Authority's total workforce, 89% is covered by the agreement.

Reading Area Water Authority
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Notes to Financial Statements
December 31, 2012 and 2011

Note 11 - Change in Accounting Estimate

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

Note 12 - Reclassification of 2011 Financial Statements

Certain items on the 2011 financial statements have been reclassified to conform to the 2012 financial statement presentation.

Note 13 - Subsequent Events

The Authority has evaluated subsequent events through August 28, 2013. This date is the date the financial statements were available to be issued. In April 2013, the Authority entered a Memorandum of Understanding with the City of Reading (the City) related to charges for trash and recycling services of the City. The Authority took over the billing and collection, at no charge to the City, of all charges for trash and recycling services rendered by the City beginning after January 1, 2013. In addition, the City released to the Authority the accounts receivable that result from the billing of such trash and recycling service charges. In exchange for the transfer of the receivables, the Authority is to make payments to the City of \$2,441,144 on April 30, 2013 and September 30, 2013. The Authority shall also pay the difference between \$686,271 and the amount collected on delinquent accounts from January 1, 2013 through December 31, 2013. For years after 2013, the payments to be made to the City are as defined in the agreement and are paid monthly. The agreement is through December 31, 2014 and thereafter, on a year to year basis, unless either party notifies the other by August 31 of any calendar year of its intention to terminate the agreement. No other material events subsequent to December 31, 2012 were noted.